

A vision to save Israel from the highway to hell

by

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The next government needs to think big, outside the box, because we may be about to pass our last exit ramp from the highway

Since the 1970s, the gap in GDP per hour of work (which determines whether high wages are possible) between the average of the G7 countries leading the developed world and Israel has more than tripled. The average level of knowledge of Israeli children in core subjects (math, science and reading) – not including haredim (ultra-Orthodox Jews), who do not study the material and do not participate in the international exams – is below the average of every other developed country. At the same time, achievement gaps between Israeli children are the highest in the West.

Half of Israel's population is so poor that it does not reach the lowest income tax bracket, while 92 percent of all the country's income tax revenue comes from just 20 percent of the population. And because tax evasion is so pervasive, it is estimated that about one-fifth of Israel's GDP is not reported. Consequently, about a third of that amount does not reach the state treasury in the form of taxes.

Since the 1970s, the number of hospital beds per capita in Israel has been in free fall, raising hospital congestion in Israel to the highest levels in the OECD, while the per capita number of medical school graduates is the lowest in the OECD. In 1970, congestion on Israeli roads was the same as the average of the small European countries. Over the past half century, Israeli road congestion rose to triple the average of those countries – even though the number of vehicles per capita is 40 percent lower here than there. For every Israeli with an academic degree who returns to Israel, four leave. The number of Israeli physicians abroad relative to those remaining in the country has increased by about half in just one decade.

These are the consequences of a national agenda that is based on sectoral and personal interests – rather than on the national good. The gaps between Israelis are immense and it's hard to comprehend how such large swaths of the population simply don't accept that life in modern society comes not only with benefits, but also comes with rules and regulations that ensure our safety and the well-being of others. Commonplace bullying, violence and disregard for laws are just the tip of the iceberg. Enforcement did not exist during the pandemic, it did not happen at Mount Meron last week – and it's a huge problem when it comes to collecting taxes.

About half of Israel's children receive a third world education and they belong to the fastest growing population groups in the country. As adults, they will only be able to maintain a third-world economy, one that will be incapable of sustaining first-world healthcare and welfare systems – or first world military capabilities.

Further details on Israel's primary socioeconomic challenges can be found on the [Shoresh Institution website](#), but even the partial picture outlined above illustrates what the highway to hell looks like. No less than Israel's future national security rests upon the shoulders of the incoming government. This is perhaps the country's last opportunity to bring together left and right, religious and secular, Arabs and Jews to form a governing coalition that can divert Israel from the highway to hell.

It will not be easy. Every aspect of the vision outlined below affects countless pressure groups which have benefited from the current status quo and will move heaven and earth to preserve their power. We'll need leadership that can withstand the pressures, explain how they envision Israel's future – and how they plan to get from here to there. The vision I have rests on the following tenets..

Comprehensive reform of the education system

Throwing money at the system without repairing it is like throwing money down the drain. Classroom congestion in Israel is not due to a shortage of teachers. While the number of children per class is high compared to the rest of the OECD, the number of children per teacher (full-time equivalent) is equal to that in the OECD in primary education and even below the OECD average in secondary education. Nor is there a shortage of instruction hours for Israeli children. The country has many more school days each year than every other the OECD country, and the annual number of instruction hours is one of the highest in the OECD.

Some of Israel's teachers are excellent. They could have succeeded in any other profession, but chose to become teachers out of a sense of mission. However, they are not a representative sample: The country's mathematics and literary skills teachers rank at or near the bottom of the their respective fields in the developed world. While Israeli teachers' monthly salaries are low compared to the OECD, their hourly wages are actually quite high.

The foundation of reform in the education system should be based on three cornerstones: establishment of a much improved curriculum, and ensuring that it is uniform and mandatory for all Israeli children (including complete cessation of funding for schools that do not teach a full core curriculum, and for all downstream institutions receiving graduates from schools that do not teach a full core curriculum); fundamental changes in the way teachers are trained, chosen and compensated; and systemic changes in the Ministry of Education and its mode of operation.

An all out war on the shadow economy

When it comes to covering the huge deficits created during the pandemic year – and in previous years – public discourse here focuses on the more convenient and conventional channels: raising taxes and cutting government budgets. But there are two additional budgetary avenues in Israel that policymakers have been unwilling to consider, transformative avenues that would completely revamp how the government collects and distributes its money. On the one hand many Israelis are not shouldering the tax burden (with many adding to the burden by appearing to be in need); and on the other, we do not have any real idea about how the public's funds are actually distributed.

