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Access to Israeli Labor Markets: Effects on the West Bank Economy

Johanes Agbahey, Khalid Siddig and Harald Grethe

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Background



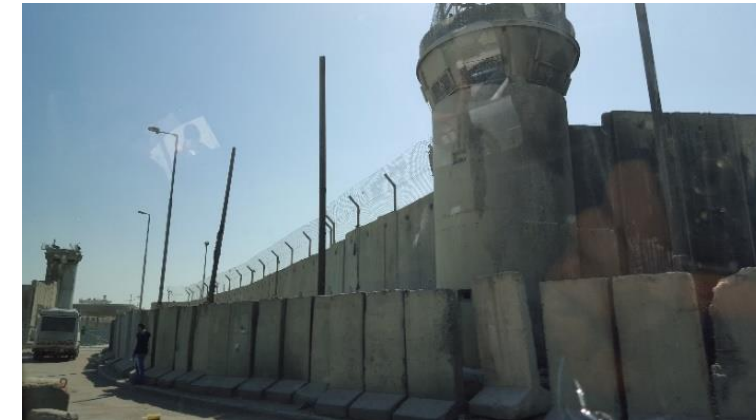
- Contrasted labor markets between Israel and the West Bank
- High demand for Palestinian low-skilled workers in Israel
- In the 80s employment in Israel accounted for more than 30% of total Palestinian employment (Bulmer, 2003)
- Benefits for both sides



Background



- Political tension has progressively led to extensive restrictions on labor movement (Mansour, 2010)
- Between 1999 and 2004 the share of Palestinians working in Israel fell from 23% to 8% (Flaig, 2013)
- Restrictions are multifold
 - Physical barrier
 - Closures and checkpoints
 - Work permit policy



Photograph by Johanes Agbahey (2016, April 4)



Photograph by Abd al-Karim Sa'adi, B'Tselem (2013, June)

Work Permit Policy



- Permits issued to Palestinians who meet some personal status criteria
- The criteria vary according to the intensity of the conflict
 - Requirement at the height of the intifada (2001-04): be married with children and over the age of 34
 - In 2011: be married and over the age of 23
- Permits are only valid to work in a specific sector and for a predetermined employer

