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THE  
ALTERNATIVE  
INFORMATION  
CENTER

## The Economy of the Occupation *A Socioeconomic Bulletin*



**ISRAEL OWES BILLIONS OF SHEKELS  
TO PALESTINIAN WORKERS**

№ 25 \* January 2010



Hanna Zohar, Shir Hever

# *Economy of the Occupation*

Socioeconomic Bulletin Nº 25

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## **ISRAEL OWES BILLIONS OF SHEKELS TO PALESTINIAN WORKERS**

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*“A Palestinian worker will receive for his work in Israel a gross and net salary equivalent to the salary of every other worker in Israel with identical personal and professional characteristics. A Palestinian worker is eligible for social conditions to which every other worker with identical characteristics is eligible in Israel, in accordance with the law, expansion orders and group agreements. The Department of Payments of the Support Unit is responsible for implementation of the aforementioned decision.”*

*(Website of the Ministry of Industry, Trade and Labour, 2010)*

## 1. Summary

**I**n this report we propose an approximate calculation of amounts that the Department of Payments deducted from the salaries of Palestinian workers from the Occupied Palestinian Territories (OPT) who were employed in Israel, or which were deducted for them from their employers, from 1970-2009. These amounts of money were formally deducted in order to finance various social rights for the workers, but in practice a majority of the money was transferred to the Israeli Ministry of Finance

and the *Histadrut* (the Israeli Trade Union Federation). The calculation shows that over decades, the State of Israel accumulated a debt of billions of shekels to the Palestinian workers. This debt must be paid to the workers themselves or to their beneficiaries, in accordance with the full and detailed lists of the Department of Payments.

The declared goal of establishing the Department of Payments was to equalize the salary conditions of Palestinian workers from the OPT to those of Israeli workers. The Department was established in 1970 and belonged, until 2009, to the Ministry of Industry, Trade and Labour (today it

is attached to the Ministry of Interior, after Palestinian workers were defined as “foreign workers”). The state obligated employers (in accordance with decision 1/b of the Ministerial Committee for Security, 1970) to transfer the gross salary of the Palestinian workers to the Department of Payments.

The Department of Payments is supposed to deduct from the salaries various taxes and deductions for so-

*The Palestinian workers and their employers allocated money for National Insurance, but the workers were insured only against bankruptcy of their employers and work accidents.*

cial benefits equal to those of Israeli workers. In upholding its obligation to deduct money from the Palestinian wages, the Department was stringently meticulous. However, in upholding its obligation to provide workers with services and benefits in exchange for these deductions, the Department was negligent. Thus, for example, 92% of the money supposedly deducted for

National Insurance for old age payments, disability, unemployment and child payments was transferred to the Ministry of Finance. Money was transferred to National Insurance only for insurance in cases of work accidents and bankruptcy of the employer. This is the most scathing example, but not the only one, of cruel theft under the protection of a government decision, the declared goal of which is “protection” of Palestinian workers.

We made the calculation for Palestinian workers who formally worked in Israel. Two groups of Palestinian workers are prominently absent from this report: Palestinian workers in the Israeli settlements in the OPT and

informal Palestinian workers, whose salaries were not transferred through the Department of Payments. Separate research should be undertaken concerning these groups.

As an introduction to the detailed data we collected, below is a table outlining several amounts deducted from the workers which were not returned to them as required by their legally

mandated rights (excessive deductions). The information pertaining to several central clauses is unavailable, as will be detailed below, and the calculation is therefore partial and must

be seen as a minimum estimate. The amounts are quoted in 2008 prices, i.e. adapted according to the consumer price index. We chose a yearly interest of 5%.

### EXCESSIVE DEDUCTIONS 1970-2009 (IN MILLIONS OF NIS)

Deduction for National Insurance (transferred to the Ministry of Finance)	1,354.0
"Equalization tax" (from 1995)	941.0
Organising fees – <i>Histadrut</i>	132.0
Provident fund	152.0
Promotion of construction sector (from 1990)	219.0
Sick pay deductions	275.0
Worker disability deductions	8.4
<b>Sum of Israel's debt before interest</b>	<b>3,082.0</b>
<b>Debt of Israel with interest</b>	<b>8,350.0</b>

## Excessive Deductions from the Palestinian Workers

### 2. DEDUCTIONS FOR THE NATIONAL INSURANCE INSTITUTE

According to the data of the Payments Department itself, only 7.63% of the payment for National Insurance (deducted from employees' wages and collected from their employers) arrived at its legal destination. The workers paid for old age payments, unemployment

insurance, general disability and child payments but from workers' testimonies, salary slips and various publications it becomes apparent that they received only a small part of the services for which they paid: work accident insurance and bankruptcy of the employer (Department of Payments, 1992; *Kav Laoved*, 2000). 92.37% was directly transferred from the Department of Payments to the Ministry of



Finance. On the pay slips produced by the Department for the workers is written that all of the money was transferred to National Insurance – a false statement in legal terms, and deception in common parlance.

In our calculation we added together the deductions from the workers and the employers, deductions intended to finance all of the rights from National Insurance that they did not receive.

In a careful calculation of deducting 7.63% of the deduction for National Insurance during the years 1970-1994 (the percentages of deduction of National Insurance changed over the years as they appear in the annex, in addition to the National Insurance Institute, 2009), the amount of excessive deduction for National Insurance reaches NIS 1.354 billion (in 2008 prices).

The Israeli High Court recognized that this deduction is illegal in the ruling it gave in the Union of Flower Growers' petition. In 1991 the Union submitted a petition to the High Court, demanding a return of the monies deducted from the employers and workers as payment for National

Insurance, as the workers did not actually receive the rights for which they paid. Mr. Daniel Abraham, head of the Union of Flower Growers, noted that after the High Court ruling, the Department of Payments was forced to return to the employers and their workers approximately NIS 4.7 million (in 1991 prices).

