
**Review of the research paper, ‘Short-Run Demand for
Palestinian Labour’ written by Joshua D. Angrist in 1996.**

Harshit Agarwal* & Rashi Agarwal**

**PhD (Economics and Finance) student, Portsmouth Business School, University of Portsmouth,
University House, Winston Churchill Ave, Portsmouth PO1 2UP, United Kingdom*

***MSc Finance and Economics, Southampton Business School, University of Southampton,
University Rd, Southampton SO17 1BJ, United Kingdom*

ABSTRACT:

The political relations between Israel and Palestine have been in turmoil since last five decades. This turmoil relationship affects the labour markets of both the countries. In July 1996 there was a very important research published by Joshua D. Angrist in the Journal of Labor Economic in this area. This research proved to be a landmark in the area of the labour economics. In this paper, we analysed the aim of the study done by Angrist, its relevance for labour economics, its key findings, its contribution to the literature and its key drawbacks. The key aim of the paper was to find out the labour supply and labour demand effect on the wages that are paid to Palestinian workers in Israel. It contributed to the literature by concluding that in the identification of the labour demand function parameters, the instrumental role can be played by unanticipated labour supply shocks. The key drawback was that better and more data on the labour market of Palestine could have led to more robust results.

Keywords: *Palestine, Israel, Angrist, Labour Market, Political Conflict, Employment.*

1. INFORMATION ABOUT THE PAPER:

“Short-Run Demand for Palestinian Labor” Author(s): Joshua D. Angrist.

Published in Journal of Labor Economics, Vol. 14, No. 3 (Jul., 1996), pp. 425-453.

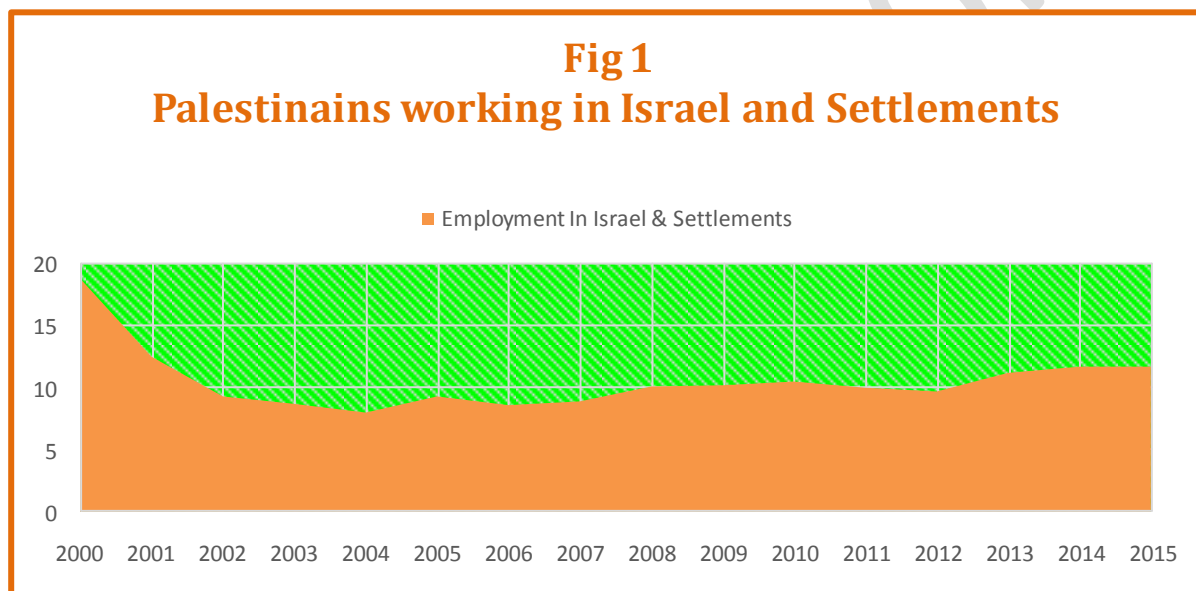
2. BACKGROUND OF THE PAPER:

In 1967, Israel annexed Palestinian territories, since then there is a high degree of integration between Palestinian and Israeli economies. Between the two economies, subsequent relations have been interdependent but of segmented nature. Especially, this has been the case in the labour market, employment levels in Palestine depend on labour demand in Israel and ability of Palestinian workers to daily commute to Israel.

