PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Policy Brief

Issue (6)

The Future of Palestinian Employment in the Israeli Labour Market in light of Political and Economic Realities

The Palestine Economic Policy Research Institute (MAS) regularly publishes applied and scientific studies, in addition to brief research papers, as part of an annual series of roundtable sessions on important economic topics of interest to the public and decision-makers. The policy briefs outline the key recommendations of selected scholastic activities, in order to disseminate this information and maximize the benefits derived from this series of sessions. This Policy Brief has been produced with the support of Heinrich Boll Stiftung (Jordan and Palestine)

2022

MAS
PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Tel: +972 (2) 298 7053/4 | Fax: +972 (2) 298 7055
info@mas.ps | www.mas.ps

The Future of Palestinian Employment in the Israeli Labour Market in light of Political and Economic Realities

Researchers:

Waleed Habbas, Palestinian Centre for Israeli Studies (Madar)
Ismat Quzmar, Palestine Economic Policy Research Institute (MAS)

This paper has been produced with funding from Heinrich Boll Stiftung (Palestine and Jordan)

HEINRICH BÖLL STIFTUNG
PALESTINE AND JORDAN

Background

The number and proportion of Palestinian workers in Israel have seen a steady rise over the past decade. As the statistics of the Palestinian Central Bureau of Statistics (PCBS) show, their number increased from 78,000 by the end of 2010 (PCBS, 2011) to more than 173,400 in Q1 2022, in addition to 31,000 workers working in Israeli settlements (PCBS, 2022). The last five years have witnessed the largest and fastest increase in these numbers; an increase that the Palestinian economy has not seen in the last two decades. Today, it even exceeds the total number recorded in 1999 of about 140,000 West Bankers and Gazan workers, accounting for 22.9% of total Palestinian workers at that time (PCBS, 2000). While labor income in Israel accounted for 6% of Palestinian Gross National Income (GNI) in 2011, reliance on this labor has increased in recent years to a percentage that has not been seen since the establishment of the PNA (around USD 3bn).

Today, quarterly data from the PCBS show that workers' compensations in Q1 were valued at USD 945.9m (16% of GNI). Based on PCBS forecasts, compensation from Israel is expected to reach about USD 3.4bn, and USD 3.8bn.

On December 18, 2016, the Netanyahu government issued Government Resolution No. 2174 entitled "Increasing the Employment of Palestinian Workers in Israel from the Judea and Samaria Area, Improving the Manner of Issuing Work Permits and Ensuring Fair Working Conditions for Palestinian Workers". There have been dozens of government decisions during the last decade or so pertaining to Palestinian workers, in addition to the ongoing deliberations in Knesset committees and within the various state agencies. However, it seems that this decision is a foundational base for a new era of Israeli labor policies regarding Palestinian workers, which can be summed in three pillars, as the title of the resolution itself signify:

1. Increasing the volume of Palestinian workers, especially in the construction sector, and starting to allocate quotas to Palestinian workers coming from Gaza starting from 2022.
2. Changing the way permits are issued, which used to give brokers a significant role in exploiting workers, and deducting part of their wages.
3. Changing working conditions by developing a system for payment of workers' wages so that cash payment mechanisms are gradually replaced by bank payment mechanisms by transfers between Israeli and Palestinian banks.

These three pillars, outlined in resolution 2174, form the basis of the Israeli government's policies towards Palestinian workers from 2016 until today. The resolution was built upon by a bundle of subsequent resolutions so that Israeli policies regarding Palestinian workers appear to have remained consistent under Resolution 2174 despite the change of Israeli governments since 2016. All of this was accompanied by systematic and aggressive Israeli propaganda, led by the Civil Administration and the so-called Coordinator of the Israeli Government's activities in the territories (COGAT), which seeks to portray Israel as being concerned about workers' safety, rights, and ability to find employment, presenting itself as a “true” sponsor of the PNA, as well as an alternative capable of responding to the needs of the people and the economy. However, it has always emphasized the conditionality of Palestinians’ ability to enter and work in Israel to the need for continued calm and surrendering to occupation control. It also continues to renege on any of the steps it might announce for any security-related justification, as recently happened in the case of the permits in the Gaza Strip.

The Main Challenges

One of the paradoxes in development policy formalized the Oslo peace agreements of 1993 that the strongest justification for opting for a quasi-customs union, which was imposed on Palestinian negotiators in Paris in 1994, rather than their theoretically preferred alternative (i.e., a free trade regime), is that separation from the Israeli labor market was not possible at such a stage, in which all focus should be on building a local economy capable of absorbing the surplus in labor, and that this could be done during the five-year transitional period. Therefore, there were no other options. Today, after a quarter of a century, dependency has become stronger and the national economy is still incapable of employing its manpower.

Despite that, from an economic perspective, the high unemployment rates in Palestine, and the wide and growing wage gap between Palestinian and Israeli wages seem to be sufficient reasons for this increase to occur. Yet, from a broader perspective, and despite the increasing demand within Israel for cheaper structural and service labor, this growth comes in the context of overt attempts to impose economic peace proposals. Such proposals are one of the fundamental constants of Israeli policies towards Palestinians under occupation.