From the amount calculated as excessive deductions for National Insurance we reduced the compensation, which was already awarded to the Palestinian workers in the aforementioned High Court ruling.

We will deal with the deductions for National Insurance from 1994 in the next section, under "equalization tax."

### **3. "EQUALISATION TAX"**

"Equalisation tax" is the title given in 1993 to the surplus collection for National Insurance (State of Israel, 1994). The difference between the money collected from the Palestinian workers and their employers, and the money that was in fact transferred to National Insurance, was defined as a

special excise, the goal of which was to equalize the costs of employing Palestinians and Israelis, and as such to provide an incentive for preferring Israeli workers (Ministry of Industry, Trade and Labour, 2003).

In 1994, following the discussions preceding the Oslo Agreements, it became known that Israel intended to transfer part of the equalization tax monies to the Palestinian Authority – instead of giving the workers their full rights for which the monies were deducted. *Kav Laoved* requested an injunction against this step (from the District Court in Jerusalem). In response, Israeli state representatives (David Brodet, then Head of the Budgets Department, and Aharon Barazani, then and current Head of the Payments Department) announced to the court that the money would be deposited in a bank account in Israel until the Palestinian Authority established a fund for the benefit of workers employed in Israel and for their family members.

A clause in this spirit was put in the economic annexes to the Oslo Accords, and later anchored in the Agreement on the Gaza Strip and

Jericho Area (State of Israel, 1994). On this same occasion it was determined that two-thirds of the collection would be deducted for expenses of the Department of Payments, and for health insurance payments for occupational health services. Only the remaining one-third would apparently be deposited in a fund for the benefit of the workers.

From 1995-2003 the money was deposited as promised in a commercial bank account. According to a report of the State Comptroller, during this period NIS 67 million accumulated in this fund. According to our calculations, NIS 627 million (in 2003 prices) were collected from the Palestinians during these same years. Two-thirds – a huge chunk in its own right – accordingly grew to almost 90% of the equalization tax collected. Even if we assume zero interest on the fund's money, up until 2003 NIS 560 million of the monies collected disappeared into the budget of the Finance Ministry (State Comptroller, 2005).

In 2003, despite the explicit international commitment that was further enacted in law, the government of Israel (under authority of the Ar-

rangements Law) decided to transfer the equalization tax monies to the Civil Administration of the Israeli military. To date, as far as we know, this is the pinnacle of the twisting story of the equalization tax (State of Israel, 2002).

With the optimistic assumption that the amount of NIS 67 million is still deposited for the Palestinian workers and will be transferred

years 1970-1994, we would reach the amount of NIS 804 million of excessive deductions (in 2008 prices).

However, from reports of the Department of Payments it becomes apparent that the equalization tax taken from the Palestinian workers and their employers was higher than the amount of National Insurance taken from the Israeli workers. According to calculations based on these statistics

(see section on calculation of the debt), the amount of NIS 1.078 billion (in 2008 prices) is reached.

Since we do not know exactly what were the excessive deductions from Palestinian workers from

the equalization tax in 1995-2009, we took an average of the two estimates noted. Thus we receive an estimation of NIS 941 million (in 2008 prices).

#### **4. DEDUCTIONS FOR THE HISTADRUT, PROVIDENT FUND**

In a 1970 government decision, which established the Department of Payments, the *Histadrut* also received a

*Since 1994 Israel has transferred money belonging to the Palestinian workers to a fund established for them, but a majority of the money disappeared from the fund.*

to them one day, we subtracted this amount from our calculations.

The equalization tax is seemingly meant to be the gap between the National Insurance payments taken from the workers and employers and the amount transferred in practice to the National Insurance. If we would make the calculation for the years 1995-2009 according to the method used to calculate the excessive deductions for National Insurance for the

piece of the pie. Palestinian workers were forced to pay “organizing fees” to the *Histadrut* at a level of 0.7% of their salaries. The *Histadrut* allocated to the workers individual assistance, but no defence of their rights vis-à-vis the Ministry of Finance and Department of Payments. Through its constitution, the *Histadrut* even denied the right of workers who are not citizens of Israel to become members (Greenberg, 2007).

On 6 August 2008, the *Histadrut* signed an agreement with the Palestine General Federation of Trade Unions

(PGFTU). The *Histadrut* transferred to the PGFTU the amount of US\$ 3.6 million (NIS 12.76 million, according to the exchange rate on the date of the agreement), an amount meant to represent the organizing fees collected since 1993. According to our calculations, from 1993-2008 the *Histadrut* collected organizing fees from the Palestinian workers in Israel in the amount of NIS 66.2 million (not including interest): more than five times the amount returned by the *Histadrut*. The agreement additionally determined that half of the organizing



fees collected by the *Histadrut* after signing would be transferred to the PGFTU (according to a document of the International Trade Union Confederation, 2009).

Based on a calculation of 0.7% of the salary of Palestinian workers as organizing fees for the *Histadrut* until May 2005 (when the fees were raised to 0.8%, Israel Knesset, 2005) we reached an amount of NIS 132 million (in 2008 prices) which was deducted from 1970-2009 as organizing fees. After deducting the money that was transferred to the PGFTU, and half of the fees in 2009, excessive deductions in the amount of NIS 116 million remain.

Additionally, the Department deducted an additional 2.74% for a Provident Fund and health tax, which were included in the same package of deductions as organizing fees for the *Histadrut*. The health tax covered health insurance of the workers in the OPT. It is unknown to us where the money deducted for the provident fund went and on what authority it was deducted (Department of Payments, 1992).

