








2013

State of the Nation in Pictures

Society, Economy and Policy in Israel

Dan Ben-David, Editor

-  The Macro Picture
-  Employment and Education
-  Education
-  The Middle Class and the Cost of Living in Israel
-  Transportation Infrastructure
-  Health
-  Social Services: Expenditures and Privatization



TAUB CENTER

for Social Policy Studies in Israel

STATE OF THE NATION IN PICTURES

Society, Economy and Policy in Israel
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Dan Ben-David, Editor



Taub Center for Social Policy Studies in Israel
Jerusalem, April 2013

Taub Center for Social Policy Studies in Israel

The Taub Center was established in 1982 under the leadership and vision of Herbert M. Singer, Henry Taub, and the American Jewish Joint Distribution Committee (JDC). The Center is funded by a permanent endowment created by the Henry and Marilyn Taub Foundation, the Herbert M. and Nell Singer Foundation, Jane and John Colman, the Kolker-Saxon-Hallock Family Foundation, the Milton A. and Roslyn Z. Wolf Family Foundation, and the JDC.

The Taub Center is an independent, nonpartisan, socioeconomic research institute based in Jerusalem. The Center conducts quality, impartial research on socioeconomic conditions in Israel, and develops innovative, equitable and practical options for macro public policies that advance the well-being of Israelis. The Center strives to influence public policy through direct communications with policy makers and by enriching the public debate that accompanies the decision making process.

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FOREWORD

These pages provide a unique look at an Israel that is a study in irony few are fully familiar with. It is a country brimming with outstanding potential – while at the same time advancing along very steady multi-decade socioeconomic trajectories that are simply unsustainable for the future.

This book details Israel's society and economy in a number of pivotal areas including the macro picture, employment, education, costs of living, health, social services, and transportation. Within each of these spheres, Israel exhibits both strengths and weaknesses. The country has low infant mortality rates and very high life expectancies, and yet its hospitals are overflowing and it is not uncommon to see patient beds filling the corridors. Israel has a low debt-to-GDP ratio in comparison with other developed countries, but pays more in interest on its debt than it pays for the country's entire education budget on an annual basis. The country is one of the world's leaders in new patents per capita, but when it comes to the quality of the education provided to its children, Israel is severely lacking. The list is long.

The Taub Center is an independent and apolitical research institution devoted to providing evidence-based foundations for public policy discussions and determination on Israel's most important social and economic issues. The material in this book highlights key findings by some of Israel's leading economists, sociologists, and researchers from other disciplines at the country's top research universities who serve as Policy Program Chairs, Fellows, and researchers at the Center.

The *State of the Nation in Pictures* reflects a continuation of the Taub Center's ongoing work to share these findings widely and heighten attention on the main issues while sharpening the focus on actual facts.

The 66 graphs and tables presented here – one per page – provide an “at-a-glance” view of where Israel has been, where it currently is, and where it is headed, in both absolute and relative terms. Each figure is accompanied by a brief explanation providing a clear understanding of where Israel excels and where the country is in need of a course correction. More complete and detailed analyses of the issues covered by each figure may be found in the *State of the Nation Reports* available on the Center’s website.

This *State of the Nation in Pictures* could not have come to light without the creativity and perseverance of the Taub Center’s very dedicated staff: Gal Ben Dor, Laura Brass, Yulia Cogan, Hedva Elmackias, Inbal Gafni, Suzanne Patt Benvenisti and, of course, the researchers acknowledged at the bottom of each figure. We are indebted to them all.