Work Permit Policy

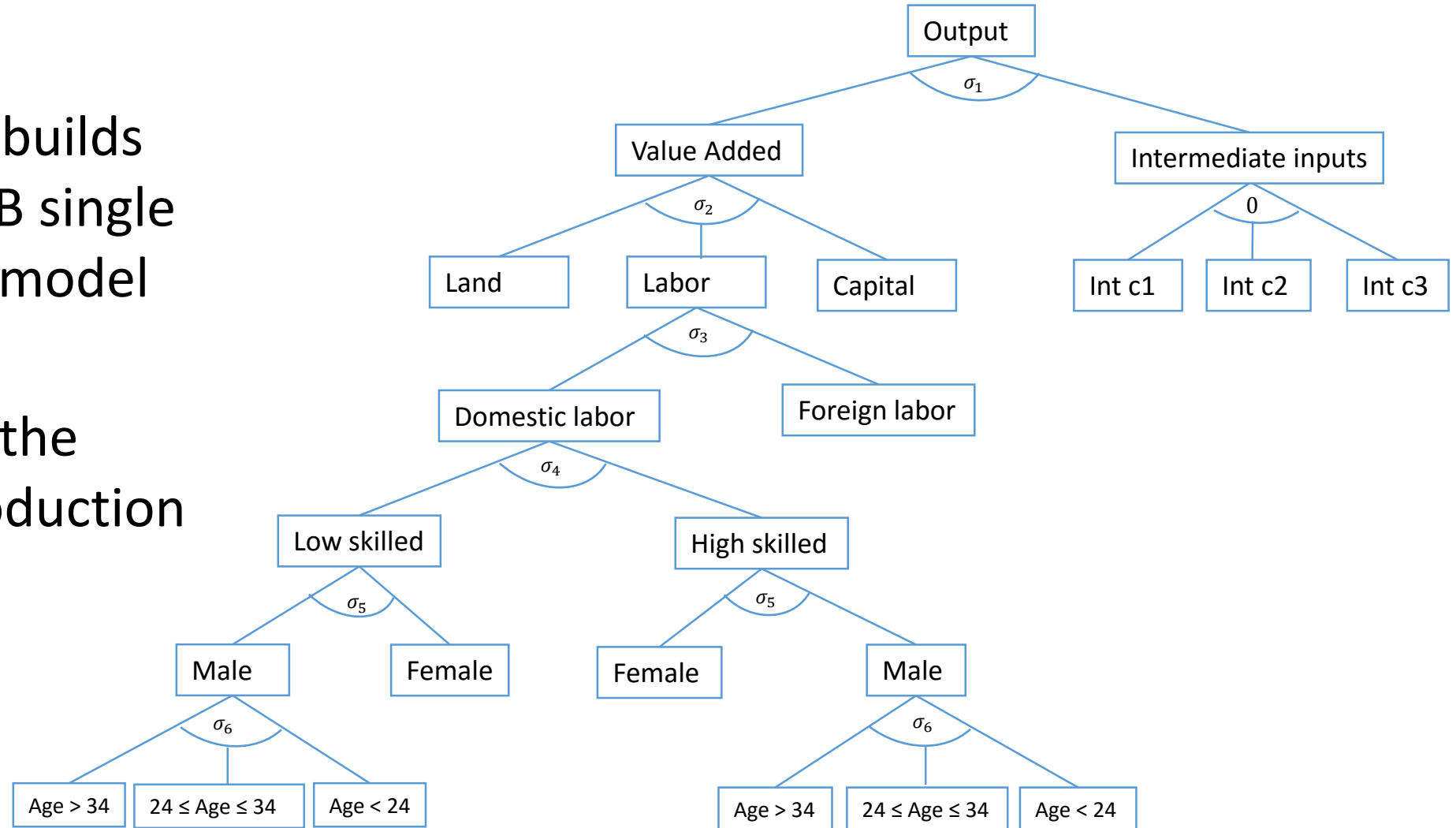


- Permits are issued within a specific quota that is set by the government for each sector every year (Etkes, 2012; B'Tselem, 2014)
- The quota does not often meet the demand for Palestinian labor in the Israeli economy (KavLaOved, 2012)
 - 27,000 permits issued in 2012
 - Need of more than 50,000 Palestinian workers
 - Number of Palestinians looking for work in Israel is more than 100,000

Model and Production Module



- Static model builds on STAGE-LAB single country CGE model (McDonald, 2009)
- Extension of the domestic production module



Data



- West Bank SAM for 2011 (Agbahey et al., forthcoming)
 - 253 accounts
 - 17 factor types of which 14 labor groups
 - 50 commodity groups and 41 activity sectors
 - 111 households disaggregated by quintile and composition
 - 26 tax accounts
 - 2 trade partners (Israel and rest of the world)

Simulation



- Main shock: increasing the proportion of the Palestinian workforce employed in Israel from 14% to 30%
- Two implications:
 - Increased factor income received from Israel
 - Decreased labor supply to the domestic market
- Decreased labor supply
 - Elasticity of unemployment to change in Palestinian employment in Israel