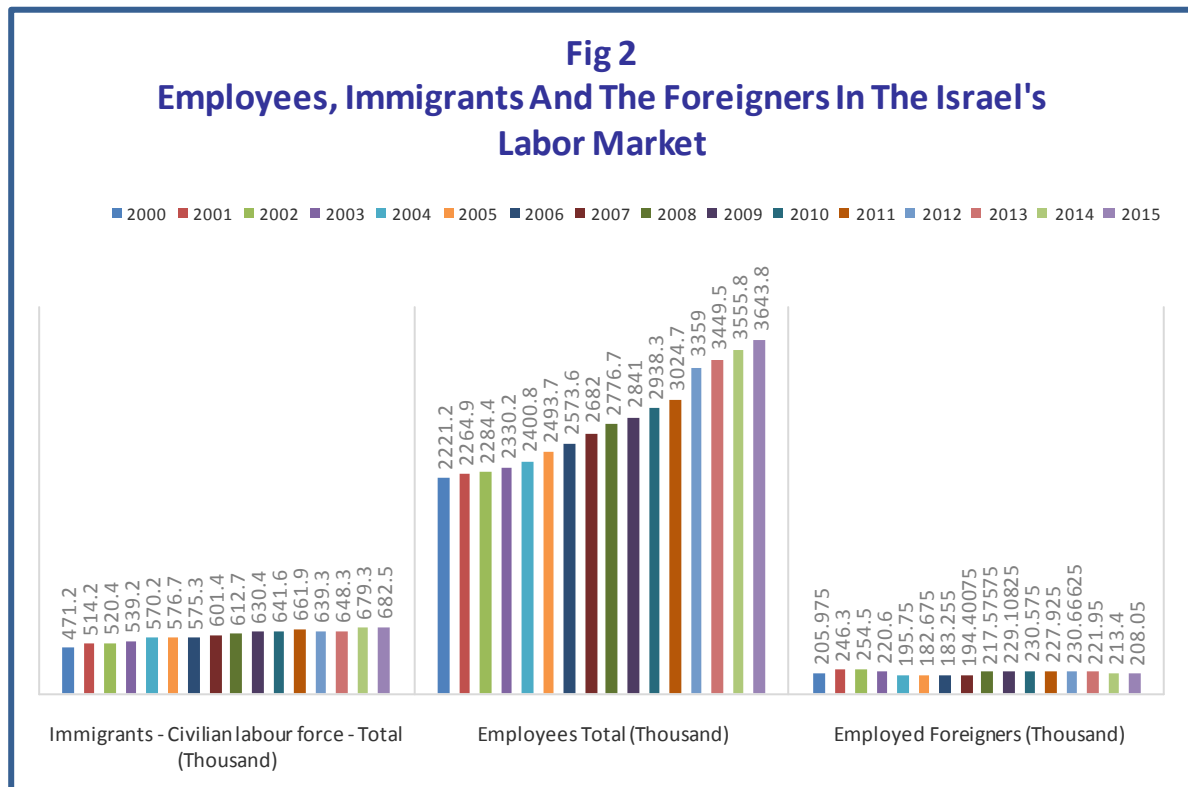
Higher Israeli wages relative to the wages which Palestinian workers are paid locally in Palestine make reliance on Palestinians on Israeli jobs more important and this reliance has significant welfare and income effects. Labour mobility of Palestinians to Israel affects relative wages, employment levels and growth outcome in both economies. These were some of the arguments in favour of the interdependence of the two labour markets now let's talk about the segmented nature of the relationship between these markets.

Palestinian labour flows to Israel depend upon the political relations between the Palestinian territories and Israel. And the political relations between the two have been in turmoil since last 5 decades. The result of this turmoil in relations was clearly seen in the shape of the fluctuations in the pattern of the labour flows from Palestine to Israel.

From 1970 to 1993, the significant number of labour commuted from Palestine to Israel. During the 1980s, more than 30% of total Palestinian labour force was employed in Israel. After that during the early 1990s due to Israeli policy changes and political events, Palestinian labour flows to Israel fell sharply to 36,000 in May 1996 from 115,600 in 1992. This number again rose between 1997 and 2000 but labour flows had become erratic and volatile. With 23% of the Palestinian labour force working in Israel by 1999, Israel became the largest employer of the Palestinian labour force, this number of 23% fell down to 8% by 2004 (See Fig 1).



Since then this number kept on fluctuating. In response to these fluctuations, the Israeli labour market increased the number of foreign workers (Palestinians not considered as foreign workers). Since 1993, from almost nothing to an estimate of 200,000 the number of foreign workers has grown (See Fig 2) and the Palestinian workers' number has contracted.

