

# **Kav LaOved's annual report 2004**

## **Part IV**

### **Israeli Citizen Workers: The Price of a "Dynamic" Labour Market**

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## General Background

A brief look at the figures would make one believe that Israel is on the right track for growth and prosperity. According to the Bank of Israel, during 2004, the GNP grew by 4.2%, the US\$ exchange rates was relatively stable, the Consumer Price Index grew by just 1.2%, wages increased by an average of 1.7% in real terms, and unemployment dropped from 10.9% to 10.4%<sup>1</sup>.

A more careful look at the same Bank of Israel report, however, tells a somewhat different story. Due to stricter criteria, Social Security payments dropped by 4.8% in 2004 (following an 11.2% drop in 2003), unemployment insurance payments decreased by 12.2% (25.9% in 2003), and income support payments diminished by 9.4% (25.8% in 2003). The number of workers entitled to unemployment benefits has dropped by 38.5% since 2002<sup>2</sup>. Almost 40% of the unemployed have been seeking a job for over 6 months, 11.6% more than a year ago. Among the 80,000 new employees in 2004, three quarters could find only part-time work and earn close to minimum wage. The rate of part-time employment in Israel stands at 22.2%, compared to an OECD average of 14.8%. The prevalence of part-time work is not a choice; Sagi Yanko, head of the Histadrut's (Israeli Trade Union Federation) economy wing quotes the Central Bureau of Statistics saying that 88% of part-time workers would rather find a full-time job<sup>3</sup>. The story behind the reduction in unemployment becomes clear: the government forced workers into temporary low-income jobs in order to reduce labour costs for employers.

Mr. Yanko goes on to claim that 51% of employees do not even reach tax threshold and earn altogether only 16% of overall salaries; the top decile of salary earners, on the other hand, earns 40% of total salaries. Former Deputy Chancellor for the Bank of Israel, Prof. Zvi Sussman, confirms that Israel is one of the few developed economies in which wage gaps have increased since the 1980s. He also claims that a growing class of "working poor" is a unique Israeli phenomenon<sup>4</sup>. Gender gaps are also high; an average woman's salary is 17.3% lower than that of a man<sup>5</sup>, and the average female monthly salary is 38.4% lower. Compared to OECD countries, Israel ranks high in its poverty rate (21.1% of population, 29.6% of children, 2002 data) and in the amount of time worked necessary to be eligible for unemployment insurance. Israel ranks low in child support benefits, income support, and the maximum amount of time

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<sup>1</sup> Statistical Annex to Bank of Israel Report, 2004 (Hebrew),  
[http://www.bankisrael.gov.il/deptdata/mehkar/doch04/heb/a\\_2\\_4.xls](http://www.bankisrael.gov.il/deptdata/mehkar/doch04/heb/a_2_4.xls)

<sup>2</sup> "Number of unemployment insurance beneficiaries drops by 40% during 2003-4" (Hebrew), Einav Ben-Yehuda, Haaretz, October 27<sup>th</sup>, 2004,  
[http://www.kavlaoved.org.il/katava\\_main\\_heb.asp?news\\_id=1103&sivug\\_id=2](http://www.kavlaoved.org.il/katava_main_heb.asp?news_id=1103&sivug_id=2)

<sup>3</sup> "The widening margins of low income workers" (Hebrew), Sagi Yanko, Haaretz Op-Ed, January 13<sup>th</sup>, 2005, [http://www.kavlaoved.org.il/katava\\_main\\_heb.asp?news\\_id=1196&sivug\\_id=2](http://www.kavlaoved.org.il/katava_main_heb.asp?news_id=1196&sivug_id=2)

<sup>4</sup> "Poverty is due to low salaries" (Hebrew), Orly Maman, NFC news, December 12<sup>th</sup>, 2004,  
<http://news.msn.co.il/news/BusinessCommunication/Economics/200412/20041212143100.htm>

<sup>5</sup> "Women in Israel, compendium of data and information 2002", The Israel Women's Network, Agate Nira Krauss, <http://www.iwn.org.il/DataBookE.htm>

for receiving unemployment insurance<sup>6</sup>. According to Israeli NGO Adva, the proposed budget for 2005 is projected to increase gaps<sup>7</sup>.

