

Topic: **Economy**

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General²

- While the Arab economy is ostensibly integrated into the national economy of Israel, in practical terms it is largely segregated.
- There are considerable differences in the level of economic development in the Jewish and Arab sectors. These differentials are reflected in statistics on income, employment, economic development, industrialization, and socio-economic status.
- One of the causes is the low level of industrialization in the Arab economy compared to the Jewish one. At the time of the establishment of the state in 1948, most of the Arab population that remained in Israel worked in farming, in contrast to the more highly industrialized Jewish economy.
- Nevertheless, government policy appears to be a major cause of inequality in socio-economic development between Jews and Arabs.
- The Arab population is concentrated in areas, such as, the Galilee, the Triangle, and the Negev, that are considered to be on the periphery. Due to the fact that the centers of employment were elsewhere, Arabs had to look for work outside their towns of residence, which gradually turned into “bedroom communities.”
- The main features of government policy have been expropriation of economic resources such as land, and significant discrimination in the allocation of national economic and social resources. The Arab population has become almost completely dependent on Jewish concentrations of economic activity, and lacks real representation in government decision-making on economic development issues.³
- Nevertheless, the development of the Arab economy is considered critical to the future of the country.
- In a conference held in November 2007, Bank of Israel Governor Stanley Fisher stressed, “If we, as a society, don’t take steps to absorb the Arab population into the labor market, larger segments of the population will be caught up in the poverty situation...Israel can certainly not succeed in the long run, if it creates large differentials, with a big sector of the population existing at a very low standard of living...To achieve this, barriers to the labor market, whether based on cultural differences or pure discrimination against Arabs, must be removed.”⁴
- In November 2008, Aiman Saif, Head of the Authority for the Economic Development of the

¹ Compiled by Prof. Elie Rekhess, Associate Director, Crown Center for Jewish and Israel Studies, Northwestern University

² Also see Fact Sheet on Employment.

³ Aziz Haidar, “Socio-economic stress within the Arab population”, in: Shlomo Hasson and Khaled Abu-Asbah (editors), *Jews and Arabs in Israel facing a Changing Reality: Dilemmas, Trends, Scenarios and Recommendations* (Jerusalem: The Floersheimer Institute for Policy Studies, 2004), p. 125.

⁴ The Center for Jewish-Arab Economic Development, Autumn 2007, *Newsletter, The Marker (Ha'aretz)*, November 14, 2007.

Arab, Druze and Circassian Sectors, stated that the annual loss for Israel's economy resulting from the exclusion of Arab citizens from nationwide economic activity totals 40 billion NIS, 6% of the GDP.⁵ Official statistics show that while the Arabs comprise almost one fifth of the country's citizens, they are responsible for only 8% of the Israeli GDP⁶ and comprise only 13.7% of the labor market.⁷

- As of 2010, of Israel's 40 billion USD in exports, the Arab population was responsible for a mere 30 million USD.⁸
- Nevertheless, in recent years, there has been some noticeable improvement. In 2011, Bank Hapoalim CEO, Yair Seroussi, called the Arab sector "the fastest potential for growth" and an "opportunity."⁹ Likewise, Discount Bank increased its number of branches in the Arab sector by 15% in the 2010-2011 year alone.¹⁰ This is likely related to the process of "Israelization," which includes increased consumerism and spending, as reported by the Israeli newspaper Globes in 2011.¹¹

Socio-Economic Status

- Data on socio-economic status is periodically published by the Israeli Central Bureau of Statistics. They are based on an index of weighted social and economic factors, i.e., housing, education, employment, income, and demographics in various settlements and towns.
- The 2006 index, published in November 2009, indicates that Arab towns account for nearly three quarters of the 96 localities at the lowest four socio-economic clusters of the index.
- The Negev Bedouin townships in particular were nearly all at the bottom of the 2009 ranking of standard of living. In contrast, not a single Arab town or city is included among the 47 localities that comprise the four top socio-economic clusters.¹²
- Arab villages and towns in the bottom socio-economic clusters also have the highest rates of unemployment and poverty in the country.

Income

- According to the 2007 Survey of Income, the monthly income of Arab employees was approximately 33% lower than the average income of Jewish employees (NIS 5,419 and NIS 8,056, respectively).¹³
- The gap is even greater when comparing male employees: salary figures reflect a 43% differential (NIS 5,764 and NIS 10,117) between Arabs and Jew.¹⁴
- This issue is also reflected in terms of household income, as the average Jewish household has an income of nearly twice that of the average Arab household (NIS 15,755 and NIS 8,678

⁵ See: <http://www.economist.co.il/?CategoryID=1540&ArticleID=6138> [in Hebrew].

⁶ *The Marker*, March 3, 2010; "We Have Neglected the Arab Sector—We Will Act to Correct this Historic Injustice". *Globes*, February 4, 2011.

⁷ See: <http://www.panet.co.il/online/articles/1/2/S-520652.1.2.html>.

⁸ *Globes*, October 11, 2010.

⁹ *Hamodia*, March 19, 2011.

¹⁰ *The Marker*, March 15, 2011.