On the basis of a circular of the

Department of Payments, we know that for the Provident Fund, NIS 0.54 were taken from every worker in the construction sector for each day of work at least until 1993, i.e. 3.1% of their salary. From here we calculated that from 1970-1993, NIS 152 million (in 2008 prices) were taken from them for the Provident Fund. We do not know if this deduction continued after 1993, but we do know that the workers did not receive a Provident Fund.

Under the false definition of Palestinians as “daily” or “temporary” workers, a majority of the benefits determined in the collective bargaining agreements of the *Histadrut* with the employers were stolen from Palestinian workers, including increments for security, family upkeep, grants for not missing work, a 13<sup>th</sup> salary in the agricultural sector and more.

## 5. FINANCING THE FUND FOR THE PROMOTION OF THE CONSTRUCTION SECTOR

In 1990 the *Histadrut* signed with the Contractors’ Association an amend-

ment to the collective bargaining agreement for the construction sector. The employers committed themselves to transferring 2% of the workers' salaries to the "fund for promoting and developing the construction sector in Israel," managed by an association established expressly for this purpose. The goal of the association is to promote the work of Israelis, and particularly new immigrants, in the construction sector.

It is our understanding that the association was established as part of the efforts to absorb immigrants from the former Soviet Union. The Palestinian workers, who at this time represented a majority of construction workers in Israel, lacked any representation in this decision and in essence were required to subsidize the training of workers meant to replace them.

Already in 2000 the agreement was altered and daily workers were exempted from this deduction, but the Department of Payments continued to deduct the amount from all Palestinian workers until August 2004, when a new collective agreement was signed (Ministry of Trade, Industry and Labour, 2000; Contractors' As-

sociation, 2006). The new agreement determined a deduction level of 0.8% for the fund.

The Contractors' Association continued to demand from the Ministry of Industry, Trade and Labour budgets to train Israeli workers, while tens of thousands of shekels accumulated in a fund intended precisely for this purpose (as of 2008, according to the financial records of the fund, it contains NIS 34 million). Together with these demands, the Contractors' Association has been fighting since 1995 for a never-ending increase in the approved quotas of migrant workers, such that the training of Israeli workers for construction became an empty slogan long ago.

If so, what did the Palestinian workers finance? In addition to the training of Israeli workers, expenses of the fund included polls and research (it is unclear if these were ever published), consultants, public relations for the Contractors' Association, trainings for *Histadrut* activists and financial grants every second year to the families of Israeli workers only. An example of cynicism in use of the money of Palestinian workers is the financing

of portable stoves for Israeli soldiers during Operation Cast Lead, which was conducted in the Gaza Strip in December 2008-January 2009 (Contractors' Association, 2009).

In addition to the deductions for the fund for the promotion of the construction sector, 0.3% was deducted from the workers' salaries for seminars and grants to the children of workers (since 1990), which the Palestinian workers did not enjoy.

According to our calculations, the total amount (in 2008 prices) which was transferred from the salary of

## 6. DEDUCTIONS FOR PENSION FUNDS AND SICK PAY

Deductions for pension funds and sickness benefits are included in the collective bargaining agreements for the construction and agricultural sectors. The difficulty with these deductions is the lack of access of Palestinian workers to these services, to which they are entitled.

Only about 1,000 Palestinian workers today receive a pension from the Payments Department after they reached the age of retirement (the

Committee to Examine Problems of Foreign Workers, Knesset, 2007). A majority of workers withdrew their money from the pension fund during periods of unemployment,

closure and siege, or out of mistrust in the Israeli system that it would indeed provide them monthly payments when the time came. Early withdrawals of pension funds result in payments of high penalties, and most of them are done through the mediation of attorneys, who also charge high fees.

*Palestinian workers in the construction sector were forced to pay 2% of their salaries to a fund to promote Israeli workers to work in construction and to replace them.*

Palestinian workers from 1990-2009 to the fund for the promotion of the construction sector (owned by the Union of Construction Workers in the *Histadrut* and the Contractors' Association) for seminars and grants to the children of workers was NIS 219 million.

The Payments Department is supposed to manage the fund just like other pension funds, but it continues to allow workers to withdraw the

*The Israeli occupation policies rendered it difficult for the Palestinian workers to realize their rights to sick day pay, worker disability and savings in a pension fund.*

pension money, in contravention to the directives of the Department of the Capital Market in the Ministry of Finance. The Payments Department also does not bother to update their worker members about the situation of their accounts each year (Kav Laoved, 2000).

## HEALTH INSURANCE

From all workers in all sectors, 2.5% of their salaries are deducted for sick day insurance. Only a small percentage of this deduction is transferred to the Palestinian workers as payment for sick days. The time and effort required to receive sick pay from

the Department of Payments (which includes the loss of additional work days) results in numerous Palestinians giving up ahead of time on the attempt to prove their entitlement (Kav Laoved, 1993). Our calculations demonstrate that 1.56% of the workers' salaries were deducted for sick day insurance that was

not paid to them.

This excessive collection is transferred to the Ministry of Finance instead of leaving it in the pension fund for the workers. More seriously, since 1 August 2004, the collective bargaining agreement of the construction sector determines that sick day insurance will be taken only from veteran workers. As the Department of Payments defines all Palestinian workers as "daily" or "temporary," it no longer has justification to deduct sick day insurance from their salaries. However, even after August 2004 the Department continues to deduct 2.5% from the workers for sick days.

An estimation of the excessive de-





duction in this article is approximately NIS 275 million (in 2008 prices).

