

Labor Unions in Israel: Economic Analysis and Recommendations for Legislation

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This paper discusses the unique role of labor unions in the Israeli economy and their impact on the labor market's structure and on social welfare. It further examines the effect of current legislation on the labor unions' power and competition, the membership fees they collect, and the strikes promoted by some of them.

The **first introductory chapter** details current failings regarding labor unions in Israel, and outlines the blueprint for reform.

The **second chapter** explores the consequences of the current state of affairs.

The **third chapter** lays out the data and scope of unionized labor in Israel.

The **fourth chapter** looks at associations and labor laws around the world.

The **fifth chapter** discusses the damage sustained by labor strikes in Israel.

The **sixth chapter** highlights the “excess” in unionized sectors.

The **seventh chapter** describes the effect of contractual employment.

The **eighth chapter** looks at competition in the unionized labor market.

The **ninth chapter** presents the policy proposal, detailing possible legislative tools.

Summary

The legal status of labor unions in Israel today stems from Ottoman-era legislation passed before the State was established, alongside modern legislative additions. This status grants the unions a powerful grip on the market's employment structure, without any need on their part to acquire a majority in standard democratic procedures. At the same time, Israeli law offers no protections for employers, consumers, investors, or the government against the power of these unions and their boards, and there is no infrastructure for protecting employees' "freedom from compelled association".

Global research and data point to the fact that labor laws in Israel - specifically those dealing with labor organizations in the public sector - are not serving national interests such as welfare, growth, equal opportunities, productivity, and a dynamic labor market.

The presence of strong labor unions within government monopolies that provide vital services allows them to raise the salaries of employees who are members of the union and force the government to employ more employees than necessary, harming both efficient management and the market's labor productivity. In the public sector, the excess payment comes at the expense of taxpayers, who are forced to pay higher taxes, and service beneficiaries - such as education, welfare, and health ministries - which all compete for the same budget.

The shift in the demographic characteristics of unions over the decades - from blue-collar laborers with low education and little influence to educated, middle- and upper-class employees - has damaged the public perception of organized labor worldwide. Today, unionized government workers enjoy better conditions than their counterparts in the private market, with the disparity even wider when considering seniority and social conditions (leave days, sick days, recovery leave, pensions, and other benefits).

If in the past, organized labor contributed to reducing disparities by protecting weak employees from powerful employers, today it mainly facilitates maintaining the privileges of the most powerful employees at the expense of the rest of us.

Theoretical and empirical research of Israeli data, alongside observation of the results of changes made in the past elsewhere, have informed the recommendations in this paper.

Implementing this proposal is an immense political challenge. Israel's largest union, The New General Workers' Federation (the Histadrut) has proven itself to be a fierce opponent to any attempt at reform that would lessen its power, status, or income, and such will presumably be the case with this reform. Policymakers have generally paid compensation to workers for any structural change; however, this solution is expensive, ineffective and does not go to the root of the issue, which is the extent of the threat that can be posed to create the need for such compensation in the first place. The short-term price of costly strikes is worth the long-term change in the balance of

power.

Such change will lead to increasing economic growth and general welfare, while reducing legal expenses necessary for employees today.

Recommendations

1. **Restrict the right to strike in the vital services sector** and declare such strikes to be unprotected by The Settlement of Labor Disputes Law. This sector should be defined as a closed list of: hospitals, electricity and water supply, public transportation (including the railways), and border crossings.
2. **Establish an institution for mandatory adjudication of labor disputes in the vital services**, consisting of adjudicators with a professional background in economics, which will handle all labor disputes between employers and employees in this sector.
3. **Mandate the provision of advance warnings of planned strikes** from labor unions to employers.
4. **Prohibit all "identification" strikes** related to labor disputes in other places of employment.
5. **Cancel labor unions' Ottoman Association status.** The unions which operate under Ottoman Association laws are exempt from transparency and reporting, thus avoiding public oversight.
6. **Allow the employment of temporary workers to substitute striking workers** in the vital services sector to minimize economic damages.
7. **Prohibit retroactive salary payments** to striking workers.
8. **Promote tort lawsuits by third parties** by creating an expedited legal procedure to sue for persons harmed by a strike. The government may be empowered to act as a third party representing the public.
9. **Make striking workers in the vital services sector liable for the costs of their strike.**
10. **Classify semi-strikes**—where workers show up for work but shorten their work hours while still collecting their regular salary—**as full strikes under the law.**
11. **Allow freedom from compelled association** by enabling workers to exit collective agreements, negotiate independently, and refuse to pay union dues.

12. **Raise the minimum requirement to unionize a workplace** to 51% of employees—currently, only a third of interested employees are needed to unionize all employees in an entire workplace.
13. **Reduce the minimum management fee collected by unions**, currently 0.95% of a worker's monthly salary. This fee is collected from all employees in a unionized workplace, including non-members. **Unions should also be obliged to publish financial records.**
14. **Legislate a comprehensive labor unions law**, regulating the definition of a union, responsibility, protection from lawsuits, supervised elections, and more.

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