Since Oslo, the proportion of workers in Israel had steadily increased to reach 24.5% in the West Bank by 2022. The data reviewed here show Israel’s intentions to expand its exploitation of the Palestinian labor force and to improve and enhance the efficiency of the regulatory framework for domination and exploitation. The question thus arises and indeed becomes urgent, as to whether Israel is paving the way for the re-establishment of the single labor market (albeit through various, more rigorous, disciplined, and sophisticated mechanisms). On the ground, this trend emerges as part of the larger creeping process of annexation of the West Bank, as labor market developments are not isolated from a broader context of Israeli policy and practical actions aimed at deepening and perpetuating the state of Palestinian economic dependence, whether through subcontracting or commodity exchange.

The steady increase in Israeli employment has, on the other hand, been accompanied by what can be arguably termed a contradictory phenomenon in the Palestinian labor market, where the latter suffers from high unemployment concurrent with signs of scarce job opportunities. This is because the high unemployment rates are concentrated among university graduates, and even more so among female graduates. For those groups, working in Israel is not an option. As for unskilled labor, the fact that a large part of the workforce moves to work in Israel, prompted by the wage gap, has led to a skill shortage in the domestic market and higher wages in certain sectors.

For the first time ever, Israel began in 2021, transferring the wages of 7,000 Palestinian workers directly to Palestinian banks as a pilot process, with the assumption of eventually expanding the system to include most Palestinian registered workers. In mid-July 2022, the COGAT announced that, until 1 August 2022, all workers with permits and under the individual quota system must sign (through "The Coordinator" application) an authorization form consenting to transfer their wages to Palestinian banks. The announcement indicated that a worker who refuses to sign may lose his individual quota, and may not be able to maintain his work permit in Israel. This announcement indicates Israel's intention to extend bank transfers to all Palestinian workers. These new arrangements come in the context of accelerated financial digitization in Israel and in line with the legal limits for cash trading under the Locker Law of 2018.(1)

Finally, all this Israeli "reform" of the matric of control is progressing year after year with a clear goal and technical and political efforts at all levels of the state and the economy. On the other hand, the Palestinian scene lacks a strategic vision on the economic relationship and in the field of employment with Israel. There is also a lack of the public and private investments required to build the local productive capacity that would enhance the chances of disengagement and the focused employment of dispersed Palestinian human capacities.

In the face of Israel's recently reported acceptance of the PNA (Palestinian National Authority request to activate the Joint Economic Committee (JEC), there is no agreed Palestinian policy approach on the Palestinian agenda for the JEC, nor a coordinated and coherent negotiating agenda among its departments of trade, employment, money, agriculture, natural resources, and urban expansion. The new Israeli approach of imposing economic realities on the ground, only offering the prospect of more settlement and control over the resources of the Palestinian people, can only be understood as an economic annexation that may precede the legal and political annexation.

Required Policies and Interventions

Although, there is a power imbalance in favor of Israel and the Civil Administration that controls the borders, crossings, and all vital economic assets, there is still a window for formulating and implementing a range of policies and interventions at the political, diplomatic, and economic levels.

From a purely economic perspective, the influx of more workers into the Israeli economy may have negative consequences for the local Palestinian economy. From an economic-political perspective, the excessive dependence on the Israeli labor market is a mark of adverse dependence on the Israeli economy. As such, the most important requirements for establishing an independent Palestinian economy lie in breaking away from the path of dependency imposed by Israel. Under the current situation, the following recommendations may contribute to achieving this goal.

1. Exerting all possible political and diplomatic pressures on Israel to abide by the arrangements stipulated in Article IV of the Paris Economic Protocol, considering that the Protocol is the framework regulating economic relations between the two parties.
2. Pressing Israel to transfer the accumulated workers' compensations (from income tax deductions) to the PA's treasury, which Israel refrained from transferring over the past years. And providing the authorities with a list indicating workers' names, the value, and percentages of the deductions made. Also, to demand that these dues become an inviolable

(1) Refer to: main.knesset.gov.il

part of the clearance funds transfers as provided for in the Paris Protocol.

3. Demanding that Israel transfer the accrued dues from the “equalization levy”, which Israel has also stopped transferring for years now.
4. Based on the national development plans, and without violating applicable laws, Palestinians should consider exploring the possibility of allocating any deductions collected from Israel for investment projects that would provide new job opportunities.
5. Expedite the establishment of a Palestinian social security institution and design a clear and transparent mechanism for transferring workers’ entitlements from the Israeli social security institution, accumulated since the 1990s. In this context, there is a real need to put all efforts in order to reach a societal consensus on this very important issue.
6. Working, in cooperation and coordination with the International Labor Organization (ILO) and all stakeholders, to free the Palestinian worker from the chain of dependency on the Israeli employer and the permits brokers instituted by the current permit regime linking the worker with a single employer.
7. In parallel with the Palestinian law, stipulating that Palestinians should not be allowed to work in settlements, the Palestinian government must also set a clear plan to end this phenomenon or at least limit its expansion during the coming years as stipulated by the law (the Dignity Fund). It should also take urgent proactive steps in this area by focusing on children and women, whether by absorbing them into existing projects, or enrolling them in agricultural cooperatives and providing them with the necessary support.
8. Trade unions and institutions active in defending workers’ rights should play their role in raising workers’ awareness about their rights, providing them with legal support, not only following up on cases and complaints that they receive. It is useful, in this context, to reach out to workers through social media channels, to halt direct communication between the civil administration and workers that further marginalize the role of the PNA