## **7. DEDUCTIONS FOR WORKER DISABILITY**

The collective bargaining agreement in the construction sector determines that 1.3% of workers' salaries will be deducted for workers' disability pensions. The right to special payments in the case of disability is realized to a lesser extent by Palestinian work-

ers. Thus, for example, in 1992 (the height of employment of Palestinian workers in the construction sector) 76.67% of the sum deducted by the Department of Payments for disability pension was transferred to the Ministry of Finance (*Kav Laoved*, 1993).

Our calculation for the years 1970-2009 for Palestinian construction workers (an average of 54% of all Palestinian workers) reaches excessive deductions (in 2008 prices) in the amount of NIS 8.36 million.

## 8. EMPLOYER DEDUCTIONS TO THE DEPARTMENT OF PAYMENTS AND WORKERS' ENJOYMENT OF RIGHTS

The following table is based on circulars that the Department of Pay-

ments sends to employers in order to update them on changes made to their required payments. The table highlights the gaps between what was deducted from the employers and what is received in practice by the workers.

	Employer Payments	Rights received by workers
All sectors	Sick day insurance	Only after complicated bureaucratic procedure
	Vacation insurance	All workers receive 14 days, with no addition for seniority
	National Insurance	Only insurance for work accidents and employer bankruptcy
	Severance pay	Only 72% of salary, as of January 2005
	Equalisation tax	—
	Holiday payment	Received only until 1990
	Mutual insurance payment (in case of death)	Few received
	Scholarships for high school studies	—
	Organising fees	Limited individual assistance
Agricultural sector	Rehabilitation and accident fund	—
Construction sector	Comprehensive pension	Old age pension according to accumulated years of eligibility
	Full severance compensation	—
	Benefits for work consistency	—
	Disability insurance	Few received
	Association for promotion of construction sector	—
	Seminars and continuing education programmes	—
	Continuing education fund	—
	Clothing	—
	Grant for no absenteeism	—
	Seniority payment	—
	Vacation pay	—
	Overtime-related Expenses	—

**9. FALSE DOCUMENTATION**

The high costs of employing Palestinian workers were transferred by numerous employers to the workers by reporting fewer working days. For the

*The definition of the Palestinian workers as “temporary workers,” with no relation to the actual length of their employment, harmed their employment conditions.*

remaining days the employers paid the workers in cash, with no reports to the authorities. As a result, payments to workers for those social rights calculated according to working days were drastically reduced, including for severance pay, pension, disability payment and more (Kav Laoved, 2000).

**10. PARLIAMENTARY QUESTION TO THE MINISTRY OF FINANCE**

In March 2009, Knesset Member Dov Hanin submitted a parliamentary question to the government on the topic of collection of money for social rights from Palestinian workers in the years 1994-2009. The Ministry of Finance responded in July that in these years, NIS 1.2 billion was deducted, of

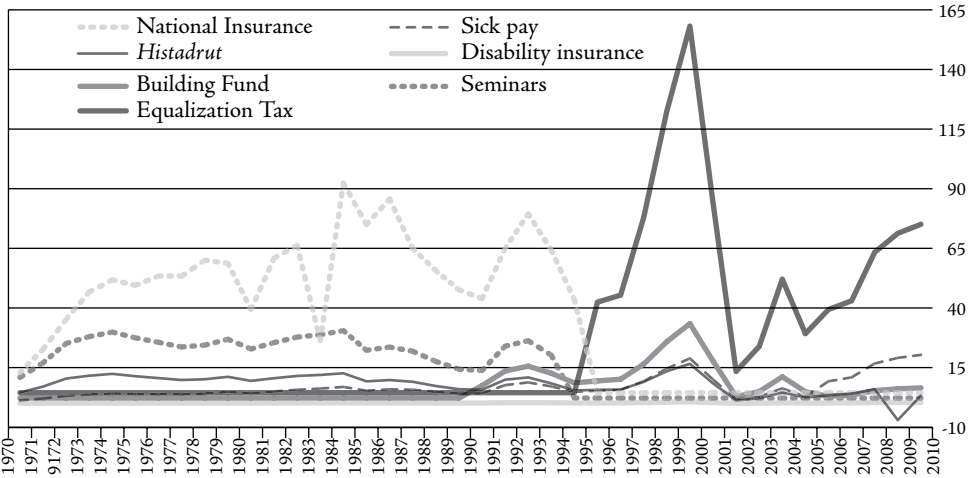
which NIS 1.1 billion was transferred for the realization of workers’ rights. The response of the Ministry of Finance (Minister of Finance, 2009) is not detailed, does not include adjustments for the consumer price index and interest, and does not fit the data we found.

**GRAPH 1: PALESTINIAN WORKERS IN ISRAEL**



**GRAPH 2: EXCESSIVE COLLECTION FROM PALESTINIAN WORKERS**

2008 PRICES, MILLIONS OF NIS



## II. RESPONSES OF THE MINISTRY OF FINANCE, HISTADRUT AND THE CONTRACTORS' UNION

### Response of the Ministry of Finance

“The contentions in the report of *Kav Laoved* concerning the Ministry of Finance are incorrect and misleading, primarily in their confusion amongst the roles of the various authorities in the government.”

The Ministry of Finance is responsible for two topics related to the money of Palestinian workers. One, transfer of income tax deducted from

the workers to the Palestinian Authority (in accordance with the Paris Accords, signed in 1995) and the second, management and safeguarding of the pension funds of the workers via investment houses (Gaon, Mercantile and Psagot), which were selected in a public tender published by the Accountant General.

Today, the three bodies manage approximately NIS 768 million for the workers living in the Palestinian Authority. Management of monies such as these is not the responsibility of the Department of the Capital Market, which supervises institutional bodies that manage

the pension funds of Israeli citizens. These are savings in investment houses in accordance with the investment rules defined in the tender. The supervision of the investment houses is conducted through the Securities' Authority. Policy concerning pension savings for foreign workers is concentrated by the Ministry of Interior.