¹¹ *Globes*, June 16, 2011.

¹² Central Bureau of Statistics (CBS). *Characterization and Classification of Local Authorities of Geographical Units by the Socio-Economic Level of the Population, 2008*, Publication No. 1503, November 2009, Table A2, available at: http://www1.cbs.gov.il/webpub/pub/text_page_eng.html?publ=100&CYear=2008&CMonth=1.

¹³ Nardit Stein-Kapach and Liron Sivan, *Survey of Income – 2007* (Jerusalem: CBS, March 2009), Table 25, pp. 92-93.

¹⁴ *Ibid.*

respectively),¹⁵ despite the fact that the average family size is larger among Arabs.

- As of 2010, the number of high-income Arab households actually experienced serious decline since 1992, dropping nearly one-third (from 17.1% to 12.6%) in less than two decades.¹⁶
- One explanation for the salary gap is Arab over-representation in low-income occupations. In 2007, the employment rate of Jews was almost twice as high as the employment rate of Arabs employed in the three most highly compensated professions (38.7% and 22.8%, respectively).¹⁷
- As of 2011, Jews were four times more likely than Arabs to become managers (7.9% and 1.9%) and had around a 50% greater chance of being academic professionals, associate professionals, or technicians.¹⁸
- This issue manifests itself in several ways including the absence of any Arab companies in the Israeli Stock Exchange¹⁹ and the extreme underrepresentation of Arabs in certain fields such as academia (1.4% of total academics are Arab) and high-tech (300 out of 74,000 total employees in the field are Arab).²⁰
- The concentration of Arabs in low-income occupations reflects a combination of factors: lower level of education, geographical distance from appropriate work opportunities that are traditionally located in industrial zones in large Jewish cities, and in several cases, discrimination on behalf of Jewish employers who are reluctant to hire Arab employees.
- Another explanation relates to the positive correlation between stability in work and salary rate. Naturally, employees who work full year without dismissal enjoy higher salary conditions. In 2007, 63.4% of Jewish employees worked full 12 months without dismissal, compared to only 53.0% of Arab employees; On average, an Arab employee worked 9 months a year, while a Jewish employee worked 10 months.²¹
- In a survey conducted in late 2009 among 188 major Jewish industrialists, 86% of the respondents agreed that Arab candidates were qualified for managerial positions. However, 73% of them stated they would avoid hiring an Arab candidate.²²

Industry

- According to a 2010 report, only 2.4% of industrial lands are in Arab locales.²³
- In a speech he gave at the inauguration of an industrial park in Nazareth in 2013, President Shimon Peres noted the importance of improving the economic standing of the Arab community in Israel. He claimed that the success of coexistence was dependent on the achievement of full equality between the Jewish and Arab population sectors.²⁴
- These initiatives have started to bear fruit as the number of Arabs working in high-tech in Nazareth in 2012 was ten times the number of Arabs working in the same industry and city in

¹⁵ Central Bureau of Statistics (CBS). *Monthly Income of Households among the General Population and including those with a Breadwinner, According to the Number of People in the Household, Population Group, Continent of Origin and Timing of Breadwinner's Immigration, 2011*.

¹⁶ *The Marker*, January 28, 2013.

¹⁷ CBS, *Statistical Abstract of Israel, 2007*, 58, Tables 12.18, 12.41.

¹⁸ CBS, *Statistical Abstract of Israel, 2011*, Table 12.18.

¹⁹ *The Marker*, November 11, 2010.

²⁰ *The Marker*, February 2, 2010.

²¹ Figures relate to urban localities with more than 2,000 inhabitants. See: Jack Bandalak, *Average Salary and Income by Settlement and Other Economical Indices, 2007* (Jerusalem: National Insurance Institute, Planning and Research Authority, October 2009), table 22, p. 147.

²² *The Marker*, March 3, 2010; See also highlights of the *2009 Ono Report*, published by the Ono Academic College, which indicated that Jewish employers are mostly reluctant in hiring Arab candidates, compared to Jewish candidates from Ethiopian descent or ultra-Orthodox Jews. See:

http://www.ono.ac.il/Uploads/dbsAttachedFiles/Highlights_from_the_Ono_Report_2009.pdf.

²³ *Globus*, May 9, 2013.

²⁴ *The Jerusalem Post*, April 24, 2013.

2008 (2008: 30, 2012: over 300).²⁵

- Stef Wertheimer, the entrepreneur responsible for the construction of the Nazareth Industrial Park, claimed that Israeli bureaucracy interfered with his initiative causing the project to drag on for ten years, while a similar project took only two years in Turkey.²⁶
- Budget cuts initiated by Finance Minister, Yair Lapid, in 2013 included many projects initiated by PM Netanyahu, including NIS 80 million slashed from the budget for development and advancement of the Druze community.²⁷
- Despite the fact that, in 2010, NIS 2 billion was the estimated profits generated by the aforementioned investments for the development of industrial zones in Arab towns and villages, little has been realized.²⁸