One of the supposed solutions to Israel's high unemployment is the deportation of migrant workers. This policy, however, has proven ineffective. It was claimed that mass deportations have led to the reintegration of up to 7,000-14,000 Israeli workers into the construction industry<sup>8</sup>. The Bank of Israel, on the other hand, reports that in the 3<sup>rd</sup> quarter of 2004, some 7,000 of these workers could not keep their new jobs<sup>9</sup>. Instead of replacing migrants with Israelis, employers opted to reduce construction activity. According to the Central Bureau of Statistics data, since mass deportations of migrant workers began in September 2002, less than 20,000 Israelis have joined the labour force in industries employing migrant workers (construction, agriculture, hotels and catering). Over the same period the number of migrant workers in Israel decreased by almost 100,000. This proves that mass deportations cannot resolve Israeli unemployment<sup>10</sup>. Kav LaOved advocates for the enforcement of labour laws and the abolishment of discriminatory policies against migrant workers as a means of reducing incentives to employ (and often exploit, traffic and abuse) migrant workers. This will allow the local labour market to take in only as much migrant labour as it needs and can treat with dignity.

Among the various issues relevant to low-income Israeli workers, Kav LaOved focuses on employment through subcontractors and employment brokers, enforcement of labour law, and illegal deductions from workers salaries.

### **Employment via subcontractors and employment agencies**

According to research by the Israel Women's Network, 100,000 workers, who form 5.2% of Israeli labour force, are contracted through employment agencies<sup>11</sup>. This rate is purportedly twice the Western-European average, and over five times higher than that in the US. 65% of these workers are women. These workers earn 40% less than their directly employed co-workers. While employment agencies are supposed to supply temporary workers, on average, an agency employee works almost two years for a single employer. Half of these workers earn minimum wage or less. The unique Israeli feature in this context is the employment of 35,000 such workers by the government itself, in order to reduce labour costs in the public sector.

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<sup>6</sup> "Poverty in Israel, and strategies for its reduction" (Hebrew), Bank of Israel Position Paper by Daniel Gottlieb and Nitza Cassir, July 4<sup>th</sup>, 2004, <http://www.bankisrael.gov.il/deptdata/papers/paper08h.htm>

<sup>7</sup> "Adva Centre: the 2005 Budget will increase social gaps", Tamar Barzilai and Ilan Marcianno, Ynet, November 16<sup>th</sup>, 2004, <http://www.ynet.co.il/articles/0.7340.L-3005153.00.html>

<sup>8</sup> Migrant workers Knesset committee, Protocol no. 45, November 30<sup>th</sup>, 2004

<sup>9</sup> "Recent Economic Developments 108, June-December 2004", [http://www.bankisrael.gov.il/publeng/publeslf.php?misg\\_id=8](http://www.bankisrael.gov.il/publeng/publeslf.php?misg_id=8)

<sup>10</sup> "Monthly Bulletin of Statistics", Central Bureau of Statistics, [http://www1.cbs.gov.il/reader/yarhon/yarmenu\\_e\\_v1.html](http://www1.cbs.gov.il/reader/yarhon/yarmenu_e_v1.html)

<sup>11</sup> "A new research: permanent-temporary workers", Israel Women's Network press release, April 1<sup>st</sup>, 2004, <http://www.iwn.org.il/iwn.asp?subject=dbmarquee.mdb&id=142>

In the year 2000, the Knesset enacted the Employment via Manpower Contractors Law, which equates the work terms of agency and direct employees and limits indirect employment duration to 9 months, after which the employer must hire the worker directly. The first clause has been superseded by a collective agreement, which fails to effectively close the gap between directly and indirectly employed workers. At the beginning of each year, the Knesset has deferred the implementation of the transition to direct employment. In addition to employment agencies, many workers are employed via subcontractors, which are not subject to the above legislation or collective agreements. These include security workers, cleaning workers, and other service providers.