 - Origin of new commuters

Simulations



	Full shock (in %)	Full shock + restriction (in %)
Change in factor supply in the domestic market		
Low-skilled males < 24 years	-10.99	1.58
Low-skilled males 24-34years	-9.65	-17.08
Low-skilled males >34 years	-10.19	-18.17
Low-skilled females	-4.40	-4.40
High-skilled males < 24 years	-9.85	1.33
High-skilled males 24-34years	-5.79	-10.78
High-skilled males >34 years	-5.60	-10.12
High-skilled females	-4.14	-4.14
Change in factor income from Israel by labor groups employed in Israel		
Permitted low skilled workers	96	96
Unpermitted low skilled workers	0	0
Permitted high skilled workers	96	96
Unpermitted high skilled workers	0	0

Closure rules



- Foreign exchange market closure: flexible exchange rate
- Investment-savings closure: model is investment-driven
- Factor market closure: all factors are fully employed and mobile
- Government closures:
 - Government savings are fixed
 - Government consumes a fixed share of final demand
 - Income tax is flexible
- Numeraire: CPI

Change in factor and input price



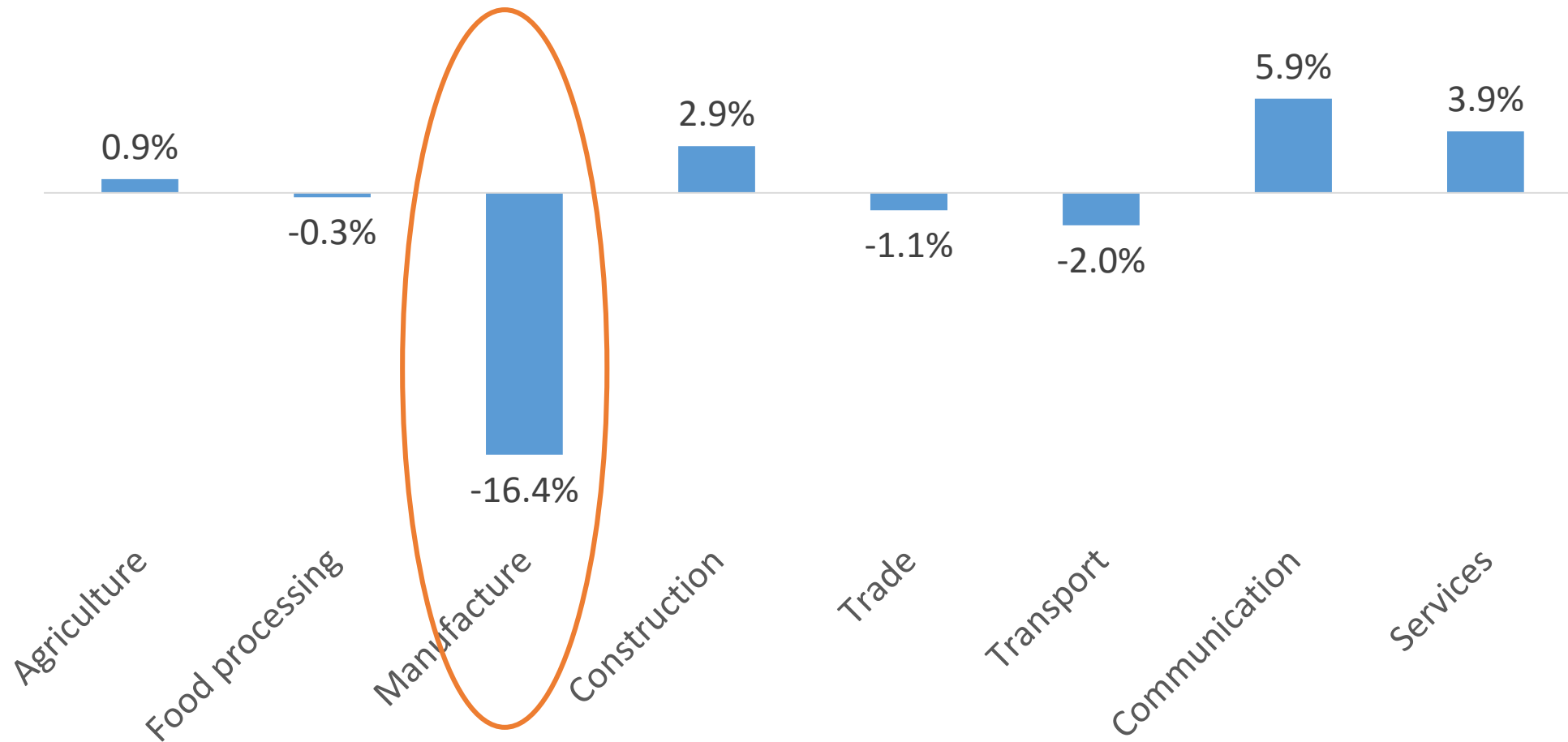
	Change in factor income
Total labor	10.23%
Capital	-3.95%
Land	-0.03%
Intermediate input	0.48%

