

Israel's steady productivity retreat since the 1970s

by

Dan Ben-David

Israel's labor productivity is not just among the lowest in the developed world. The gap between the world's leading countries and Israel has grown steadily – more than three-fold since the mid-1970s. The average Israeli worker produces \$42 an hour (this does not include the large share of Israelis who do not work). The average American worker produces nearly three-quarters more.

Israel is a tale of two countries in one. One of these, the “Startup Nation”(the universities, high-tech, etc.), is at the technological cutting edge, and even pushing it forward. The other Israel, representing a large and growing share of the population, is receiving neither the tools nor conditions to work in a globally competitive economy.

This is reflected not only in some of the developed world's highest rates of poverty and income inequality, but is a substantial burden on the economic growth of the entire nation. A rising share of the population lacking the skills to work in a modern economy is analogous to a national engine running on fewer and fewer of its existing cylinders, with increasing difficulty in moving the economy forward.

The larger the gap between the developed world and Israel, the more skilled and educated Israelis deliberate between leaving or remaining and earning below their potential, not to mention carrying a progressively heavier burden on their shoulders. Already in 2017, about half of the population was so poor that it paid no income tax. More than 90% of income tax revenues came from just 20% of the population (up from 83% paid by the top two income deciles in 2000).

The low productivity problem emanates from continuing neglect of the country's basic infrastructure. For example, congestion on Israel's roads in 1970 was identical to the average for small European countries. Since then, road congestion in Israel has risen steadily, to three times the average of the small European countries – and this, despite the fact that there are 40% fewer vehicles per capita in Israel.



Source: Dan Ben-David, Shores Institution and Tel Aviv University
Data: OECD, Central Bureau of Statistics, Bank of Israel

The most important infrastructure for the country's future is its education system. Israeli young people's knowledge of basic subjects (reading, mathematics and science) yields scores on international exams that are below 24 of the 25 relevant developed world countries – and this ignominious outcome was attained without even the inclusion of the ultra-Orthodox children, most of whom do not study a core curriculum beyond eighth grade and do not participate in the international exams. The achievements of the non-Haredi Jewish children, some of whom live in Israel's geographic and social peripheries, are below the majority of developed countries while the achievements of Arab-Israeli children are below the majority of Muslim countries.

About half of Israel's children are currently receiving a Third World education, and they belong to the fastest growing parts of Israeli society. At best, they will be able to maintain a Third World economy. But a Third World economy cannot support Israel's First World defensive needs – with all of the existential implications that this has on a country situated in the most violent region on the planet.

Since national security tends to determine Israeli elections, a note to all potential voters: It's time to redefine the meaning of national security.