The money for realizing other social rights (in topics of health and welfare) is not deducted by the Ministry of Finance and is managed by the Department of Payments in the Ministry of Interior.

Office of the Spokesperson  
of the Histadrut

“Re: Your Letter from 20.12.2009

1. From your letter it appears that it is your intention to publish a tendentious and false report lacking in any foundation. Although it appears that this is a report in which your conclusions were predetermined with no connection to facts and reality, we found it appropriate

to make a short reference to that stated in your letter.

2. On 24 June 2008 an agreement was signed between the *Histadrut* and the Palestine General Federation of Trade Unions (PGFTU). The topic of the agreement was full and final accounting between the *Histadrut* and PGFTU concerning membership fees and organizational handling fees deducted from Palestinian workers, in addition to full agreement regarding the topic of membership fees and handling fees that will be deducted from Palestinian workers and transferred to the *Histadrut* in the future, for receipt of professional union services from the *Histadrut*.

3. The aforementioned agreement arranged all the accounting between the Palestinian workers and the *Histadrut* and represents a full and absolute defrayment of any contention and/or petition, currently existing or in the future, regarding this topic.

4. As noted above, this agreement also organised the continued provi-

sion of professional union services, which the *Histadrut* will provide to the Palestinian workers in order to protect and preserve their rights; this is unrelated to the question of membership of the Palestinian workers in the *Histadrut*.

5. It is appropriate to emphasise that between the two sides there did and does exist full cooperation founded on negotiations, dialogue and the setting of meetings and joint projects for the promotion of the rights of Palestinian workers, and closeness and fraternity between the two peoples.
6. It will be clarified that the aforementioned agreement was signed at the initiative of the current Chairperson of the *Histadrut*, Mr. Ofer Eini, and with no connection to any contended pressure. The aforementioned agreement was signed under the sponsorship of the International Trade Union Confederation (henceforth: ITUC), the General Secretary of which even signed the agreement.”

### Response of the Contractors' Association

Orna Peri from the Contractors' Association noted that “we carefully read the contentions and I don't understand why the response of the Contractors' Association is needed.”

## 12. CALCULATION OF THE DEBT

In light of the data we collected, it is possible to calculate the amount that Israel stole from Palestinian workers. To the amounts noted above must be added interest, and for this we used a real yearly interest rate of 5%. This is a minimal determination for the purposes of a general calculation only, and in future litigation higher interest is likely to be used.

The interest we chose is meant to reflect a reasonable return if the workers had invested the money coming to them in savings, the accumulation of property (such as an apartment) or in covering debts. In the first decades of the Israeli occupation, the market interest rates were substantially higher than the average interest rates in the

last few decades. Accordingly, the selection of a stable interest rate for the entire period is a careful choice, likely to tilt the total debt to Palestinian workers downwards.

It is customary to believe that a 5% interest rate on financial savings is high (at least since the 1990s), although the matter before us does not involve financial sav-

*It is possible to assume that if the workers would receive their money on time, they could use it to cover debts, acquire property and obtain education.*

ings but an economic investment. It is anticipated that the Palestinian workers would not save the money owed to them, but would take advantage of it for economic investment, such as acquiring housing or paying off debts. These are investments that bring an average return or savings in expenditures much higher than 5%.

The calculated amount of debt without interest is **NIS 3.082 billion**, and with interest the amount reaches **NIS 8.350 billion**. It is important to note that this calculation is accurate

to 2009, in 2008 prices, and does not include central elements for which information is not available. The calculation is therefore lacking.

Calculations of deductions of equalization tax: According to the report of the Department of Payments, in 2009 0.72% was deducted from employers and 0.61% from the salary of workers for National Insurance. Additionally, 4.71% was collected from the employers and 6.39% from the workers for the equalization tax. All in all, 12.43% was collected (Department of Payments, website of the Ministry of Industry, Trade and Labour, 2009a).

Considering that almost all the Palestinian workers from the OPT who are employed in Israel do not receive 2/3 of the average salary, they are supposed to pay National Insurance at a reduced rate of 0.03% from the worker and 0.5% from the employer, and in total 0.53% (website of the Ministry of Industry, Trade and Labour, 2009b).\*

\* Israeli workers pay a reduced payment of 3.85% from the employer and 3.5% from the worker, and in total 7.35%, but it must be recalled that Palestinian workers receive insurance only for work accidents and employer bankruptcy, such that the money transferred for them to National Insurance is much less (National Insurance Institute, 2009).

Beginning in August 2009, the excessive deductions from Palestinian workers, in addition to the overly high deduction for National Insurance, reaches 11.9% of the workers' salary. If we assume this calculation for the years 1995-2009, we reach an excessive deduction of NIS 1,354 billion.

### 13. METHODOLOGY

When we begin to estimate the extent of collection from Palestinian workers employed in Israel, it becomes clear that the fundamental economic data required for the calculation are unavailable to the public. The Department of Payments did not regularly publish the amounts charged from Palestinian workers for various deductions, and in 1995 the Central Bureau of Statistics ceased reporting on the entry of Palestinians to work in Israel and on their salaries. First we had to calculate an estimate concerning the number of Palestinian workers who worked in Israel each year since 1970, and to create an estimation of their average salary.

