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## UNIONS, POLITICS, AND WORK: UNLEASHING ISRAEL'S HUMAN RESOURCES

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**Israel's Greatest Natural Resource / The Government as Employer / The Plague of Political Involvement / The Unique Position of the Histadrut / Management Problems in Histadrut Companies / The Weakness of the Employers / The Lack of Independent Middle Management / Industrial Democracy in Practice / The Impact of Israel as a Welfare State / Excessive Government Involvement**

### **Israel's Greatest Natural Resource**

Israel must build a strong economy to maintain its military power and guarantee its political independence. Today, more than ever, we are aware that its economic dependence on the United States makes it difficult for Israel to conduct an independent foreign policy.

The state of the Israeli economy reflects its national resources, what God has given the country. Unfortunately, Israel has no oil, but it has been blessed with an educated and skilled population. For Israel's economy to work properly, it has to employ its people in the most productive and efficient manner.

It is possible to employ people efficiently without free labor unions. Totalitarian societies such as the USSR until recently have state-controlled unions. Authoritarian ones such as Sin-

gapore employ their people without them, and Singapore's economy is growing faster than Israel's. Korea is another example of a rapidly developing country where the unions are weak. Yet Israel is a democratic society which allows a very high level of unionization of its workforce (70-75 percent of the total) and the freedom to strike. Israel's economic system is free, Western, modern, and at the same time its goal is to utilize its labor resources most efficiently.

To see if this is the case, let us look at the three main parties involved in the utilization of our labor resources: the government sector, which includes about 50 percent of the labor force; the Histadrut sector, which includes about 25 percent; and the private sector, which includes the other 25 percent.

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### **The Government as Employer**

The government is the largest employer in Israel and it has the most problems. The lowest salaries are generally in the government sector, especially at the unskilled levels, and the wage structure has not been modernized in years, despite the recommendations of a special committee appointed for that purpose.

There is little incentive for achievement in the government sector. There is automatic advancement and automatic wage increases. Middle management generally feels that they cannot go higher unless they are politically connected and that achievement will not bring advancement. The main incentive they have is to just keep things quiet so that they can stay where they are. Even at the top management level there is little relation between achievement and reward because when the minister changes, the higher management is often changed, whether they have done a good job or not.

Another problem in the government sector has to do with the overall wage policy. A situation developed over the years where each minister and each person in charge of a government body would always try to circumvent the Treasury. In the Kupat Holim hospitals, for example, the salary scale is supposed to be the same as in government hospitals. Kupat Holim wanted to pay their people more, which is legitimate, but this was contrary to the budget and government policy. Kupat Holim found ways to give their people higher salaries. Then the workers at government hospitals demand the same increase and strike. Because of this type of problem, budget laws were passed giving the Treasury Minister absolute authority over increases in wages or working conditions throughout the entire government sector and institutions which receive government support, including the universities and Kupat Holim, some 60 percent of the whole economy. Unfortunately, this extreme change has also had negative effects. Ministers and heads of government companies are less effective in negotiations with their employees since they have

no authority to set wages. How is management going to lead its workers when it no longer determines wage policy?

### **The Plague of Political Involvement**

The government sector of the economy is also plagued with the twin problems of political appointments and political considerations. According to law, a minister cannot appoint a government worker because he belongs to a political party. In a famous Supreme Court case, one of the Arab members of the Knesset from the Labor party had insisted that the Minister of Education appoint a person from his party to be principal of a school. One of the other candidates for the post appealed and the Court nullified the appointment.

A similar case before the National Labor Court involved the appointment of the assistant head of the National Insurance Institute's Haifa office. The Institute is headed by Mordechai Zippori. A candidate who was not chosen charged that the appointee received the job because he was a member of Zippori's Likud party, which, of course, was denied. However, when the appointee's file was presented to the court, it included a letter from the Likud faction of the Histadrut in Haifa, saying that "we need xxx, he is one of our boys, please appoint him, please advance him as much as possible." Although the appointments committee was supposed to be neutral, some of its members were connected to Zippori and knew who he wanted. However, just to make sure the other members realized who should be appointed, Zippori called them into his office before the meeting and explained his preference. Zippori's candidate was appointed, but the Labor Court overturned this appointment.