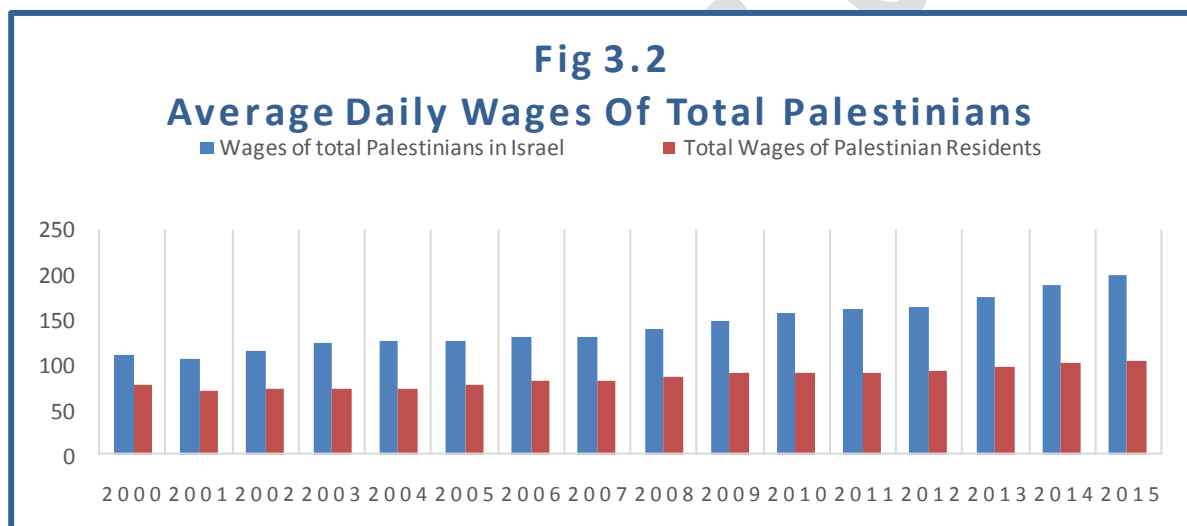
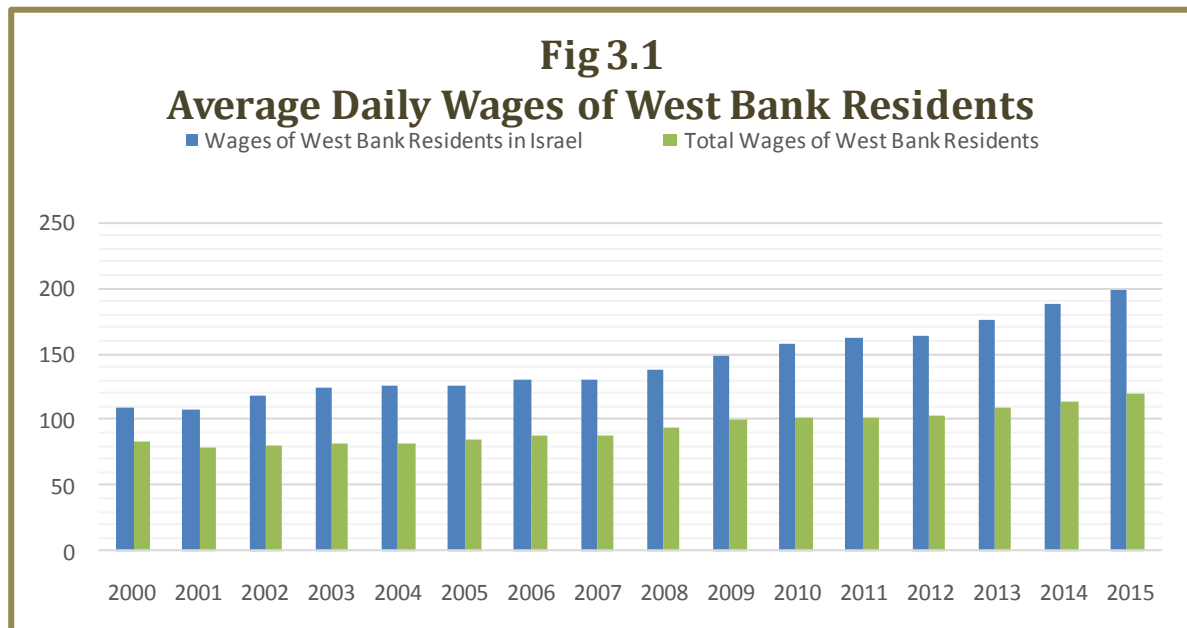


Yet, labour markets of the two economies are highly integrated and in the Israeli-Palestinian conflict "labour issues" is still one of the important elements.