These employment schemes allow employers to underpay their workers and at the same time deny responsibility. Employment agency workers can be replaced regularly in order to prevent the accumulation of seniority benefits. Subcontractors sign contracts naming flat per hour fees, which often cannot cover the minimum legal cost of labour. Recently, the Knesset's Labour, Welfare and Health Committee was informed that the State issued security tenders at a rate of 19 Shekels per worker hour, whereas the legal minimum wage (including benefits and employer taxes) is 27 Shekels per hour<sup>12</sup>. The state is therefore consciously encouraging labour law violations. In order to make a profit, subcontractors underpay their workers. Common practices include arbitrary illegal deductions, failure to acknowledge the workers' entire work time, not paying overtime and legally required social benefits, direct violations of minimum wages, and withholding pay.

A 50 year-old immigrant from the former Soviet Union was employed for two months as a cleaner in a restaurant and a gym through an employment agency. Although he worked long hours, including weekends and night shifts, Michael only received pocket money to buy cigarettes and bus tickets. The agency owed the worker more than 8,000 Shekels. The actual employers (restaurant and gym) refused to assist Michael, claiming it was not their responsibility. Kav LaOved's attorney helped the worker to file a complaint with the Industry, Trade and Labour Ministry and a lawsuit in Labour Court. The court ruled against all parties (the agency, the restaurant and the gym), and ordered them to pay the worker's salary.

### **Labour law enforcement**

The Industry, Trade and Labour Ministry is in charge of enforcing labour law. The State Comptroller has severely criticised the enforcement divisions in the Ministry<sup>13</sup>. The report states that although minimum wage violation rates in Israel are estimated at 16%, only 2% of the cases investigated have discovered illegal findings. In addition, case treatment time took an average of a year and a half, authorities were distributed ineffectively between various units, and resources were not allocated in a useful

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<sup>12</sup> The Knesset's Labour, Welfare and Health Committee Protocol no. 299, December 6<sup>th</sup>, 2004

<sup>13</sup> State Comptroller Report 54B (Hebrew), pages 820-847,  
<http://www.mevaker.gov.il/serve/contentTree.asp?bookid=404&id=57&contentid=&parentid=undefin ed&sw=1024&hw=698>

manner. 80 workers are assigned to the enforcement division that deals with migrant workers, whereas only 23 are assigned to enforce the labour rights of Israeli workers.

Both former Director of Civil Service, Prof. Rami Friedman, and former Director of the Industrialists Association, Oded Tyrah, reported widespread violations of minimum wage among employers<sup>14</sup>. The latter estimated the rate of delinquent employers at 40%. Both advocated the increase of minimum wage and the initiation of enforcement to tackle this problem. Recently, the government has set a poor example by allowing municipality workers to go months and even up to two years without salaries, due to budget conflicts between the national government and local authorities.

Instead of encouraging enforcement and the rule of law, the government has been supporting violators. Recently enacted enforcement-related laws (which involved Kav LaOved lobbying), such as denying recent labour law violators access to government tenders, and publishing workers' rights posters in workplaces, have been frozen or delayed in their implementation. Another step against workers' rights is the intended dismantling of the workers' last sanctuary – the Labour Courts. A special committee has been appointed to review the status of Labour Courts and is still deliberating. The need for this court, especially now, is demonstrated by the fact that the number of cases filed at the National Labour Court has increased by over 11%<sup>15</sup>. The right to strike is also under threat of being restricted following a decision by the government's Ministerial Legislation Committee to restrict terms allowing strikes and to condition strikes on a majority voting among all workers, rather than among the elected union representatives.