Government Policy

- According to a 2004 report to the Knesset, the Ministry of Industry, Trade and Labor initiated a “comprehensive study to identify the factors bearing on unemployment in the Arab sector and how to respond to it.”²⁹
- The same report stated that less than NIS 18 million of the NIS 80 million budgeted for development of the Arab sector in the government’s 2000 Four Year Plan had actually been spent, due to budgetary cuts that affected the Ministry.³⁰
- Earlier in 2006, Ra’anan Dinur, then the Director-General of the Prime Minister’s Office, announced that the state had finalized plans to establish a NIS 160 private equity fund to help develop Arab businesses over the next decade.
- In September 2007, Dinur stated that the primary obstacles to business development within the Arab sector were “lack of investment in marketing, lack of management training, lack of infrastructure, and mutual ignorance and distrust between the government and the Arab sector.”³¹
- In February 2007, the government announced the establishment of the Authority for the Economic Development of the Arab sector, headed by Aiman Saif. The Authority’s goal was to maximize the economic potential of the Arab population and integrate the Arab business activity into the national economy.³² (see Fact Sheet on the Authority for the Economic Development of the Arab, Druze and Circassian Sectors)
- In 2007, for the first time in Israel’s history, an Arab town, Shaghur, was incorporated as a full partner in the Barlev Industrial Zone, serving Karmiel, the Misgav Regional Council, and Mateh Asher in the western Galilee. As a consequence, Shaghur will receive one quarter of the revenues from municipal taxes levied on the Industrial Zone.³³
- In recent years, government officials demonstrated increased awareness of the Arabs’ economic needs and the need to integrate Arabs into the national economy. In July 2009, the Prime Minister’s Office and the Ministry of Finance launched a 160 million NIS investment capital in the Arab sector. MK Professor Avishay Braverman, then Minister of Minority Affairs, said that supporting the Arab sector’s economy will eventually accelerate the Israeli

²⁵ +972 Magazine, October 19, 2012.

²⁶ *The Jerusalem Post*, April 24, 2013.

²⁷ *Globus*, May 9, 2013.

²⁸ Sharon Roffe-Ofir, “PM approves NIS800M plans for Arab sector”, *ynetnews.com*. See:

<http://www.bridgesforpeace.com/dispatch/article/800-million-shekel-plan-for-arab-sector/> .

²⁹ The Knesset, Center of Research and Information, “Background document on the policy of the Ministry of Industry, Trade and Labor in the development of industry and employment in the Arab sector”, June 2004, p. 2 [Hebrew].

³⁰ *Ibid.*

³¹ The Center of Jewish-Arab Economic Development, Summer 2007 *Newsletter*.

³² For details, see: <http://www.pmo.gov.il/PMOEng/PM+Office/Authorities/calcalihome.htm>.

³³ *The Marker, Ha'aretz*, November 6, 2007.

economy in general.³⁴

- In January 2010, following an initiative by the President of the State of Israel, Shimon Peres, a few dozen senior Jewish businessmen and political figures visited the Arab high-tech incubator in Nazareth in order to better understand the economic distress of Arab high-tech employees. One official stated: “We are on the verge of breakthrough regarding the integration of the Arab sector into the Israeli economy.”³⁵
- In March 2010, the Government adopted Resolution No. 1539, allocating NIS 778.5 million to 12 Arab and Druze localities: Maghar, Sakhnin, Shfar’am, Nazareth, Arraba, Tamra, Daliyat al-Karmel and Isifya, Tira, Kfar Qasim, Umm al-Fahm, Qalansawa, and Rahat. The NIS 778.5 million economic development plan is part of a five years development plan for 2010-2014. The program aims to develop employment, provide housing solutions, and improve and renew economic infrastructures.³⁶
- In a 2011 report issued by Adallah, the Legal Center for Arab Minority Rights in Israel, the organization claimed that the government use of tax dollars was heavily slanted in favor of the Jewish population (in terms of National Priority Areas), which means that the state is doing little to correct the existing levels of inequalities in regards to income, education etc.³⁷ Furthermore, in addition to hiring discrimination within the general public, quotas that demanded government appointment of Arabs to positions at higher rates than the present have yet to be adequately implemented.
- In 2012, it was reported that after years of neglect, basic services such as buses are now being provided to Arab localities— helping residents of towns such as Rahat and Kafr Qasim commute to work. Similarly, while NIS 4 billion has been allocated to Arab communities for the 2012-2016 period, the Mossawa Center, the Advocacy Center for Arab Rights in Israel, insisted in 2012 that this will not prevent some three dozens communities from continuing to endure neglect.³⁸
- According to a 2013 *Ha’aretz* editorial, in order to close the educational and employment gap between Jews and Arabs, it would be necessary to invest NIS 8 billion over the next 5 years. This investment would yield an annual return of 7.3%.³⁹

³⁴ *The Marker*, July 2, 2009.

³⁵ *The Marker*, January 13, 2010.

³⁶ See: <http://www.pmo.gov.il/Secretary/GovDecisions/2010/Pages/des1539.aspx> (in Hebrew).

³⁷ Adallah, “The Inequality Report,” 2011.

³⁸ *Xinhua*, March 7, 2012.

³⁹ *Ha’aretz*, June 14, 2013.