

## Go and Learn

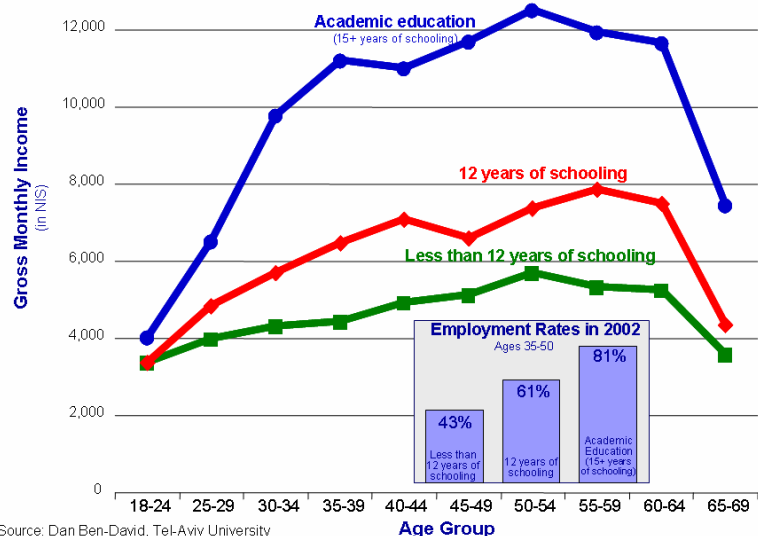
by

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For nearly a decade, Amir Peretz has been repeating his magic formula: raise the minimum wage. Not enforcement of the current minimum that few of the entitled actually receive. Not provision of the personal tools and surrounding environment that would enable individuals to thrive and prosper in a modern and open economy. Not support for a sweeping reform of the educational system to provide the children of Israel with an opportunity to substantially upgrade their primary and secondary educations so as to reduce dropout rates and increase the number of students that could be accepted to universities and colleges. Who needs to study economics and understand its laws if it appears possible to simply legislate all of the desired outcomes?

What is the value of education to the individual and to the country? As can be seen in the figure, income gaps are quite large. Already in the 25-29 age group, workers that did not complete high school earn an average of 4,014 NIS a month, a little more than the minimum wage. The income of those with 12 years of schooling reached 4,860 NIS – a 21% increment. Workers with at least 15 years of schooling that include an academic education earned 6,540 NIS, which are 35% more than workers with 12 years of schooling and 63% more than those who did not finish high school. These income gaps rise steadily with age.

### Incomes by Education and Age in 2002



Not only do incomes rise with education levels – so do employment rates. In the primary working ages of 35 to 50, only 43% of those with low education levels are employed. Almost half as many more are employed among the high school graduates population (61%) and there is another substantial jump, to 81% employment, among academics.

What is the value of education over an individual's lifetime? The picture here is obviously inaccurate since it reflects a glimpse of all ages at one point in time and does not take into account future rates of growth, interest, etc. That said, it is possible to get a very rough estimate of the magnitude of differences in income. From the age of 25 to 69, a high school graduate receives approximately 900,000 NIS more than a dropout. An academic education yields a lifetime bonus of 2.2 million shekels above and beyond the income of a high school graduate.

Education's impact goes far beyond the personal benefits accruing individuals who make the investment to better themselves. In a seminal article published in the late 1980s, Nobel

Laureate in Economics Robert Lucas showed how individual decisions regarding educational investments impacted on the entire country's long-run growth in the steady state. Lucas distinguished between the "internal" and "external" effects of education. While the "internal effect" is characterized by the impact of personal educational investment decisions on income, a higher general level of education in the country (that is, the "external effect") increases the impact of a given personal educational investment on income levels and growth rates.

There is empirical corroboration for the relationship between education and growth. One of the more prominent studies is by Eric Hanushek and Dennis Kimko, who show the significant positive impact of the quality of a country's education (as reflected in international achievement tests) on growth rates – a greater impact than even the number of school years, which itself significantly increases economic growth.

To Amir Peretz, Shelly Yechimovitch and your new friends in the Labor Party: the bad news is that there are no magic formulas. In contrast with your beliefs, economics is indeed a science and not a "personal world-view" (Shelly Yechimovitch, Haaretz, Dec. 2, 2005) that you can ignore at your peril – and ours. Higher incomes and lower poverty levels are not attained through an artificial patchwork of policies that substitute for comprehensive and systemic solutions. The time has come for changing the political hard drive in Israel, from arrogant ignorance and unabashed amateurism to the professionalism that characterizes us in so many fields outside the political arena. The faster you internalize this, the better able you will be to attain the minimum tools necessary for seriously dealing with Israel's existential socio-economic problems.