Change in Factor and Input demand quantity

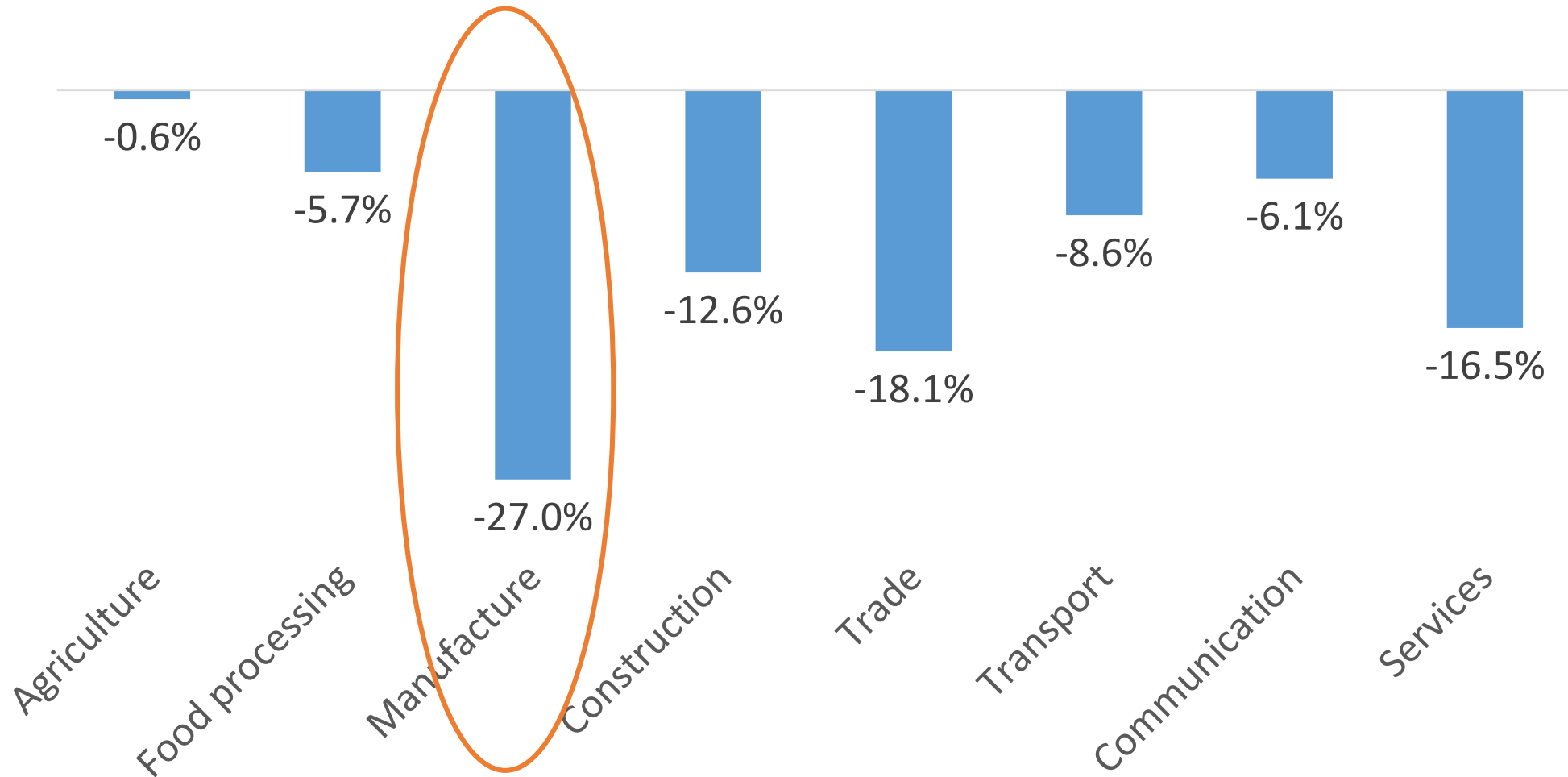


	Agriculture	Food processing	Manufacture	Construction	Trade	Transport	Communication	Services	Total
Labor	-8.2%	-9.3%	-25.1%	-4.1%	-8.0%	-9.2%	-6.2%	-5.1%	-8.6%
Capital	3.1%	2.6%	-11.0%	7.2%	-2.5%	1.5%	4.5%	6.3%	0.0%
Inputs	1.7%	1.0%	-16.6%	1.7%	-4.5%	-1.5%	-0.1%	0.1%	-4.2%

