

The Worst Threat of All

by

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Many illusions were shattered during the decade ending next week. It was a decade that began with Camp David and ran head on into a murderous intifada; a decade beginning with a soaring high-tech that crash-landed within a year; a decade that America began as the world's only superpower, and within less than two years had national symbols crash into the soil of reality; a decade in which a small country discovered how limited its ability is to defend its towns from threats from the skies and its soldiers from threats from below the surface; a decade in which the superpower discovered its limited ability to deal with small threats with an extremely dangerous potential.

In many respects, this decade of illusions was too similar to 1930s. In the national security realm, the countdown began for the great cataclysm of the forties. Are the signs accumulating in the area of national security this decade pointing to an outcome with similarly catastrophic potential?

In the socioeconomic realm, memories from the 1930s received a place of honor during the past year – and not by coincidence. During the first twelve months of the Great Depression, global output fell by around 13 percent, a figure echoed in the first twelve months of this current crisis. Eventually, as Eichengreen and O'Rourke so vividly show in their recent study, output continued to fall during the Depression and after three years, there was an overall decline nearing 40 percent in global industrial output.

The stock market crash during the Great Depression reached 20 percent at the end of the first year. This time, the collapse during the first twelve months was much greater, approximately forty percent. In recent months, there have been signs that this freefall has stopped and there have even been some relative increases. That said, the overall decline in today's global stock markets is identical to what it was then at this stage of the Great Depression. It is important to point out that that crisis evolved in a series of waves, and within three years, the average value of stocks world-wide was 70 percent below its value at the beginning of the Depression.

One of the greatest policy lessons from the Great Depression was in the area of international trade. Countries that saw a steep rise in unemployment adopted autarkic policies of closing their borders to imports, with the intention of protecting their workers – which only magnified the Depression's blow on other countries. The result were trade wars that substantially reduced world trade and only worsened an already bad situation. As figure 1 indicates, during the first three years of the Depression, world trade fell by about 30 percent.

This time, western economies have been working together to minimize the recession's damage – with coordination and cooperation between governments and consultations between Central Banks. Despite this, the decline in trade this past year was even sharper than it was during the Great Depression. During the Depression's first year, global trade fell by less than nine percent – while during the first year of the current crisis there was a decline of fifteen percent. During the first half of 2009, the decline halted, and it is possible that we are changing direction. Israel's export statistics this past month point to a sharp positive turn-around.

We may be at the beginning of a possible emergence from this severe crisis. Hopefully, we will then finally open our eyes and stop looking at the past month, the past quarter, or even the past year – and start seeing the big picture that reveals a surprising perspective of the speed at which Israel is speeding towards its future.

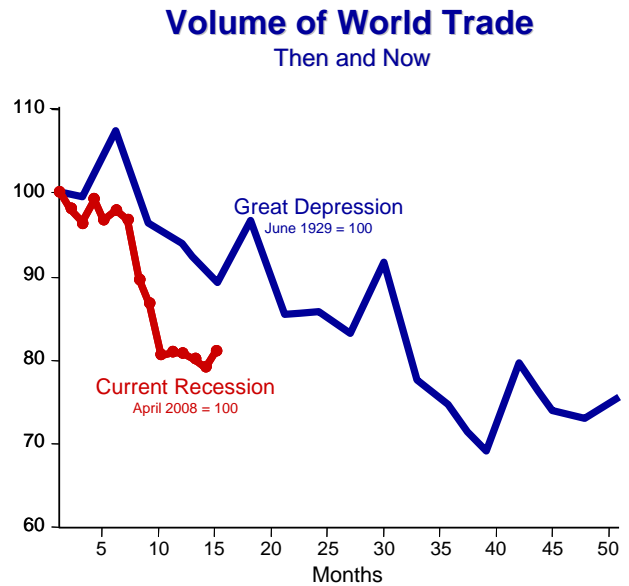
That future is sitting today on classroom chairs. Who is sitting there? What kind of a toolbox is it receiving? There is a crucial need internalize how quickly changes took place during just one decade and understand the implications.

Israel's education system has four streams: state, state-religious ultra-orthodox and Israeli Arab education streams. As indicated in figure 2, at the end of the decade now ending, there are less primary school pupils in the national education stream than there were when this decade began. In contrast, the national-religious primary schools have seen a nine percent increase since 2000. The number of primary school pupils in the Israeli-Arab stream grew by 35 percent, while the number of ultra-orthodox pupils grew by 49 percent. All of this transpired in just one decade. About half of all the primary school children in Israel already study in either the Israeli Arab stream or the ultra-orthodox stream.