#### Number of Palestinian workers in

Israel: In order to create an estimate of the number of Palestinian workers who worked in Israel, we used data collected by the Central Bureau of Statistics from 1970-1995. These are quarterly statistics and only represent an estimate. In 1980 the system of calculation was altered in order to include part-time workers. In 1983 the statistics were updated according to the updated population census and from 1987, only workers from the age of 15 and above were registered (compared to 14 and above, as in the past). These changes in the methodology of the Central Bureau of Statistics damage the quality and accuracy of the data. We used a coefficient in order to compensate for the change in the definition of the data (Central Bureau of Statistics, various years). The Ministry of Finance made an estimate of the quarterly data concerning the entry of Palestinian workers into Israel for the years 1990-2005 (Ministry of Finance, 2005).

The Department of Payments itself supplied new data for 1979-1991, and from 2000 until July 2009. These statistics are considered to be of the highest available quality, as they are



not statistical estimates but complete accounts of the wages of Palestinian workers who passed through the Department of Payments (Department of Payments, 1992; Department of Payments, 2009).

An estimate of the number of Palestinian workers is founded on monthly and not quarterly data (larger), although for the years in which there is only quarterly data, calculation of the monthly estimate via a correlation coefficient (division by 1.73) is liable to result in an underestimation of the number of Palestinian workers for those years. It is important to note that a low estimate of the number of Palestinian workers also results in a low estimate of the excessive deductions from them.

Average salary of Palestinian workers: In order to calculate the average salary of Palestinian workers, we used statistics of the Department of Payments from 1979-1991 (Department of Payments, 1991). In order to estimate the salary before 1979, we used the salary of 1979 and adjusted it to the consumer price index. In order to estimate the salary after 1991, we used the minimum wage (as the real aver-

age wage of Palestinian workers gradually declined during the 1980s until it reached the level of minimum wage in 1991). An estimate of the average wage of the Palestinian workers remained linked to the minimum wage, but there was a need to reflect the increasing use of policies of closure and limitation of entry into Israel for Palestinian workers, which impacted not only the number of workers but also the number of work days permitted to them. Beginning in 1994 the average salary was calculated according to 20 work days each month, and beginning in 2001 according to 18 work days each month. This is only an estimate, and we hope to publish more accurate data in the future if and when the Department of Payments will provide it.

Adjustment to the price index: We adjusted the yearly wages of Palestinian workers to the consumer price index. For this calculation we used the average index over each year as published by Bank Israel (Bank Israel, 2009). As inflation at the end of the 1970s and during the 1980s was extremely high, distortions in salary estimates were created due to the use of a yearly index average. In order to reduce

the distortions, the wage statistics for the years 1970-1995 were smoothed by adjusting the calculation each year in relation to the average salary for the years 1970-2009. Afterwards, the sal-

*Due to the lack of data, we used a quarterly estimation for calculating the number of Palestinian workers, which is liable to tilt the calculations of excessive deductions downwards.*

ary received for 1970-1995 was presented in the form of three year moving averages. Distortions remained in 1981-1987, in adjusting the average salary to the price index, which were corrected by smoothing the estimates, without impacting the total sums of the calculations.

Calculation of excessive deductions: In order to limit the distortions rooted in the lack of adjustment to the consumer price index, the calculations for each article were made in

two stages. In the first stage, we calculated an estimate of the total yearly wage of the Palestinian workers in Israel by doubling the estimate of the average monthly number of workers,

for an estimation of the average monthly wage for a worker, times 12 months. In the second stage,

we doubled the total salary by the percentage of excessive deductions that we calculated on the basis of other sources.

The result is at best an estimate and not a precise figure. As we had data for the percentages of excessive deductions only for a few years, we had to extrapolate and apply the calculation over longer periods, based on our information concerning which years there existed excessive deductions, as we explained in each sub-article.

## Annexes

### 14. ANNEX I: ESTIMATION FOR THE NUMBER OF PALESTINIAN WORKERS: MONTHLY, QUARTERLY AND AVERAGE MONTHLY SALARY

The calculations which resulted in the estimations below are explained in the aforementioned methodology section.

Year	Palestinian workers in Israel: estimation (monthly data)	Palestinian workers in Israel: estimation (quarterly data)	Average monthly salary: estimation (2008 prices)
1970	12,416	21,517	645.28
1971	20,372	35,304	645.28
1972	31,582	54,732	645.28
1973	36,946	64,028	645.28
1974	41,407	71,758	645.31
1975	39,960	69,251	645.34
1976	39,056	67,684	645.37
1977	37,911	65,699	645.40
1978	41,105	71,235	645.45
1979	47,475	77,398	645.91
1980	42,304	75,100	645.77
1981	42,888	75,800	747.11
1982	42,939	76,600	854.56
1983	44,113	84,300	905.17
1984	41,288	90,300	1,074.56
1985	39,525	89,200	861.64
1986	42,924	94,700	883.01
1987	45,872	108,900	802.87
1988	42,974	109,400	723.92
1989	35,089	104,900	759.29
1990	33,436	109,000	805.65

*table continues from previous page*

Year	Palestinian workers in Israel: estimation (monthly data)	Palestinian workers in Israel: estimation (quarterly data)	Average monthly salary: estimation (2008 prices)
1991	60,686	95,750	809.62
1992	67,155	116,380	841.19
1993	51,720	89,630	882.48
1994	42,556	73,750	732.08
1995	37,726	65,380	904.64
1996	31,956	55,380	1,146.63
1997	41,114	71,250	1,451.11
1998	56,694	98,250	1,654.05
1999	64,772	112,250	1,869.63
2000	31,657	54,862	2,035.52
2001	5,024	8,707	2,040.82
2002	8,295	14,374	2,156.89
2003	18,186	31,517	2,216.94
2004	10,247	17,758	2,207.76
2005	13,799	23,913	2,237.11
2006	15,344.50	26,592.04	2,367.40
2007	21,811.25	37,798.93	2,554.20
2008	23,800.58	41,246.45	2,671.54
2009	24,443.14	42,360.01	2,772.13

## 15. ANNEX 2: YEARLY ESTIMATIONS OF EXCESSIVE DEDUCTIONS (WITHOUT INTEREST, IN 2008 PRICES), PART A

The calculations which resulted in the estimations below are explained in the aforementioned relevant sections.

