



Palestine Economic Policy Research Institute

Analysis of Palestinian Labor Supply and Demand

By :
Basim Makhool

December 2000



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Analysis of Palestinian Labor Supply and Demand

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7. Comments and feedback from the workshop are incorporated into the study and the final draft is reviewed by the scientific committee to ensure that the necessary amendments have been made. The study is then edited.
8. Research papers written in English are translated into Arabic and published in both languages. An executive summary in English is attached to research papers written in Arabic.



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Abstract

This study analyzes demand for Palestinian labor and its distribution according to economic activity, skill, level of education per age group, sex and geographical distribution, and at both aggregate and sectoral levels by means of econometrics. The study also analyzes the labor supply in terms of size, growth, contribution to work force, age group, level of education, training and geographical distribution. Unemployment and its distribution are examined according to various criteria, starting from 1970 through to the first quarter of 2000. Structural changes during the period in question are given special emphasis.

The following is a summary of the main conclusions and trends:

Initially, the demand for labor in the Palestinian territories fluctuated dramatically in response to economic upheavals and the closure policy imposed by Israel. The performance and role of the agricultural sector has declined in recent years. In addition, the share of industrial labor fell in both the West Bank and Gaza Strip but labor has risen in the construction sector. The contribution of the retail, restaurant and hotel sector to employment has remained stable with the exception of the Gaza Strip. The contribution of the transportation, storage and telecommunications sectors to employment in the Palestinian territories has also remained stable. Over the same period, the services sector increased in importance and other sectors, including public sector employment, also witnessed a significant growth in their roles.

Changes in the distribution of employees in economic businesses are limited to an increase in the significance of the services and construction sectors in terms of their relative and absolute importance and a fall in the importance of the agricultural and industrial sectors in employment. There was also a rise in the number of employees working in primary professions, high-level management, arts, and machine operators. The contribution of employees, salesmen, craftsmen and agricultural workers to employment in the West Bank fell while in the Gaza Strip the share of skilled labor in agriculture and primary professions increased.

The share of employees in high level management, technicians, craftsmen and salesmen to employment has fallen. There was also a rise in the number of employees who had completed twelve years of schooling or

distribution of employees according to level of people throughout the period. The quota of people increased.

It was apparent that the demand for labor in the Palestinian territories was influenced by the volume of production and employment during the previous period and also by wage levels. However, the degree of influence differed from one economic sector to another and between the West Bank and Gaza Strip. This issue must be addressed when formulating economic policies to encourage employment.

Labor supply in the Palestinian territories is clearly affected by the size, rate of growth and structure of the population. Palestinian society is youthful in character and around 47% of the population are under the age of 15. Compared with other countries, population growth rates are high. There is low manpower per total population compared to international averages and manpower participation rates are also low. Although female participation rates in the labor force dropped sharply, there was a rise with the arrival of the Palestinian National Authority.

Regarding levels of education, around 24% of the work force had completed more than 12 years of education as opposed to 28.6% who had completed 10-12 years of schooling. However, the rise in the percentage of the educated labor force does not necessarily mean that educational output is matching the needs of the labor market in terms of specialization and required skills. Work force participation rates also rose with the increase in educational level.

Unemployment in the Palestinian territories corresponds directly to the number of workers able to reach their place of employment inside Israel. Unemployment rates fluctuated from one period to another according to the prevailing economic and political circumstances in the Palestinian territories and according to the degree of closure used by Israel to limit the flow of labor. Unemployment in the Palestinian territories has fallen consistently since the end of 1995, although unemployment in the Gaza Strip remains higher than in the West Bank. Moreover, female unemployment rates are higher than those of males, albeit to a relatively small degree. Unemployment is low among the illiterate, standing at 5.18% compared to 12.23% among those who had completed 12 years of schooling (in the West Bank). The rate dropped significantly with an increase in age. The highest levels of unemployment are found in rural areas, followed by cities and refugee camps.



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ference between labor supply and demand), a
the economy's ability to absorb labor, had
the West Bank and Gaza Strip. That is, the
labor supply grew faster than the demand for labor. After 1994, the gap
increased to 129,000 workers in the West Bank and 57,000 workers in the
Gaza Strip. The annual increase in the gap averaged 2.3 thousand in the
West Bank (4.8% per annum) and 1.5 thousand in the Gaza Strip (5.1%
per annum).