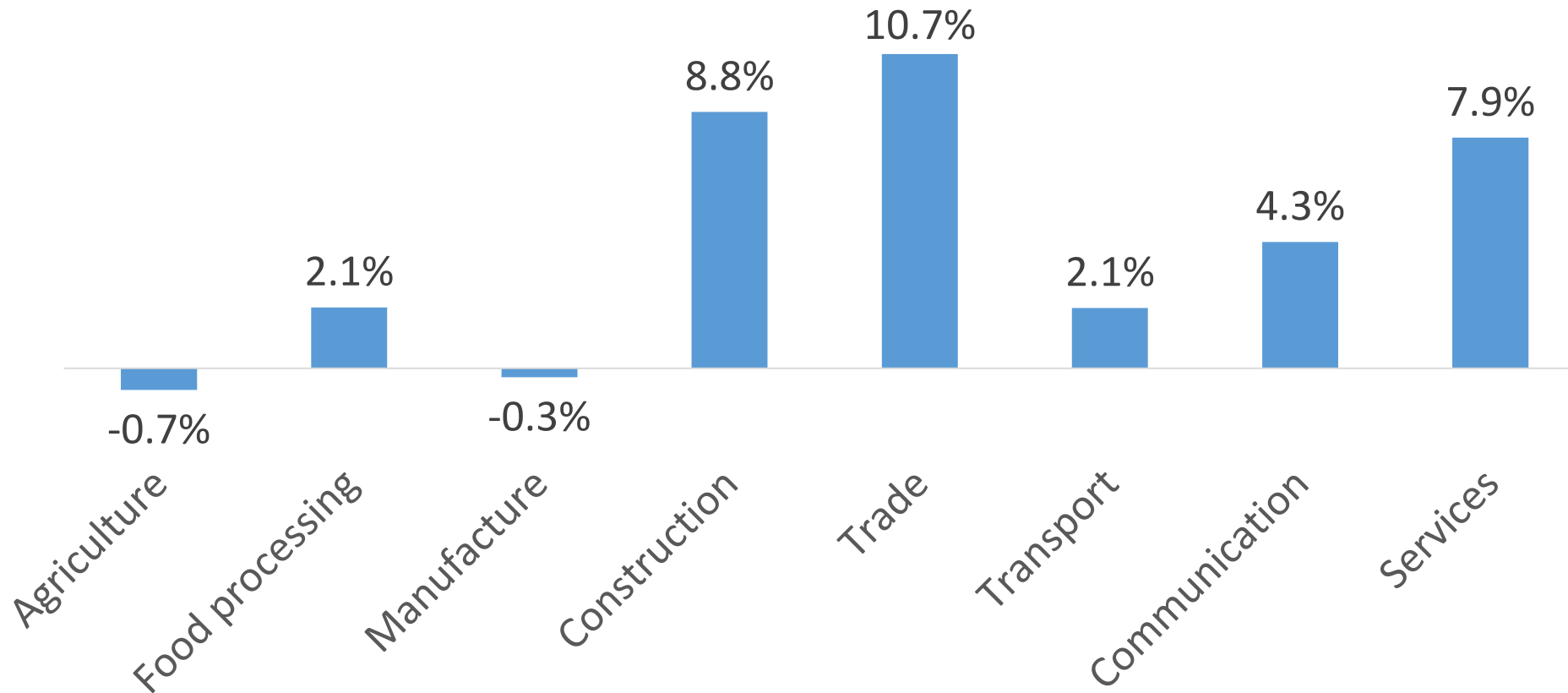
Effect on activity output value



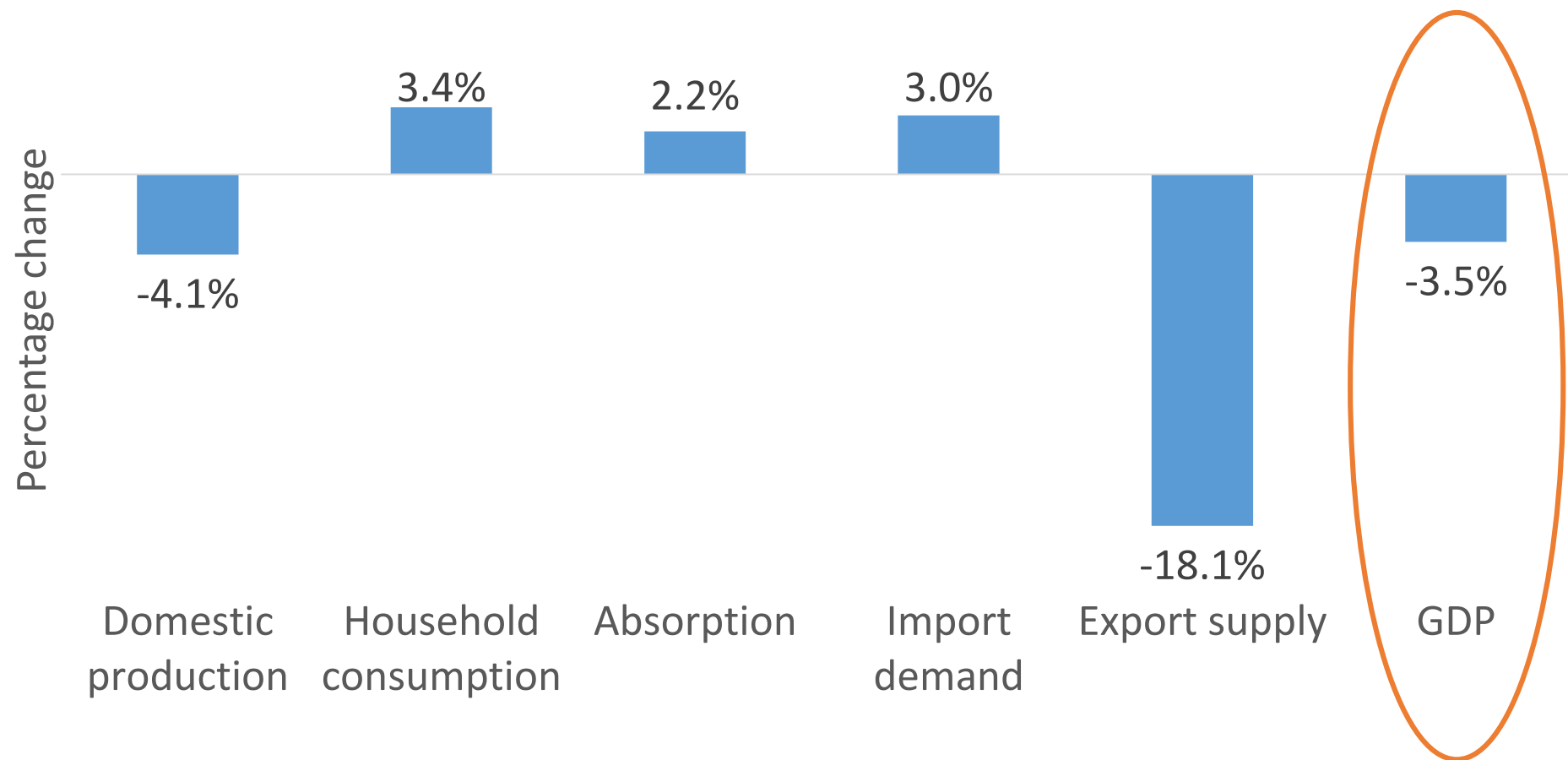
Effect on export supply value



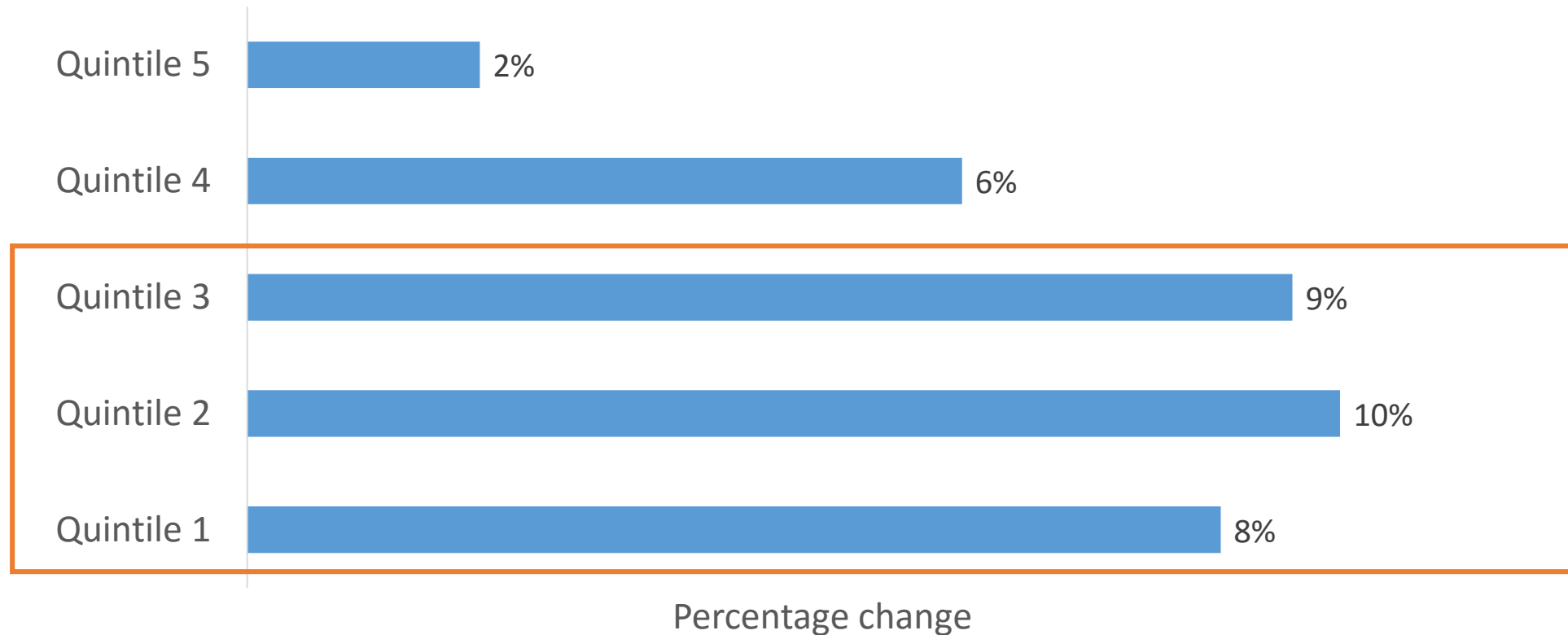
Effect on import demand value



Macro economic effects



Effect on households' income



Effect on households' income



Change in factor income

	Change in factor income
Domestic labor	1.8%