In yet another case, Haim Corfu, who was then the minister responsible for the Ports Authority, decided to terminate the employment of a high-ranking official who was head of labor relations. The Ports Authority director said to this person, "you have done a good job, I am satisfied with your work, but the minister ordered me to fire you and appoint someone else." The injured party petitioned the Labor Court to

compel the Ports Authority to reveal the reasons why he was fired. There was no law requiring reasons to be given, but the Labor Court accepted his petition, holding that the enforcement of a contract in good faith required an employer to give the person reasons for his dismissal, if he asked for them. The Court also ruled that the minister has certain powers in the Ports Authority, but he does not have all the powers. The Ports Authority, like other government authorities, was founded to be an independent authority, to have the minister set policy, but to entrust the carrying out of the policy to the management. How can the Ports Authority's management be independent if it is given politically-based directions?

These court decisions have not stopped political appointments, but there have been instances where a minister influenced the civil service to appoint a person from his party, the workers threatened to go to the Labor Court, and the minister backed down and the appointment was based on merit.

The plague of political considerations in the government sector works somewhat differently. Company managers should make decisions based on economic considerations and government ministries should keep the public interest primary. However, very often the ministers will inject political factors which should not be relevant to decision-making. This happens in many big government companies which have tremendous purchasing power. These companies should buy from a responsible supplier who will sell the best goods at the cheapest price. But all too often there is a supplier who is a friend of the minister or who is a member of the "right" political party, and then the company's decision will not be economically correct.

### **The Unique Position of the Histadrut**

The Histadrut is an unusual and special body with deep historical and social roots. It was founded 70 years ago, nearly 30 years before statehood, which was not the case for most unions in the world. Furthermore, the Histadrut was founded be-

fore there were employers, something unique in the world. In other nations there first was industrialization, with its poor labor conditions, and as a result unions were formed to achieve better conditions for the workers. In Israel the situation was different.

When the first waves of Zionist immigration came to Israel in the early twentieth century there was no industry, only an agricultural economy. The workers, for political, ideological and economic reasons, formed the Histadrut to found industry in which to employ their own workers. This explains why the Histadrut owns 20-25 percent of the economy (down from a much higher percentage in the recent past). It also explains why the Histadrut, unlike many other unions in the world, is a major employer and an important force in the economy. In addition, the Histadrut runs the Kupat Holim sick fund which provides medical services for most of the citizens, controls most of the pension funds, and supports major (now quasi-professional) sports teams. All these activities give the Histadrut political and economic power.

The second important characteristic of the Histadrut is that about 70-75 percent of Israeli workers are unionized, unlike the United States where 17 percent are unionized or Britain where unionization is about 40-50 percent. Unionization in Israel has declined over the past twenty years from 85 percent to about 70-75 percent. Despite this decline, the high rate of unionization means tremendous power for the Histadrut, and it means that labor laws and labor relations favor the worker and the Histadrut.

The Histadrut is a union of unions and not a federation. In the U.S. and England, the independent unions formed national federations which have limited power. The power is in the national unions -- the Amalgamated Clothing Workers or the Electrical Workers -- and not in the national federation. But the opposite is the case in Israel, where power is centralized in the national Histadrut leadership. The vast majority of organized workers are

members of the Histadrut. There are two major independent unions -- for high school teachers and doctors -- but they are relatively small and have limited power.

Another unusual aspect of the Histadrut is that all sectors of the labor force are organized. Whereas in the United States and England unionization is mainly blue collar, in Israel it is across the board and includes doctors, lawyers, engineers, high level management, skilled workers, and foremen. In most factories all employees, including the top management, are unionized.

Another important factor about the Histadrut, which explains a lot about Israel's political system, is its close ties to the Labor party. In union elections, members vote for political party lists, with one exception -- workers committees are elected on an individual basis. During the general elections, the Histadrut is active in support of the Labor party which controls it, providing manpower for the party machine, funds, and votes by people who work in the Histadrut, Histadrut companies, and Kupat Holim.

