

## Stanley Fischer: Labor relations in Israel

Address by Professor Stanley Fischer, Governor of the Bank of Israel, at the Seventh Hatikva Conference of the Histadrut in cooperation with the Friedrich-Ebert-Stiftung, Tel Aviv, 17 April 2007.

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I am pleased to stand here before you today, especially as this platform gives me an opportunity to speak about the important subject of labor relations in Israel, and in particular, labor relations in the public sector.

Labor relations is not within my field of expertise in economics, but it has occupied much of my time in Israel since I took up office almost two years ago. It has done so not only because of the issue of salaries in the Bank of Israel. It occupies me because I have the impression that we are unable to resolve labor disputes without going through strikes and industrial action and turning to the labor courts. The question we should address is whether we can manage labor relations with less confrontation and without wasting time and energy on avoidable clashes.

On average, Israel loses more working days through strikes than do Spain, France, the UK, and in some years also more than the US. I am not speaking about the percentage of working days lost but their total number. The figures show that we have a serious problem in the area of labor relations. The fact that we have a very large number of strikes by international comparison is not the problem – it is the symptom. The damage caused by strikes is felt by all – the strikers, the employers, the general public and the whole economy. As an example, think of the harm caused to tourism because today every tourist who wants to visit Israel hesitates because of concern over whether his flight will be able to land or whether his return flight will be able to take off on the due date. We need only look at the newspapers of the last few days to get an idea of the number of strikes and instances of industrial action

My remarks here are based on the reports of the Koberski Commission and the Zussman Committee at the end of the 1980s, the position paper by a team headed by Guy Mundlak, *Industrial Relations in Times of Transition* (Israeli Democracy Institute, 2004), the work of my colleagues in the Bank of Israel, especially the late Zvi Zussman, and of other experts outside the Bank of Israel who helped me. I will start by outlining briefly the wage system and labor relations in Israel's public sector, and then indicate the main problems in the system, and will end with a very general description of some aspects of the reform required in this area.

### 1. The wage system and labor relations in the public sector in Israel

I will relate mainly to the public sector, which includes large companies some of which are on the way towards privatization and some of which have already been privatized. I will speak about the public sector for two reasons (a) it comprises a relatively large part of Israel's economy, with on average about 30 percent of all employees, while in the OECD the average is less than 20 percent. (b) It seems that labor relations in the public sector are particularly problematic, and most strikes, of which there are many by international comparison as I said, take place in that sector.

In general terms it can be said that the wage of a public sector employee in Israel is derived from a number of parameters, chief among them his seniority, i.e., years of service, the system of grades (according to different wage scales: Ahid, the basic or uniform scale; Mahar, the scale for university graduates; teachers; doctors etc.), and the grade within the scale.

This component of the wage is the basic wage, and to this many additional payments are added, giving the total wage. By the way, the total list of such additional payments and benefits contains over 1,000 items, not only making it very difficult to understand a pay slip, but even worse, causing lack of transparency. Instead of negotiating over wages in simple terms, negotiations take place in terms of benefits, with hardly anyone really understanding their true value, which may well be the reason for using them.

Wages are adjusted generally once every few years in wage agreements following negotiations on a collective basis. This contrasts with the situation in the business sector where, at least in principle, the wage is derived from the employee's output. And if in the private sector it is difficult to make a precise assessment of an employee's output, in the public sector it is far more difficult to do so.

## 2. The main problems in the wage system and labor relations in the public sector in Israel

- The basic wage described above, deriving from such factors as seniority, wage scale and grade, is only part of the gross wage, and in most cases does not constitute more than 50 percent of it.
- It is worth noting that in the public sector wages are not necessarily based on employees' output. This is not only because of collective granting of higher grades or increases in seniority, for instance, but also because it is difficult to pay the employee suitably on the basis of his knowledge, responsibility, or generally, his performance. This can reduce an employee's motivation to provide high-quality service efficiently. On the other hand, there is hardly any way to move an employee with low output to another position in which his output might increase, or to end his employment in cases where he is making no contribution or even causing damage.
- The wage-setting system has a chain of linkages.
- The manager has very little authority or ability to reward his staff according to their performance.
- Wage negotiations sometimes take place according to a party's ability to exert pressure, and do not necessarily reflect labor-market conditions.
- The public sector is beset by many labor disputes, and hence many strikes. The problem with quick-fire solutions to disputes is that in contrast with established mechanisms that create agreement and ongoing norms with regard to labor relations, strikes and courts just hasten the advent of the next dispute. This is an inefficient process that leads to a waste of time and resources in the economy

## 3. Principles for reforming the wage system and labor relations in the public sector in Israel

I will relate in broad outline to three aspects: the structure of wages, the recruitment and promotion of staff, and resolving labor disputes.

- (a) *The structure of wages*: this should be simplified. As I mentioned, currently there are numerous payment items (more than 1,000), that can be added to the basic wage, which constitutes about 50 percent of the total wage. These payments distort the wage structure, which is not transparent and which gives rise to discussions on the names of the items instead of the actual bottom-line payment to the employee. This reminds me, and probably lots of you too, of the Gashash Hahiver "Israbluff". It is important that an employee's wage be real, open and transparent.
- (b) *Staff recruitment and promotion*: it is important to implement the rule that new staff should be recruited according to their level of education and knowledge, and promoted according to their output. Therefore:
  - i) The period of classifying a new employee should be extended, and it should include examining his suitability for more than just one position; the trial period should also be extended. In addition, wherever possible staff should be recruited to a career track, rather than for a particular job.
  - ii) To ensure that promotion is determined by output, there should be a mechanism that enables managers to assess an employee's output; promotion should then be conditional on how well the employee carries out his assignments and meets his targets, and on the periodic assessments prepared by the manager. Also, outstanding employees should be given special bonuses for excellence. At the same time, grades should not be granted automatically with seniority, nor allocated collectively.
  - iii) Resolving labor disputes: the system of agreed arbitration should be strengthened, and it should become an important factor in settling labor disputes that are not legal disputes, and it should become an established part of the process in such cases. At the same time, wide room for manoeuvre should be left for negotiations

with representatives of the employees on all subjects which require employee involvement. Furthermore, further limitations should be imposed on the right to strike, provided that such limitations are intended to protect the public and the economy and to encourage the solution of disputes. This can be done via injunctions and removing strikers' protection against legal action.

The changes I have suggested would benefit the general public, employees in the public sector who wish to contribute to the welfare of the public, and the public sector as employer. The outline I have presented is a very broad one, as I said, but the Bank of Israel will continue working on it. I hope that this will enable us to present a full, detailed, well formulated proposal that will lead to a change in this area. Although the task is not a simple one, it certainly needs to be undertaken.