Labor from Israel	75.2%
Capital	-3.9%
Land	-0.03%

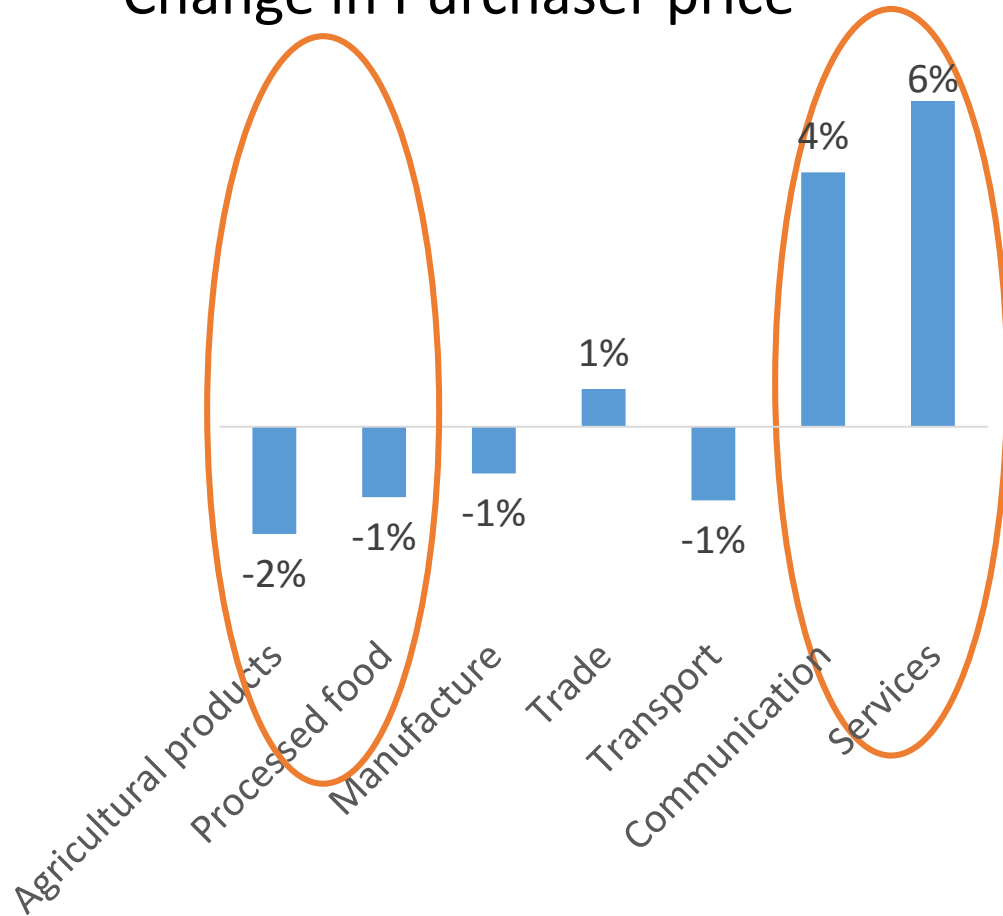
Composition of household income by household quintile

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	All households
Labour	72%	70%	64%	56%	39%	55%
Total capital	12%	14%	22%	30%	44%	30%
Land	0%	0%	0%	0%	0%	0%
Transfers	17%	16%	14%	14%	17%	16%
Total	100%	100%	100%	100%	100%	100%