The main difference between the goals of the Histadrut and the trade unions in other nations is illustrated by the testimony of Samuel Gompers, an American (Jewish) labor leader who was questioned by a U.S. Senate committee in the early part of the twentieth century about the potential threat that unionization posed as an East European, communist, socialist plot. When the senators asked: "What do the unions want?" Gompers' famous reply was, "I can tell you what we want in one word -- more!" In other words, American unions want better wages and working conditions. The Histadrut, in contrast, has two goals: (1) the traditional union goal, to ask for more; (2) to further social advancement and the labor movement through the Labor party. These goals are generally compatible but not always. The question today is how the Histadrut will contribute to Israeli society by furthering social and Zionist goals.

### **Management Problems in Histadrut Companies**

The Histadrut owns such economic giants as the Koor conglomerate, the Solel Boneh construction company, and Bank Hapoalim, Israel's largest. I was told that its managers are chosen on merit and membership in the Labor party. They are chosen by the Histadrut leadership, which means that the same leadership that is responsible for the Trade Union Department also chooses or at least approves the managers of Histadrut companies. The Trade Union Department can also influence the removal of these managers.

The Trade Union Department has the final say over wage policy in Histadrut companies. According to the Histadrut's constitution and actual practice, if there is a dispute concerning wages, the final decision is made by the head of the Trade Union Department. What happens in Histadrut companies which are losing money, in which workers are not working efficiently, the banks are threatening to call in loans, and the management demands a wage freeze and efficiency measures? Will the Trade Union Department agree or insist on higher wages? What will be the considerations of the Trade Union Department when it decides such a problem?

All of the Histadrut companies' management are Histadrut members and, as such, are protected against dismissal. Inefficiency is not a reason to dismiss workers or managers. However, the top management, the heads of the big Histadrut companies, are employed under special secret individual contracts, which is exactly the opposite of what the Histadrut demands from other employers.

Recently there have been changes in Histadrut policy. The belief in the mutual responsibility of one worker for the other is breaking down. The successful Histadrut companies are no longer willing to support the non-profitable ones. The trade unions object less to individual contracts instead of collective bargaining agreements for management personnel.

### **The Weakness of the Employers**

Whereas the workers are represented by one huge, politically powerful body, the employers are represented by many less powerful employers' organizations. There are separate organizations for industrialists, commerce, building contractors, etc., that unite for the purpose of national collective bargaining, but their power is limited.

The private sector in Israel is really a small part of the economy, some 25 percent. The more modern part consists of the high-tech, multinational companies such as IBM, Motorola, Intel -- companies which are important beyond the number of workers they employ because they symbolize the general advancement of industry, including the military industry. For this reason nobody, including the Histadrut, has disturbed their policy of being non-union. Their management is independent and subject to their mother companies' policies and the government's general economic policies.

### **The Lack of Independent Middle Management**

A major problem of Israeli management is the lack of independence. Proper management should set policy, carry out that policy, and represent the employers' interests vis-a-vis the employees. This is generally not the situation in Israel.

In the private sector in other countries, middle management -- the foremen, division heads, departments heads -- are often non-union and considered part of management. In most of the Israeli economy, however, except for the director-general and a few other top managers, everybody is a union member. This means that middle management is subject to union discipline. If they want to discipline an employee the union can pressure them and even get them fired. If they want to change wage policy and there is a strike, they do not work because they are union members. Therefore, when there is a strike almost all managers participate, which is the opposite of what happens in America where middle management is non-union. What this means is that middle

management does not consider itself independent managers representing the company. They have a dual loyalty: to the company and the union.

An example of this phenomenon is the banking industry, which pays very high wages. When the bank's assistant director-general in charge of labor relations is a union member and receiving the benefits which workers get, who is he bargaining against? Who is bargaining for the interests of the bank?