If Israel were to reduce the size of its shadow economy to French, Canadian, German or American levels, Israel's GDP would increase by 100-200 billion shekels (roughly \$30 billion to \$60 billion, depending on the comparison country) each year. In other words, another 30 to 60 billion shekels in new tax revenue would be added to the state coffers. To put these amounts in perspective, the entire Ministry of Health budget in 2018 was 34 billion shekels, the total cost of all primary and secondary education in Israel that year totaled 26 billion shekels, while the entire cost of Israel's higher education cost the country 11 billion shekels.

The serious enforcement of toll collection on Highway 6 suggests just how Israeli behavior can become normative when people understand that evasion and manipulation are not

an option. To increase tax revenues, it is possible to begin by requiring all adults living in Israel to file an annual income-tax return. The idea is not for complicated and convoluted American-style forms designed to protect various narrow interests, forms that require an accountant to understand and complete. All that's needed is a simple one- or two-page form specifying total income from work and other sources.

When everyone has to declare all of their income every year and sign at the bottom of the form, and when the government conducts checks – spot checks or more thorough examinations, as warranted – and follows these up with serious punitive measures, the tax evasion picture will change fundamentally, because cheating is no more a part of the Israeli DNA than it is in any other country. Massive tax evasion exists in Israel because it is possible. When it ceases to be worthwhile, the tax-revenue picture will change beyond recognition.

The size of shadow economies in countries with compulsory annual filing is lower than in other developed countries. And it turns out that when such filing stipulations exist and the deterrence factor is internalized, the cost of tax collection (relative to GDP) in countries with compulsory filing is lower than in countries that do not require tax report filing.

Significant increase in budget transparency

The socioeconomic policy pivot that led to the problematic trajectories described above occurred in the mid-1970s, years in which Israel's total civilian public expenditure (meaning, excluding defense spending) was higher than the OECD average (relative to GDP). In fact, Israel's civilian public spending has been higher or similar to the OECD average for decades. As such, a lack of government resources was not the reason for Israel's socioeconomic pivot. Apparently, Israeli governments began to prioritize sectoral and personal budgetary allocations over national needs. In the absence of budget transparency, it's not possible to know with certainty the extent of the budgetary shifts and whom their main beneficiaries have been.

The actual extent of government benefits, paid either directly or indirectly, via organizations and vague budget items, has never been made public. Only when each voter knows who the receiving parties are, and the extent to which the amount per recipient is similar or differs, will it be possible to begin a fact-based public discussion about Israel's national priorities. Such clarity enables informed choices which are the cornerstone of democracy.

Furthermore, Israel's government must calculate – and make its findings publicly available – the social rate of return on all major infrastructure projects (a social rate of return reflects what society gains overall, as compared with private rates of return, which reflect only what direct beneficiaries of a project receive). Ranking projects by their social rates of return does not obligate politicians to act only on this basis, but publication of such information will require convincing public explanations as to why project C was chosen over A if the return on A is higher.

Housing

In the background, Israel's population is growing at a rate unheard of in the rest of the developed world – 3.1 children per Israeli family, almost a full child more than in the second place country. According to the Central Bureau of Statistics, Israel's population is expected to double in just two generations. Its population density then will be higher than it is today in every country except Bangladesh. To the extent that the level of education improves here, Israel's

middle class will expand and the benefits of that process will be reflected not only in socioeconomic improvements but also in lower fertility rates – with all that this implies with regard to the demand for housing.

Another factor that will substantially reduce demand for apartments is the elimination of tax benefits for real estate investors. There is no reason for benefits – and, in some cases, complete exemptions – that make the tax liability on real estate returns lower than taxes on returns from other forms of investment, which may even provide a greater contribution to economic growth. Eliminating real estate investor benefits can also affect housing supply. When private individuals are exempt from paying any taxes on rent, that reduces the incentive for competing businesses to build complexes of rental apartments, as is common in other countries. Additionally, systemic reforms are required in this entire realm – from the very problematic functioning of the Israel Land Authority to the local planning and construction commissions that are light on planning and very heavy on bureaucracy – in order to strike a balance between what's needed, where it's needed, and the necessary infrastructures that need to accompany any building plans.

Health care reform

Only a miracle prevented Israel from suffering even more than it did from the Covid-19 pandemic. The combination of world-class medical personnel and tremendous resourcefulness at local levels prevented the national lack of strategy, management and enforcement from leading to an even greater catastrophe.

In general, Israel has a severe shortage of health care professionals, alongside hospitalization conditions that can best be described as inadequate to deplorable. Long-term neglect of the health care system has led to a doubling of the number of deaths per capita from infectious diseases over the past two decades (a period in which the OECD average remained stable). Even before the coronavirus pandemic, the mortality rate from infectious diseases in Israel exceeded the number of per capita deaths from infectious diseases in the second-ranked OECD country by 70%. It was 17 times greater than the number of persons killed on Israeli roads each year.

