

Go and Learn – Again

by

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In my earlier column (“Go and Learn”, Dec 26, 2005), I detailed the strong relationship between education and living standards, a link that is manifested in very large income gaps and equally large employment gaps between individuals with varying levels of educational attainment. In the presence of policy vacuums, the growth process can play a major role in exacerbating these differences.

Economic growth reflects the structural changes that economies undergo – from agriculture to light industries such as textiles and then to heavier industries and services. Israel’s export picture provides a vivid illustration of these changes. In 1950, 48% of Israel’s exports were agricultural while 27% were industrial (excluding diamonds). By 2003, agriculture comprised only 2% of our exports while non-diamond industrial exports reached 61% of the total. The makeup of this latter group has in itself changed dramatically during the past decade and a half. In 1990, high-tech exports comprised 30% of Israel’s non-diamond industrial exports – and in 2003 their share rose to 46%.

These kind of structural changes substantially increase business sector demand for educated and skilled workers – at the expense of demand for workers with low levels of education. The larger the demand for educated workers, the greater their ensuing shortage, which in turn raises their incomes and increases their likelihood for finding jobs. The opposite is the case for the relatively uneducated and unskilled.

All western societies undergo this process – and the more open the economy, the greater the competitive pressures that in turn spur further growth. To some, the solution to all this is simple: concerns for the weaker segments of society would appear to suggest that we should slow down the growth process. Nothing suggests a more basic misunderstanding of our options than this conclusion.

There is a need to completely overhaul the educational mix in Israel’s labor market. Those who are concerned that this would lead to an inundation of the labor market with educated workers – who would find it increasingly difficult to find jobs and make a decent living – are focusing only on the increase in the supply of highly educated workers and are ignoring the substantial and steady increase in the market’s demand for them. In the United States, for example, the number of college graduates doubled during the seventies and eighties. But instead of flooding the market and experiencing wage reductions, their wages actually rose due to the even greater increase in demand as a result of the growth process.

The graph depicts some of the main differences between Israeli and American societies. Among the adult population aged 25 and up, only 15% of the Americans did not complete high school compared to 29% of the Israelis. 27% had a college education there compared to 21% here. These differences are reflected in, among other things, American employment rates reaching 62% in 2004 versus only 49% in Israel – and the enormous income gaps between the two countries that have only grown over the years.

Education plays a key role, together with other important ingredients, in determining the level of productivity in a country – and this in turn has a significant impact on economic growth.

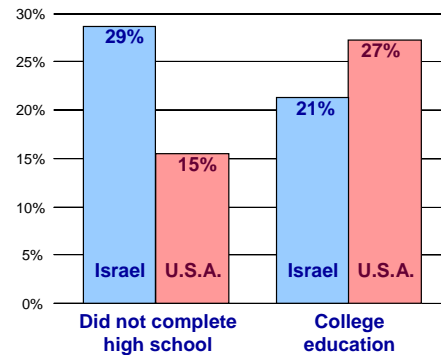
Labor productivity in the States, as reflected in output produced per work hour, was 44% higher than labor productivity in Israel in 2004. It is no coincidence that the American standard of living, which was substantially higher than ours 3 decades ago, has almost doubled since then, while ours has risen by roughly 50% alone. In a country that sits as an island in the midst of a very large and hostile sea, the steady multi-decade decline in Israel's living standards relative to those of the leading western countries has very ominous existential implications.

Higher income levels for the general population together with higher incomes of the poor can and should go together. Alongside increased support for those who truly cannot deal with the structural changes – for example, the elderly and the disabled – we need to provide assistance to the rest that will enable them to upgrade their personal skills. Primary and secondary education in Israel is abysmal by western standards and needs to be significantly improved so that more kids will be able to graduate from high school and reach academic institutions.

But focusing on the children is not enough. In light of education's importance in so many spheres, Israel must initiate a comprehensive "second chance" program that is widely available and subsidized for any adult wishing to complete and upgrade her/his education – in conjunction with, among other things, fast, available and cheap public transportation and quality low-cost afternoon enrichment programs for kids that will increase their parents' ability to feasibly work outside the home.

There are no magic formulas in economics. The time has come to implement a comprehensive and systemic reform of all aspects related to Israel's labor market – and such blueprints for reform already exist – that will channel existing powerful economic forces in desired directions, rather than to try and fight these forces with artificial policies that are both expensive and futile.

Education Among Ages 25+ in 2002
Comparison between Israel and the United States



Source: Dan Ben-David, Tel-Aviv University
Data from Income Survey of the Central Bureau of Statistics and the U.S. Department of Education