This would be a good time to take notice of what Israel's next generation is studying. Is it receiving the tools so necessary for coping successfully in a modern and competitive market?

If these children adopt their parents work norms, then what can Israel look forward to in a number of years? Last year, the share of non-employed primary working age (25 to 54) men in western countries belonging to the OECD was 12.5 percent (figure 3). The percentage of non-employed Israeli Arab men was almost twice as high. Out of the ultra-orthodox males that are of primary working age, over 70 percent were not employed. Among females, 74 percent of the Israeli Arab women and 46 percent of the ultra-orthodox women were not employed, compared to only a third in the west.

Figure 1

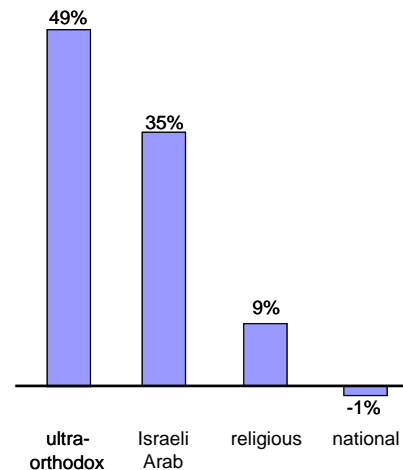


source: Eichengreen and O'Rourke (2009)

Figure 2

Changes in Primary School Enrollment

percent changes between 2000 and 2009, by education streams



Source: Nachum Blass, Taub Center for Social Policy Studies in Israel data from Israel's Central Bureau of Statistics

Could such rates of non-employment be characteristic of the majority in a first-world country? Could a non-first world country survive in this Middle-Eastern neighborhood?

And what about the current majority, that is destined to become the minority? Non-employment rates of 16.5 percent among prime working age non-ultra orthodox Jewish males may look good when compared to other groups, but they are nonetheless a third greater than is common in the west. How could this happen?

One explanation is the education that Israel's children receive in the basic subjects. Recent studies focusing on the quality of education the importance of education in core subjects affects on an individual's

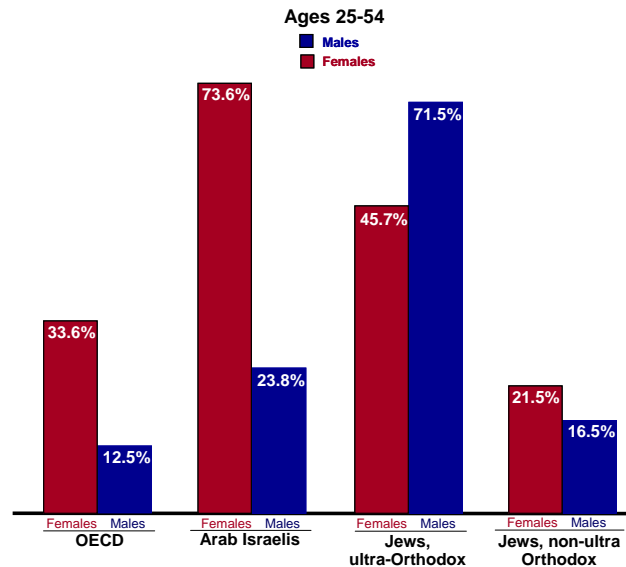
income and the country's standard of living. A new study by the Taub Center for Social Policy Studies in Israel, which will come out in the upcoming report on the country's society and economy, summarizes an entire decade of international exams that Israel participated in, comparing the country to a fixed list of 25 OECD countries in each of the years.

Since 1999, Israel has participated in five different international exams in mathematics, science and reading. In all but one of the exams over the past decade, the achievements of Israel's children were below every single western country. In light of the fact that since the 1970s, Israel's living standards are steadily falling farther and farther behind the leading western countries, these outcomes are not indicative of a change in direction in the offing.

Educational gaps within Israel over the past decade were higher than the gaps within each of the 25 OECD countries in each of the years. Since economic gaps in Israel are already among the highest in the west, and in view of the fact that the education system is the primary jump board to the labor market, then how could one expect any future improvements when education gaps among seven million Israelis are greater even than the huge education gaps between 300 million Americans?

Since 1999, the educational achievements of Israel's weakest students, those in the bottom fifth percentiles, are lower than the weakest students in every one of the 25 OECD countries in every one of the exams. This is a country with one of the western world's highest poverty rates – and in its children, one can see what the future holds in store. It is important to point out that pupils in ultra-orthodox schools, who do not study math or science at core curriculum levels, do not participate in the international exams. In other words, the children of Israel managed to garner these problematic achievements without any assistance from the ultra-orthodox kids.