### **Industrial Democracy in Practice**

Industrial democracy exists in Israel and means that workers have some role in fixing their employment conditions. How does this work in practice? In recent years, in the government sector, only the Wage Commissioner in the Treasury Ministry can conduct collective bargaining and does so with the small group who control the Histadrut Trade Union Department.

As opposed to the above centralization, at another level, however, industrial democracy in Israel has been taken to the opposite extreme. Take, for example, the Ports Authority which runs three ports -- Haifa, Ashdod, and Eilat -- and employs about 1,200 workers. In each port there are 10-12 workers committees (such as: the heavy equipment operators, the foremen, the tug boat captains, the porters, the engineers, the clerks, even the lawyers). Each group in each port signs collective agreements. With 3 ports, and 10-12 groups in each port, plus agreements signed for the port as a whole by the city Labor Council and the statewide agreements that set the framework for the others, the result is that for 1,200 workers there are 500 collective bargaining agreements -- 1 agreement for every 2.4 workers! In one case the union and the Ports Authority could not find all of the relevant collective agreements.

This proliferation of separate bargaining units is a major cause of strikes. It is very hard to reach an agreement among the various workers committees; there is always one group that will not agree. The case of El Al Airlines illustrates this problem. One cause of industrial strife at

El Al was the number of workers committees that negotiated separately -- the pilots, the ground crew, the clerks, etc. When El Al went into receivership, one of the main changes in the new collective agreement was to establish one union to represent all the workers.

On the other hand, the workers committees also represent positive aspects of decentralization. Their members are elected individually by those they represent. Many members of the workers committees are among the most vibrant and charismatic leaders in the Histadrut. On the negative side, there are certain big government companies which are run by the workers committees.

### **The Impact of Israel as a Welfare State**

Another unique feature of the Israeli economy is the fact that, after Sweden and Holland, Israel is one of the great welfare states in the world, basically due to its National Insurance Law. There are at least 15 different types of National Insurance payments, many of which have tremendous effects on the economy, the labor force, and general social conditions. There is a guaranteed minimum income. Disabled people have many benefits, including coverage for work-related accidents, general disability, and car allowance. There are grants to women who give birth in hospital and paid maternity leave. When people die, the funeral and burial is paid for by National Insurance. There are old-age pensions, which are, however, inadequate.

All of these things are done by the National Insurance system and represent a tremendous achievement. Most European countries, as well as most states in the U.S., do not have such coverage. On the other hand, its cost is high. National Insurance payments add significantly to labor costs, which makes Israeli industry less competitive in world markets. Employers must pay a total of 34 percent of an employee's salary for social benefits and pension plan. This is why many employers in the building industry preferred to hire Arabs unofficially from the administered territories.

### **Excessive Government Involvement**

Even without politics being involved, the economy is hamstrung by excessive government involvement. The typical employer in Israel makes few independent decisions when it comes to his workers. For example, he cannot decide who is going to be hired, officially, because many positions must be filled through the government employment agency. He has to pay a minimum wage, which can be uncompetitively high for factory workers. Israel does not compete with Japan and America, it competes with Singapore and Korea, where the average wage is \$400 a month as compared with \$1,000 in Israel. In Israel there are "extension orders" which require employers, even if they are non-union, to pay union salaries, cost-of-living increases, pension plans, travel costs, and vacation bonus. Hours of work, overtime pay, Shabbat pay, vacations of 2-4 weeks a year, all are controlled by law. An employer can only give more than the law requires, he cannot give less. The National Insurance Law costs the employer about 17-18 percent of wages. The government also controls some prices, some exports, imports of raw materials, the financial market, and taxation, all of which limit management's ability to make independent decisions.

In addition, in many sectors of the economy there is little relation between efficiency, profit and reward for workers or management. The government has intervened to save failing industries.

In order to unleash the true potential of Israel's human resources, the challenge in the coming years will be to encourage independent management, limit political interference, reduce government involvement, encourage reforms in the Histadrut, and encourage free collective bargaining. Until this is done, economic decisions will not be made on their merits and the present problems will continue.

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