3. AIM OF THE STUDY:

The Gaza Strip and The West Bank are the two Palestinian territories which are de facto economically separate, are ruled by different parties, have different social and economic characteristics and experience from Israel different treatment. These two Palestinian territories are taken for study in this paper.

The Palestinians who work in the Israel and its settlements earn more than the Palestinians working locally (See Fig 3.1, 3.2). This paper attempts to find out the labour supply and labour demand effect on the wages that are paid to Palestinian workers in Israel. Labor supply will be the Palestinian labour supply to Israel and labour demand will be the Israel labour demand for Palestinian labourers.



4. RELEVANCE FOR LABOR ECONOMICS:

Over the past 25 years, within labour economics research on labour demand is not among the most successful and liveliest areas of research. Still, it is being argued that progress which has taken place in this area is significant. In bringing into the study of labour demand "labour market imperfections and product" theory has been successful.

As parcel and part of this process, off or on the demand curve whether wage-employment outcomes are located, this has been the rather sterile debate and has been enlivened by the bargaining problem integration developments but also by the attempt onto the basic models to fuse additional labour market imperfections and product market imperfections. Parameters of interest have been soundly estimated because of improvement in estimation techniques and better data. In the estimation of labour demand functions, a critical parameter with respect to wages is the elasticity of labour demand, the theory on which this paper is based and puts further light on the relevance of this theory.

Angrist (1996) has contributed to this theory by concluding that in the identification of the labour demand function parameters, the instrumental role can be played by unanticipated labour supply shocks. And there is a need to further explore this area.

5. KEY FINDINGS:

The key findings of the paper are as follows:

- A. In the late 1980s, for Palestinian labour, the short-run elasticity of Israeli demand was estimated between -1 and -2.
- B. There was a strong evidence that in Israel fall in Palestinian labour supply raised significantly the wages Israeli employers give. This increase was high for the workers who were employed in agriculture and construction and were low-skilled.
- C. It was concluded that for Palestinian workers if the Israeli demand is inelastic then Palestinians may have monopoly power. What led the researcher to this conclusion were these findings, for men working in Israel the wage premium fluctuated between 25-35% during 1988-1991 and between 0-18 percent during 1981-1987, the former period to the Israeli labour markets being of restricted access.
- D. For returns to schooling, during 1981-1987, it fell from 23% to 0% and increased to 4% during 1988-1981 for the group of schooling with 13-15 years. Although the premium is more, for the age group 16+ the trend is similar.

6. CONTRIBUTION TO THE LITERATURE AND FURTHER LITERATURE ON THE AREA:

The Palestinian-Israeli conflict is one of the politically most relevant and longest conflicts. Researchers have analysed the impact of this conflict on different aspects of the Israeli and Palestinian economy. Angrist, 1996 and Shaban, 1993 were the first two pieces of research which analysed how domestic Palestinian wage and unemployment have responded to wage dynamics and job opportunities in Israel. For studying the wages of the Palestinian workers in Israel, as an identification strategy, the first to use border closures was Angrist (1996).

Many researchers recently have studied the wages of the Palestinian workers working in Israel but the focus on this area was prompted by the studies of Angrist, Angrist (1995, 1996 and 1998) were the first studies which studied employment in Israel and returns to education in the context of the wages paid to the Palestinian workers.

Some of the prominent studies which have been done in this area since they are as follows. Ruppert Bulmer (2003) studied the impact of the changes in the border policy of Israel on Palestinian unemployment level, daily flow of Palestinian labour to Israel and wages. Closures in Israel for Palestinian labour would increase unemployment in Palestine and on the other hand domestic employment will rise. Domestic employment will increase because the workers which were earlier employed in Israel will return and this will create a downward pressure on wages. Aranki, 2004, Miaari and Sauer, 2006 concluded that because of closures probability of being unemployed increases among Palestinian labour and regardless of their work location monthly earnings of Palestinian labour fall.

Other important studies which were done in this area are Kadri and MacMillan, 1998, Farsakh, 2002, Al Kafri, 2003, Friedberg and Sauer, 2004 and Mansour, 2010. But the findings of Angrist, 1996 are even today very much relevant.

