

Abstract

This paper studies the effect of temporary foreign workers and cross border Palestinian workers on the probability of male Israeli natives to enter or exit employment. The employment of Palestinians in Israel has been concentrated in construction and agriculture since the early 1970s. The deterioration of the security situation and the frequent border closures since the break of the first Intifada in 1987 led to a severe labor shortage in these sectors and to the introduction of foreign workers in 1991.

Our empirical analysis is based on micro data from the Israeli Labor Force Survey from 1998 to 2006 and covers the break of the second Intifada in September 2000. The correlation between the security situation and the employment of both Palestinians and foreigners motivates us to use data on border closures from Gaza, and separately from the West Bank as instruments (IV) for accessing the impact of Palestinians and foreigners on labor market transitions of natives. We distinguish between the impact on native Jews and non-Jews, mainly Arab Israelis.

The IV estimates suggest that the high turnover rate in construction among male Israeli non-Jews is significantly affected by the shares of Palestinians and of foreign workers such that these shares increase the likelihood of non-Jew Israelis to exit employment in construction and decrease the likelihood of non-Jews to enter employment in construction. Among male Israeli Jews, we do not find a sectorial impact of Palestinians and foreign workers on the transitions to and out of employment, except for a negative impact of foreigners on the likelihood of male Jews to enter employment in agriculture. However, we do find a macro effect of foreigners on the probability of male Jews with different level of schooling to lose their job. Foreigners increase the likelihood of high-school dropout Jews and decrease the likelihood of high-school graduate Jews to move from employment to non-employment, suggesting that foreigners are substitutes to high school dropouts and complements to high school graduate male Jews. The findings that a large fraction of Israeli non-Jews who work in construction, are adversely affected by the shares of non-Israeli workers and that low educated Jews are also adversely affected by foreign workers calls re-examination of government policies and their (lack of) implementation towards non-Israeli workers.

Key words: foreign workers, immigration, instrumental variable

JEL codes: J61, F22, C26