Year	Provident fund	Organising fees to the <i>Histadrut</i>	National Insurance	Fund for the promotion of the construction sector
1970	1,624,762.31	672,982.16	12,957,121.26	
1971	2,665,891.89	1,104,221.63	22,716,057.72	
1972	4,132,939.97	1,711,878.02	35,216,770.53	
1973	4,834,921.03	2,002,641.00	46,678,257.91	
1974	5,418,758.69	2,244,468.57	51,796,890.79	
1975	5,229,742.05	2,166,177.23	49,490,215.26	
1976	5,111,664.01	2,117,268.90	53,398,563.63	
1977	4,962,003.11	2,055,278.83	53,393,585.95	
1978	5,380,484.07	2,228,615.10	60,027,360.41	
1979	6,218,738.65	2,575,823.04	58,702,373.36	
1980	5,540,228.85	2,294,781.93	39,408,819.97	
1981	6,498,057.87	2,691,518.03	60,937,435.81	
1982	7,441,467.04	3,082,281.36	66,141,932.24	
1983	8,097,713.80	3,354,101.04	26,262,127.09	
1984	8,997,424.12	3,726,764.16	92,370,511.77	
1985	6,906,595.48	2,860,735.71	74,992,143.37	
1986	7,686,570.09	3,183,803.89	85,735,290.53	
1987	7,468,962.79	3,093,670.20	64,967,074.15	
1988	6,309,056.96	2,613,233.19	55,624,535.12	
1989	5,403,101.58	2,237,983.35	47,637,074.09	
1990	5,462,912.63	2,262,757.29	43,897,491.43	7,434,773.95
1991	9,963,989.20	4,127,118.76	64,930,389.33	13,560,533.06
1992	11,456,102.50	4,745,157.24	79,470,591.02	15,591,230.94

table continues from previous page

Year	Provident fund	Organising fees to the <i>Histadrut</i>	National Insurance	Fund for the promotion of the construction sector
1993	9,255,994.93	3,833,865.09	64,208,520.14	12,596,985.29
1994		2,616,998.74	43,423,274.07	8,598,710.14
1995		2,866,811.32		9,419,522.92
1996		3,077,904.34		10,113,114.27
1997		5,011,467.44		16,466,250.15
1998		7,877,010.07		25,881,604.53
1999		10,172,398.62		33,423,595.47
2000		5,412,844.04		17,785,058.99
2001		861,289.10		2,829,949.91
2002		1,502,790.69		4,937,740.85
2003		3,386,674.84		11,127,645.91
2004		1,900,359.31		4,886,638.24
2005		2,592,994.89		2,963,422.73
2006		3,051,432.79		3,487,351.76
2007		4,679,663.78		5,348,187.17
2008		5,341,076.49		6,104,087.42
2009		5,691,803.03		6,504,917.74
<b>Total</b>	<b>152,068,083.62</b>	<b>129,030,645.25</b>	<b>1,354,384,406.93</b>	<b>219,061,321.46</b>

### 16. ANNEX 3: ESTIMATIONS OF YEARLY EXCESSIVE DEDUCTIONS (WITHOUT INTEREST, IN 2008 PRICES), PART B

The calculations which resulted in the estimations below are explained in the aforementioned relevant sections.

Year	Equalisation tax – estimate according to National Insurance calculation	Equalisation tax – estimate according to data of the Ministry of Industry, Trade and Labour from August 2009	Sick pay	Worker disability
1970	0.00	0.00	1,246,181.97	42,912.21
1971	0.00	0.00	2,044,721.49	70,409.87
1972	0.00	0.00	3,169,937.69	109,156.63
1973	0.00	0.00	3,708,352.53	127,696.91
1974	0.00	0.00	4,156,152.16	143,116.87
1975	0.00	0.00	4,011,177.65	138,124.68
1976	0.00	0.00	3,920,612.57	135,006.07
1977	0.00	0.00	3,805,823.64	131,053.32
1978	0.00	0.00	4,126,795.78	142,105.98
1979	0.00	0.00	4,769,731.52	164,245.44
1980	0.00	0.00	4,249,318.97	146,325.06
1981	0.00	0.00	4,983,967.51	171,622.64
1982	0.00	0.00	5,707,556.12	196,539.37
1983	0.00	0.00	6,210,893.06	213,871.75
1984	0.00	0.00	6,900,964.94	237,634.34
1985	0.00	0.00	5,297,313.16	182,412.68
1986	0.00	0.00	5,895,548.54	203,012.88
1987	0.00	0.00	5,728,645.18	197,265.58
1988	0.00	0.00	4,839,005.06	166,630.87
1989	0.00	0.00	4,144,143.26	142,703.34
1990	0.00	0.00	4,190,017.95	144,283.03