A ray of hope can be found in the willingness of the recently reorganized enforcement unit in the Industry, Trade and Labour Ministry to meet with Kav LaOved and discuss enforcement issues<sup>16</sup>. Mr. Hezi Ophir, the head of the new unit, which is supposed to provide a comprehensive answer to labour law enforcement needs, requested our input concerning general labour phenomena and specific violators. The unit's immediate focus will be upon workers in the security sector, a sector whose particular vulnerability to workers' rights abuses has been intensively advocated by Kav LaOved over the past few years. Initial responses to our complaints, even in migrant worker related cases, indicate a genuine improvement in labour conditions. We hope the change will be a lasting one.

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<sup>14</sup> "Tyrah: Some 40% of employers pay staff less than minimum wage", Haim Bior, The Marker, December 23<sup>rd</sup>, 2004, [http://www.kavlaoved.org.il/katava\\_main.asp?news\\_id=1171&sivug\\_id=4](http://www.kavlaoved.org.il/katava_main.asp?news_id=1171&sivug_id=4) and "Friedman: employers make black money by violating labour laws" (Hebrew), Haim Bior, Haaretz, January 19<sup>th</sup>, 2005, [http://www.kavlaoved.org.il/katava\\_main\\_heb.asp?news\\_id=1207&sivug\\_id=2](http://www.kavlaoved.org.il/katava_main_heb.asp?news_id=1207&sivug_id=2)

<sup>15</sup> "Labour relations deterioration makes its mark: over 11% increase in National Labour Court cases" (Hebrew), Einav Ben Yehuda, The Marker, November 1<sup>st</sup>, 2004,

[http://www.themarker.com/tmc/article.jhtml?ElementId=%2Fibo%2Frepositories%2Fstories%2Fm1\\_2000%2Ffebn20041101\\_02.xml&origin=ibo&layer=hp&layer2=&layer3=misc](http://www.themarker.com/tmc/article.jhtml?ElementId=%2Fibo%2Frepositories%2Fstories%2Fm1_2000%2Ffebn20041101_02.xml&origin=ibo&layer=hp&layer2=&layer3=misc)

<sup>16</sup> Kav LaOved activity report, November 2004

A security worker employed in Haifa schools was fired after 9 months of work. He was not surprised because he knew the company fires workers every 9 months so as to avoid the accumulation of seniority privileges. Nevertheless, the company offered to continue employing the worker, contingent on his acceptance of payment by cheque, rather than by a legally issued payslip. The worker agreed and even signed a work contract starting 3 months after his fictitious work termination (this allows the employer to treat the worker as a new employee). In the meantime, the worker was asked to name a friend or family member under whose name the payment would be given. The worker refused, not willing to commit tax fraud. As an alternative, the company suggested paying the worker in cash, provided he signed a statement confirming receipt of the money. The worker demanded that the statement confirm the payment of required Social Security fees. The company refused, and the worker contacted Kav LaOved. We sent a fax to the company and to the Haifa municipality, which hires school security. The worker was fired within one hour of sending the fax. Both the employer and the Haifa municipality ignored our demands for restitution. A complaint was filed with enforcement authorities.

*Kav LaOved activity report, September 2004*

### **Illegal deductions from wages**

One of the increasingly prevalent ways to reduce worker wages is fining workers for quitting their job before a set period of time has elapsed. These fines are supposed to compensate the employer for training. Usually these fines and “binding” periods of work exceed legal restrictions. For example, a security worker being paid minimum wage was threatened with a fine of 9300 Shekels (almost three months of salary) for quitting during his first 6 months of work<sup>17</sup>. In some cases workers were subject to fines even though they were dismissed or had to leave work due to a change of residence or stress. The incentive behind this phenomenon is to limit the workers’ bargaining power and prevent them from going to work for employers who offer higher wages. Kav LaOved and the Forum for the Enforcement of Workers Rights are currently planning actions concerning this issue.

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<sup>17</sup> This and other examples are documented in Kav LaOved’s activity report, October 2004, and in a press release by the Forum for the Enforcement of Worker Rights, [http://www.kavlaoved.org.il/katava\\_main.asp?news\\_id=1197&sivug\\_id=3](http://www.kavlaoved.org.il/katava_main.asp?news_id=1197&sivug_id=3)