Effect on households' expenditure



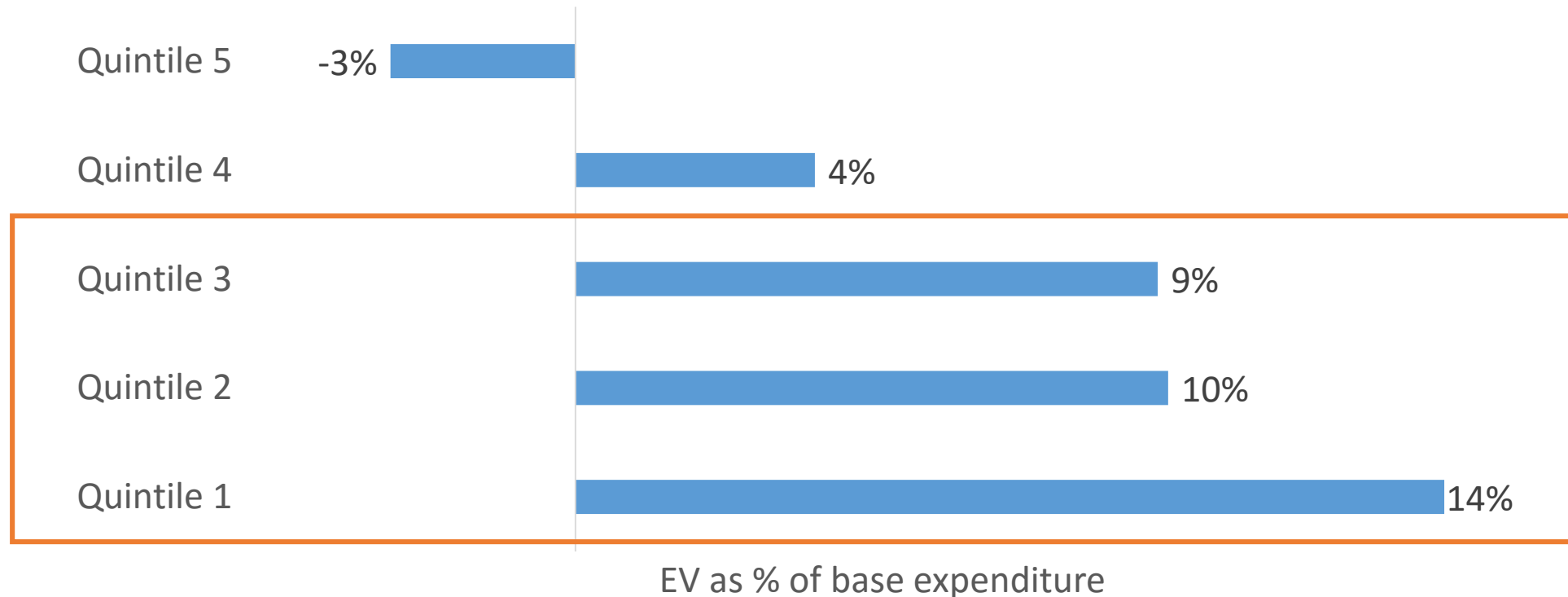
Change in Purchaser price



Household expenditure by household quintile

	Q 1	Q 2	Q 3	Q 4	Q 5
Agricultural products	14%	12%	10%	8%	6%
Processed food	31%	30%	25%	22%	19%
Manufacture, electricity & water	31%	31%	34%	38%	33%
Trade, hotels & restaurants	2%	3%	3%	4%	5%
Transport	5%	5%	5%	5%	5%
Post & communication	4%	4%	6%	6%	7%
Services	14%	16%	17%	18%	26%
Total	100%	100%	100%	100%	100%