*table continues from previous page*

Year	Equalisation tax – estimate according to National Insurance calculation	Equalisation tax – estimate according to data of the Ministry of Industry, Trade and Labour from August 2009	Sick pay	Worker disability
1991	0.00	0.00	7,642,313.97	263,162.65
1992	0.00	0.00	8,786,755.03	302,571.42
1993	0.00	0.00	7,099,287.05	244,463.55
1994	0.00	0.00	4,845,977.83	166,870.97
1995	36,163,797.99	48,739,887.95	5,308,563.56	182,800.09
1996	38,437,683.91	52,328,770.85	5,699,451.06	196,260.28
1997	70,647,163.83	85,202,105.69	9,279,889.89	319,552.49
1998	111,043,008.48	133,920,424.14	14,586,104.18	502,271.68
1999	143,401,333.21	172,945,308.57	18,836,546.44	648,635.42
2000	76,305,410.44	92,026,081.33	10,023,131.41	318,335.87
2001	12,141,679.68	14,643,145.16	1,594,875.78	34,424.64
2002	22,175,871.53	25,549,588.64	2,782,764.20	69,616.69
2003	46,581,119.66	57,578,310.40	6,271,210.98	243,699.23
2004	26,137,987.48	32,308,823.13	2,827,915.65	120,360.58
2005	34,638,830.44	44,084,617.43	9,260,696.04	175,138.77
2006	34,123,358.98	51,878,716.68	10,897,974.26	210,784.83
2007	47,147,657.86	79,560,969.46	16,713,084.92	349,257.48
2008	51,768,818.11	90,805,930.43	19,075,273.18	386,094.39
2009	53,416,890.13	96,768,782.59	20,327,867.95	419,500.41
<b>Total</b>	<b>804,130,611.72</b>	<b>1,078,341,462.46</b>	<b>274,966,544.15</b>	<b>8,359,930.97</b>



**17. ANNEX 4: TABLE OF INTEREST**

Year	Interest on debt to Palestinians	Accumulated interest to 2009	Total excessive deductions without interest	Total excessive deductions with interest
1970	5.00%	6.70	16,543,959.91	110,923,134.34
1971	5.00%	6.39	28,601,302.61	182,632,968.31
1972	5.00%	6.08	44,340,682.84	269,653,736.48
1973	5.00%	5.79	57,351,869.39	332,171,482.55
1974	5.00%	5.52	63,759,387.07	351,697,758.93
1975	5.00%	5.25	61,035,436.86	320,640,388.26
1976	5.00%	5.00	64,683,115.19	323,621,820.76
1977	5.00%	4.76	64,347,744.86	306,613,237.87
1978	5.00%	4.54	71,905,361.34	326,309,369.60
1979	5.00%	4.32	72,430,912.01	313,042,227.91
1980	5.00%	4.12	51,639,474.78	212,555,080.28
1981	5.00%	3.92	75,282,601.86	295,117,521.18
1982	5.00%	3.73	82,569,776.14	308,270,652.76
1983	5.00%	3.56	44,138,706.74	156,942,794.05
1984	5.00%	3.39	112,233,299.33	380,061,787.72
1985	5.00%	3.23	90,239,200.41	291,030,440.15
1986	5.00%	3.07	102,704,225.93	315,458,469.78
1987	5.00%	2.93	81,455,617.89	238,278,919.44
1988	5.00%	2.79	69,552,461.19	193,770,554.96
1989	5.00%	2.65	59,565,005.62	158,043,692.72
1990	5.00%	2.53	63,392,236.28	160,189,023.86
1991	5.00%	2.41	100,487,506.97	241,835,167.02
1992	5.00%	2.29	120,352,408.14	275,849,924.05
1993	5.00%	2.18	97,239,116.04	212,260,795.40
1994	5.00%	2.08	59,651,831.75	124,011,873.98
1995	5.00%	1.98	60,229,540.86	119,250,371.18
1996	5.00%	1.89	64,469,957.33	121,567,719.75
1997	5.00%	1.80	109,001,794.73	195,751,562.62

*table continues from previous page*

Year	Interest on debt to Palestinians	Accumulated interest to 2009	Total excessive deductions without interest	Total excessive deductions with interest
1998	5.00%	1.71	171,328,706.77	293,030,230.36
1999	5.00%	1.63	221,254,496.84	360,400,261.05
2000	5.00%	1.55	117,705,116.20	182,599,267.93
2001	5.00%	1.48	18,712,951.85	27,647,552.58
2002	5.00%	1.41	33,155,642.52	46,653,318.60
2003	5.00%	1.34	73,108,945.99	97,972,979.81
2004	5.00%	1.28	38,958,679.08	49,722,243.81
2005	5.00%	1.22	54,570,059.28	66,330,248.12
2006	5.00%	1.16	61,084,500.46	70,712,944.84
2007	5.00%	1.10	91,113,030.41	100,452,116.03
2008	5.00%	1.05	90,176,916.67	94,685,762.51
2009	5.00%	1.00	105,597,581.33	105,597,581.33
<b>Total</b>			<b>3,065,971,161.51</b>	<b>8,333,356,982.88</b>

### 18. ANNEX 5: RATES OF DEDUCTION FOR NATIONAL INSURANCE LEVEL OF DEDUCTION FOR NATIONAL INSURANCE FROM TOTAL SALARY

Year	Level of deduction for National Insurance from total salary	Year	Level of deduction for National Insurance from total salary
1970	14.60%	1990	11.52%
1971	15.60%	1991	10.71%
1972	15.60%	1992	12.70%
1973	17.68%	1993	12.70%
1974	17.50%	1994	12.58%
1975	17.33%	1995	9.57%
1976	19.13%	1996	9.47%
1977	19.70%	1997	10.69%
1978	20.43%	1998	10.69%
1979	17.28%	1999	10.69%
1980	13.02%	2000	10.69%
1981	17.17%	2001	10.69%
1982	16.27%	2002	11.19%
1983	5.94%	2003	10.43%
1984	0.47%	2004	10.43%
1985	17.39%	2005	10.13%
1986	13.01%	2006	8.48%
1987	11.69%	2007	7.64%
1988	10.79%	2008	7.35%
1989	10.94%	2009	7.12%

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Shir Hever

# *Economy of the Occupation*

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