7. DATA USED:

Quarterly time-series data has been used. As part of the TLFS (Territories Labor Force Survey), collected by local (Palestinian) enumerators in Gaza Strip and West Bank for the ICBS (Israel Central Bureau of Statistics), the primary data used in the research is a household-level survey which contains a variety of labour market and demographic information.

This data is being collected since the 1970s but it first became available to the public in 1981. From 1981 to 1991 forty-four quarters were prepared by Angrist (1995, 1996). With the transfer of civilian authority to the Palestinian Authority from the Israeli government data collection of the TLFS ended in the West Bank in 1995 and in the Gaza Strip in 1994.

Now one can get the labour market statistics of Palestine from the Palestinian Central Bureau of Statistics.

8. RESEARCH DRAWBACKS:

The research design used in the research for testing the research question is appropriate, econometric techniques used have been adequately implemented and the results are also convincing. Into the dynamics of the labour market of the Palestine, the findings of the paper provide very useful insights but there are also a few drawbacks from which they suffer.

The data set utilized by the study covered males aged 18-64. A very important segment who is employed almost entirely domestic is excluded from the study, the name of that segment is females. Without taking this segment into account the findings are incomplete.

On a set of industry and occupation dummies, an omitted variable test at very high levels was significant, indicating that the estimates of the return to schooling are to the inclusion of such variables very sensitive and may have been affected by such kinds of biases. Therefore, in Palestine re-estimation of private returns to education is important, keeping in mind that for most Palestinians the importance of investment in education is reinforced by Israeli closure policies.

Moreover, as the author has himself accepted that better and more data on the labour market of Palestine could have led to more robust results. And there was also the further scope of analysing the effect of more variables on the demand side from Israel labour market on the wages paid to Palestinians. Many other worth-studying samples were present in the TLFS survey, which could have been studied.

9. CONCLUSION:

The paper attempted to find out the labour supply and labour demand effect on the wages that are paid to Palestinian workers in Israel. The paper found that fall in Palestinian labour supply raised significantly the wages Israeli employers give, if the Israeli demand for labour

is inelastic then Palestinians may have monopoly power. The few drawbacks of the research were that in the study a very important i.e. females were not taken into study while doing the analysis. More and better data on the labour market of Palestine could have provided more robust results. In the TLFS survey, there was the scope of studying more worth studying variables which were not studied.

REFERENCES:

- i. Angrist, J. (1995). The Economic Returns to Schooling in the West Bank and Gaza Strip. *The American Economic Review*, 85(5), 1065-1087. Retrieved from
- ii. Angrist, J. (1996). Short-Run Demand for Palestinian Labor. *Journal of Labor Economics*, 14(3), 425-453. Retrieved from <http://www.jstor.org/stable/2535361>
- iii. Angrist, J. (1998). Estimating the Labor Market Impact of Voluntary Military Service Using Social Security Data on Military Applicants. *Econometrica*, 66(2), 249-288. doi:10.2307/2998558
- iv. Aranki, Ted N., 2004a. The Effect of Israeli Closure Policy on Wage Earnings in the West Bank and Gaza Strip. *Working Paper, Örebro University*. September.
- v. Al Kafri, S., 2003. Impact of Israeli measures on Palestinian child labor and schooling. *ERF Working Paper Series*, 215.
- vi. Friedberg, Rachel, Sauer, Robert M., 2004. Does the Presence of Foreign Guest Workers in Israel Harm Palestinians from the West Bank and Gaza Strip? *Working Paper, Brown University*. June
- vii. Farsakh, L., 2002. Palestinian labor flows to the Israeli economy: a finished story? *Journal of Palestine Studies* 32 (1), 13–27.
- viii. Kadri, A., Macmillen, M., 1998. The political economy of Israel's demand for Palestinian labour. *Third World Quarterly* 19, 297–311.
- ix. Miaari, Sami H., Sauer, Robert M., 2006. The Labor Market Costs of Conflict: Closures, Foreign Workers, and Palestinian Employment and Earnings. *IZA Discussion Paper no. 2282*, September.
- x. Mansoor, H., 2010. The Effects of Labor Supply Shocks on Labor Market Outcomes: Evidence from the Israeli-Palestinian Conflict. No 1014, *Discussion Papers of DIW Berlin from DIW Berlin*, German Institute for Economic Research.
- xi. Ruppert Bulmer, E., 2003. The impact of Israeli border policy on the Palestinian labor market. *Economic Development and Cultural Change* 51 (3), 657–676.
- xii. Shaban, R.A., 1993. Palestinian labour mobility. *International Labour Review* 132 (5–6), 655–672.