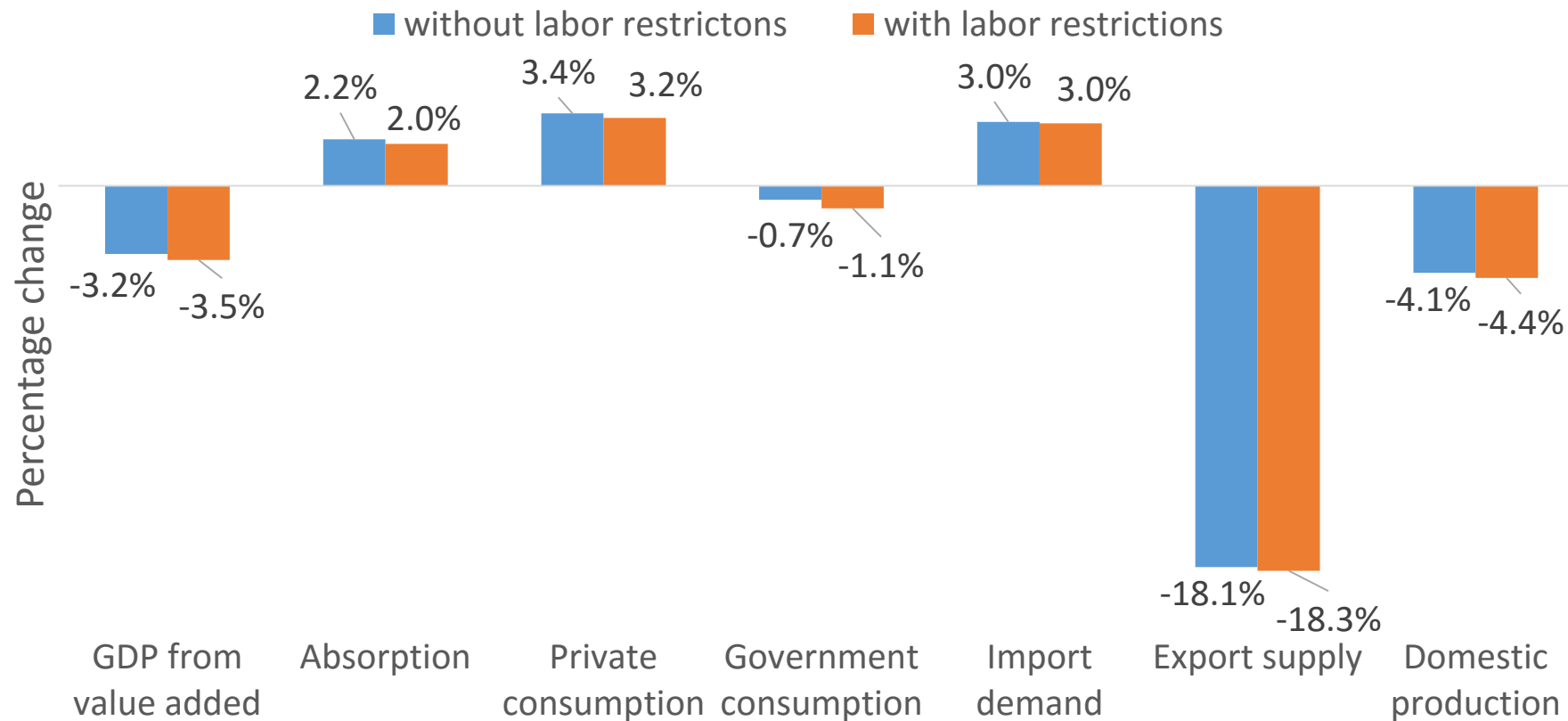
Effect on households' welfare



Effect of restriction on labor movement



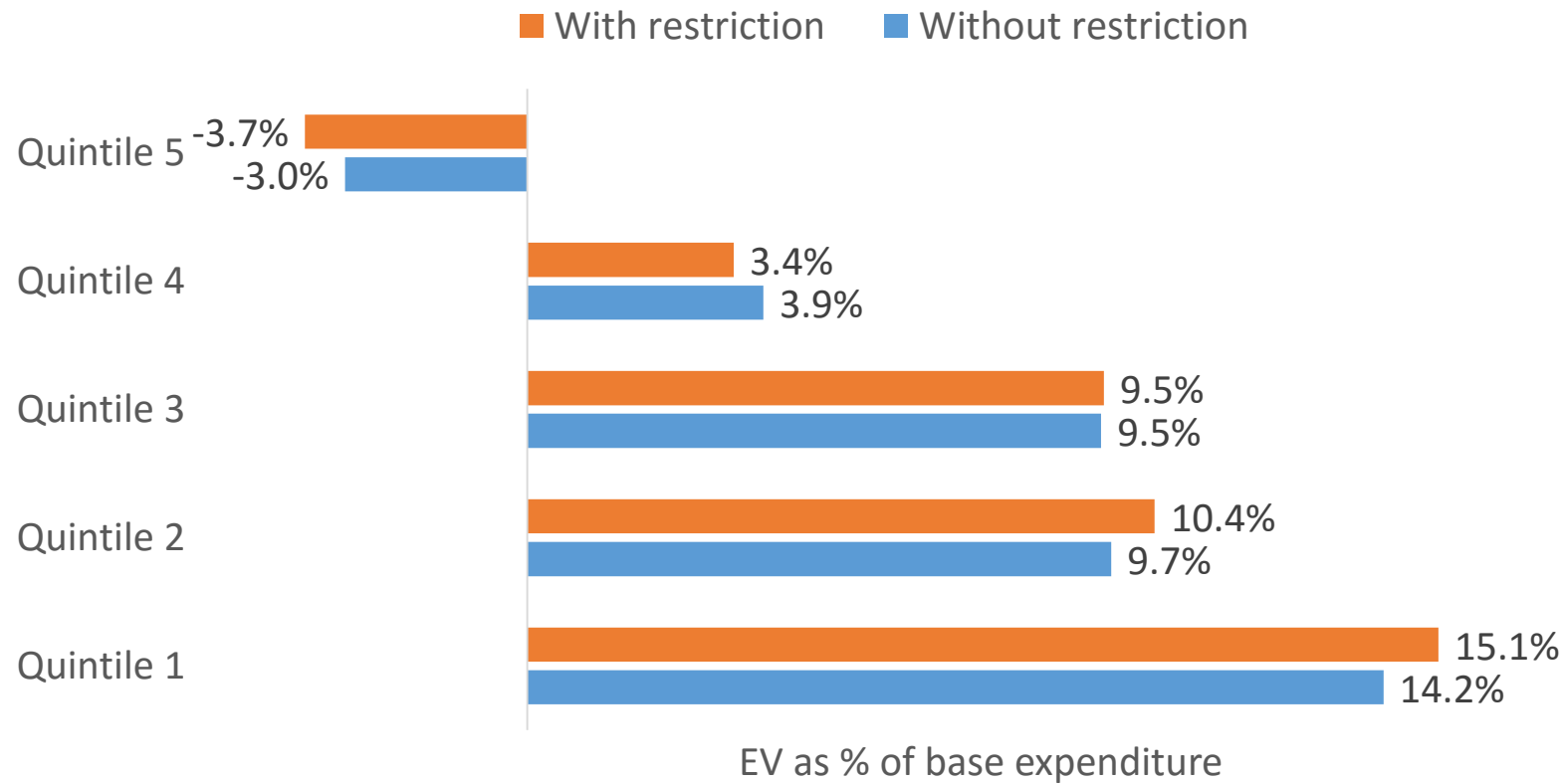
Macro economic indicators



Effect of restriction on labor movement



Household welfare



Concluding Remarks



- Increased employment in Israel negatively affects GDP and domestic production
- Employment in Israel harms Palestinian production
- Less incentive to invest in human capital, engine of modern growth
- Short term benefits
 - Increased household income and welfare
 - Distributional effects

Concluding Remarks



- Restrictions on labor mobility have a negative effect on the economy
- Positive side of restrictions:
 - Poor households are better off
 - Youngsters have more incentive for investing in human capital
- Further work
 - Path and long-term effects assessment using a dynamic model
 - Integrated CGE – microsimulation to assess poverty dynamics

THANK YOU !

agbaheyj@hu-berlin.de

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