As is the case in the education system, and in Israel's public sphere generally, the health care system is lagging in the area of measurement and evaluation – which are critically important management tools. Moreover, as in the case of other governmental ministries, the Health Ministry sets the rules, is responsible for much of their implementation, and monitors its own results – with all the resultant conflicts of interest that implies. The governmental mindset of micromanagement from above creates a buffer between authority to run operations and accountability for the results, severely impairing the system's functioning.

What's needed is a far-reaching reform that achieves a balance between a high quality of health care at all levels, satisfactory compensation for medical personnel, and costs that are not budget-breaking. That is not an easy task in any country, but it's much more achievable in Israel these days, when there are so many structural health care failures that require core treatment.

Labor market reform

Even before the pandemic, Israel's labor market was characterized by polarization that both heightened income inequality and also hampered economic growth. In some realms there

are powerful labor unions interested only in what benefits them, with little to no interest in the good of the organization in which their members work – with all that this implies with regard to inefficient management. On the other hand, there are private companies with no interest in the well-being of their employees, or in upgrading their skills and training. Into this reality enter legislators who further complicate employment laws with stifling regulations and stipulations.

This is an area in which Israel does not have to reinvent the wheel. The Scandinavian “flexicurity” model provides considerable flexibility for employers in terms of hiring and firing of employees, alongside substantial protection for employees – not in preventing their dismissal, but in ongoing enrichment during their employment, and especially after they are fired – that includes serious (though time-limited) benefits packages to better facilitate their movement and adjustment to the next workplace.

Vocational training should enable education upgrades for those who are interested, along with the involvement of employers in determining areas in which training is needed – and all this with the establishment of an independent body for measuring, evaluating and distinguishing between programs and directions that are more successful and those that are less so.

Overhauling Israel’s system of government

The existing governmental system and its incumbent incentive structure makes it very difficult for the political echelons to deal with the existential problems faced by Israeli society. Since the system’s instability is structural, the solution to the problem must also be structural and provide the basic conditions for governance: systemic stability and the restoration of balance between the executive and the legislative branches. The reform should be based on three realms that touch upon the core problems.

President: In the current system, a prime minister appoints his or her main political competitors (whether from his or her party or from other parties) to key cabinet positions in order to create a government – with all of the implications that this has regarding his or her ability to govern. It’s a method whose instability is built into its foundations, encouraging constant blackmail and threats from inside and outside of the cabinet. Instead, the country should be led by a president (one who is not facing criminal charges or has prior convictions), who will be elected directly together with the vice president.

The president will appoint the cabinet ministers (10 are sufficient) on the basis of their professional skills. Ministers will be subordinate to the president, who would be able to fire them if they do not meet expectations. This method would allow the president to run the country together with the ministers instead of being in a constant struggle with them. A four-year term of office (and a two-term limit) would allow the president a reasonable period of time to carry out his or her policies effectively and with long-term perspective.

Members of Knesset: There must be a clear distinction between the executive and legislative branches. Cabinet ministers cannot be Knesset members, while MKs should focus solely on their role of governmental oversight and making laws. Instead of being elected by party members or leaders, each MK should be directly elected by – and accountable to – the voters. One-third of all MKs should be elected by geographical districts for two-year terms (where looking after local needs will play a role in their election); another third would be elected by larger regions for four-year terms (these MKs will be looking out for regional interests); and a

third will be elected at the national level for six-year terms (representing their perspectives on national interests).

Checks and balances: Among other things, the president would have the right to veto any law that does not fit his or her policy. This would apply both to certain sections (line item vetos) and also an entire law. A vote of 61 MKs (or some predetermined supermajority) would allow for an override of the presidential veto and allow a law to pass despite the president's opposition.

The change in Israel's system of government, along with existing basic laws and the drafting of additional basic laws, need to be anchored in a constitution that will protect democracy and basic rights in Israel for years to come.

Israel has reached a Ben-Gurion moment

Just as there was a historic opportunity to establish Israel then, we now face a historic opportunity to change course and save Israel's future. The terrible crisis of the past year has provided the basic conditions for change. On the one side is a prime minister facing three criminal indictments, who has teamed up with both racist parties and parties that deliberately deprive their own communities of basic rights to adequate education and critical thinking. On the other side of the political Rubicon are all the rest, many or most of whom put the future of Israel above all other concerns.

This may be Israel's last exit ramp from the highway to hell.