Figure 3
Rate of Non-Employment in Population, 2008



Source: Dan Ben-David, Taub Center and Tel-Aviv University
data from Israel's Central Bureau of Statistics and OECD

During the decade since 1999, Israel passed a milestone when its future formally parted ways with its past. The generation that once sat on Israeli classroom chairs received more Nobel Prizes in the Sciences per capita than any other country in the world this past decade. During this same decade, the achievements of Israel's top pupils, those in the top 5 percentiles, placed them close to the bottom of the western world in every single exam (see table). How ironic it is that while we receive such a reminder of the potential that Israel society has – we also witness the terrible bungling of the baton's passing from our generation to our children's.

It is possible to see the picture that developed here during the decade ending next week and return our heads to the sand. We can look for false comfort in the delusion that this is destiny. We can continue to depend on politicians who act as though there is nothing that can be done. We can ignore, and we can pack suitcases.

But there are also other possibilities. We can stop incessant bickering on side-issues, and start distinguishing between what is truly important and what is not. Dreams can not be a substitute for an operational plan – and there is such a plan. The kind of systemic reforms required in education, employment and in other areas do not have a chance of passing in the current electoral system in which personal and sectoral incentives far outweigh national concerns.

When instability is inherent in the system, when the executive branch comprises heads of competing political parties who view policy as a zero-sum game – where your failure is my success – when a third of the legislative branch is in the executive branch while the other two-thirds do all the can to bring down the first third, when all of the fragments of parties representing the heart of Israeli consensus barely constitute a majority in the Knesset, there is no other issue more important for saving the country's future than a comprehensive change in Israel's system of government.

I happen to favor a particular system that I have often written about in the past – with a president as chief executive and MKs all having to get elected on a personal basis to fixed terms of office, with a complete separation of powers between branches that includes checks and balances which will enable governance on the one hand and oversight on the other, with cabinet

Comparison of Top Pupils					
Achievement levels of top 5 th percentile in 25 OECD countries and in Israel over the last decade*					
base = Israel = 100					
	TIMSS ¹	PISA ²	TIMSS ¹	PISA ²	TIMSS ¹
	1999	2000/02	2003	2006	2007
Israel	100.0	100.0	100.0	100.0	100.0
OECD	106.2	103.8	102.1	104.5	103.9
1 Australia	106.6	107.6	102.0	106.8	103.0
2 Austria		103.9		105.0	
3 Belgium ³	106.0	104.9	100.2	106.2	
4 Canada ⁴	105.0	106.5	101.0	107.5	102.0
5 Czech Rep.	106.8	103.2		106.6	103.8
6 Denmark		102.3		102.7	
7 England ⁵	106.2	107.9	103.1	105.5	106.5
8 Finland	103.5	106.5		109.3	
9 France		103.6		103.2	
10 Germany		102.8		106.2	
11 Hungary	109.0	102.0	105.5	101.9	105.9
12 Iceland		101.9		102.4	
13 Ireland		103.4		104.1	
14 Italy	100.4	98.2	97.4	99.8	98.2
15 Japan	110.3	106.9	108.5	106.9	111.2
16 Korea	112.3	104.4	110.2	108.9	113.8
17 Netherlands			101.8	106.3	
18 New Zealand	103.5	109.0	100.6	109.5	
19 Norway		103.0	93.7	102.4	94.7
20 Portugal		96.0		98.6	
21 Slovak Rep.			102.1	101.6	
22 Spain		99.4		98.5	
23 Sweden	106.0	104.2	100.1	104.5	100.0
24 Switzerland	106.0	105.0		106.0	
25 USA	105.5	104.4	102.8	102.8	103.6

* excluding ultra-orthodox Jews in Israel

¹ national average in math and science exams

² national average in math, science and reading exams

³ Flemish Belgium in TIMSS

⁴ average of Canadian provinces participating in TIMSS 2003 and 2007

⁵ UK rather than England in PISA

source: Dan Ben-David, Taub Center and Tel-Aviv University
data from TIMSS and PISA

ministers who are chosen to their positions not because they head political parties but because they are people who actually know something about the offices that they head – but this is not the point. There is no perfect system, and there are other possibilities, The point is that we may not have another opportunity to learn from our mistakes.

This is a time for real leaders, and there are some in the Knesset, who understand the importance of the hour and what will be their place in the history of the Jewish people if they don't start taking care of its home. Each one cannot do it on his or her own. But together, they can. This is one of our best and last opportunities. The decade that begins next week must be our reality check decade, otherwise it could be the countdown decade.