Professor Dan Ben-David

Executive Director, Taub Center for Social Policy Studies in Israel

April 2013

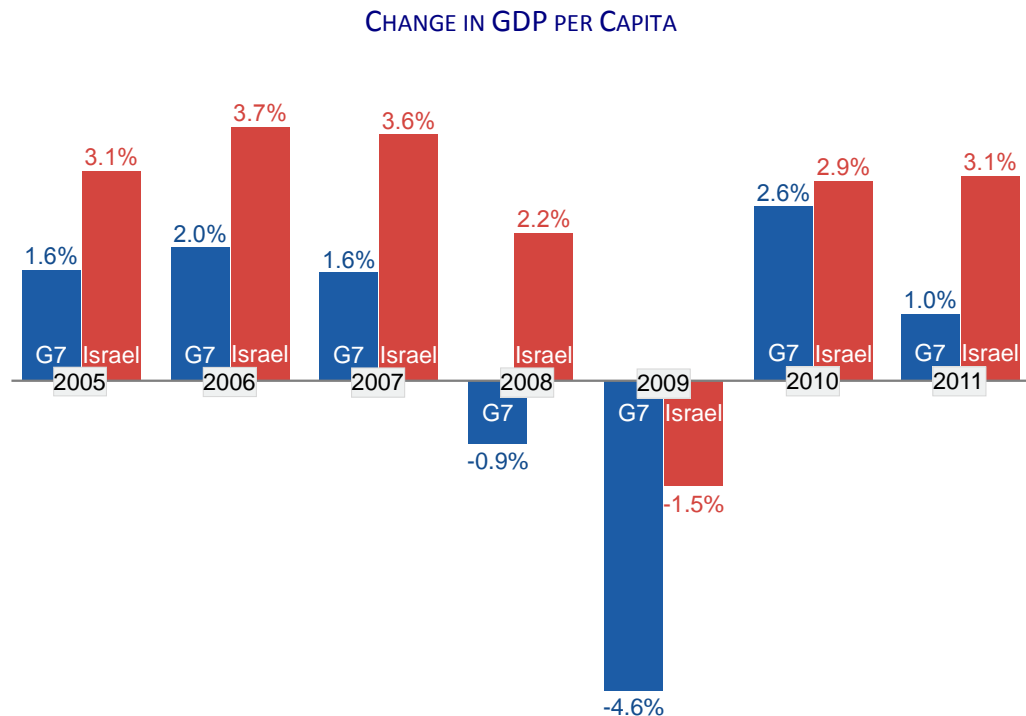
THE MACRO PICTURE

Israel's current macro picture is rosy only in relative terms. The West – mainly the US and Europe – has been in the most severe economic downturn since the Great Depression while Israel's primary recession in recent decades occurred a decade ago, during the massive terror wave that accompanied the *intifada*. Since then, Israel has been emerging from that very problematic period while parts of the West are still undergoing some very difficult years. In the final analysis, the two opposite trends – Israel's and the West's – are relatively short-term and the respective countries will eventually return to their fairly steady long-run economic growth paths. The primary problem, as highlighted in many of the figures here, is not how the country is faring vis-à-vis countries currently experiencing a downturn, but how Israel will fare in the long-term with its highly problematic long-run trajectories.

Relatively high economic growth in Israel compared to G7 economies in recent years

While Israel's recent growth in GDP per capita is impressive, it is also a bit deceiving since it does not reflect higher long-run growth in Israel. For the past decade, Israel has been rebounding from its most severe recession in decades while the G7* countries entered their deepest recession since the Great Depression.

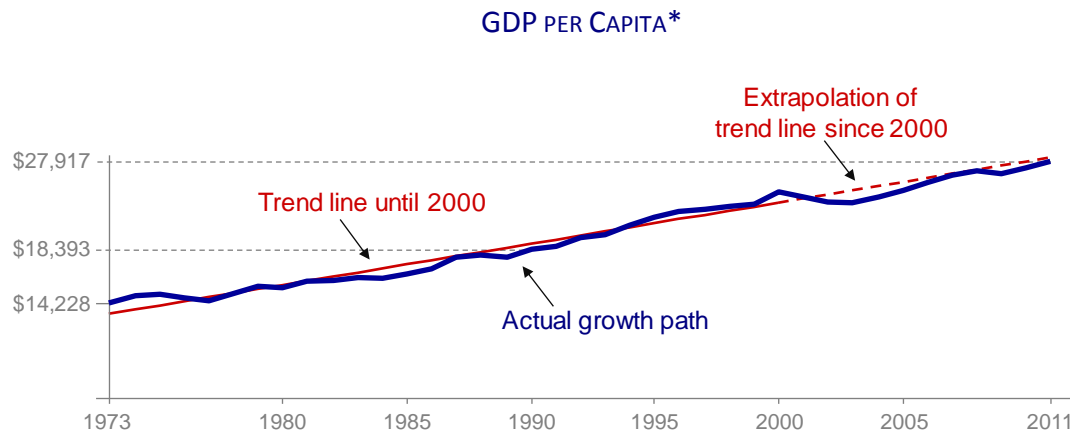
* G7 countries are the United States, Canada, the United Kingdom, Germany, France, Italy and Japan



Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center
Data: OECD

Israel on steady multi-decade economic growth path

Israel has been on a very steady long-run growth path since 1973. The fast growth in recent years simply reflects a return to the same long-run growth path following the severe recession in the early part of the last decade.



* In 2011 PPP-adjusted dollars, logarithmic scale

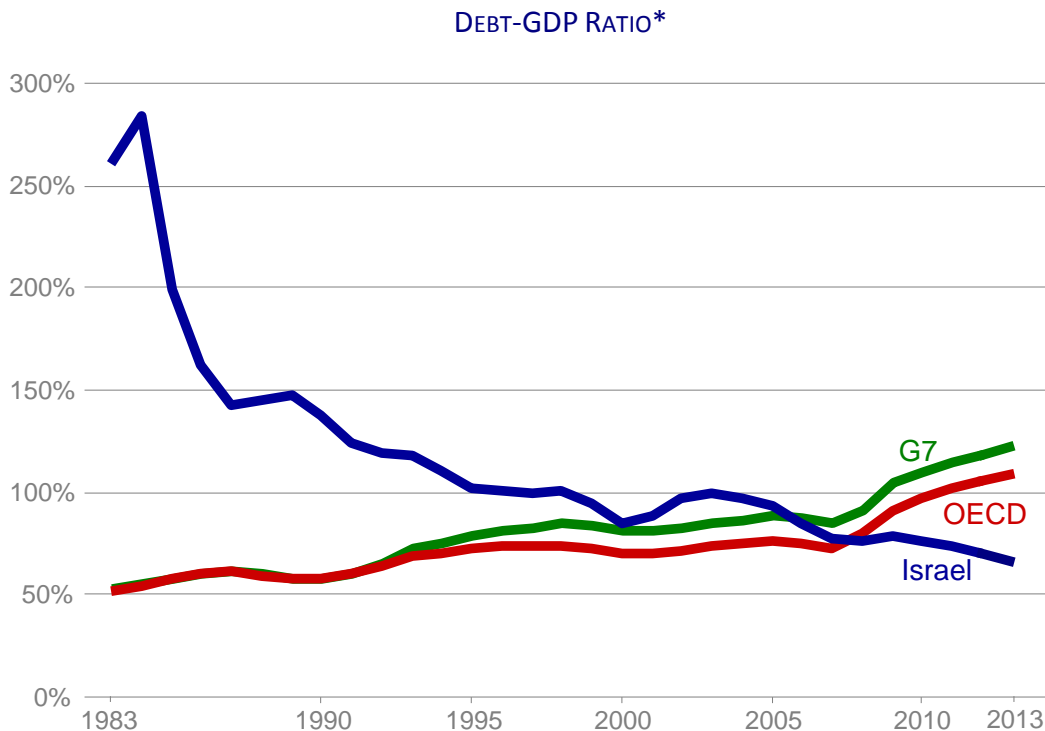
Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

OECD and Israel switch places in debt-GDP ratio

Israel's macroeconomic policies until the mid-1980s were so problematic that the government's extraordinarily high spending led to triple digit inflation – reaching 450 percent inflation in 1984, the peak year, and threatening the economic viability of the country.

A far-reaching and enormously successful stabilization program was adopted that helped the country implement a dramatic change in direction in 1985, moving back from the brink and retaining the ability to repay its debts.



* OECD projections for 2012 and 2013

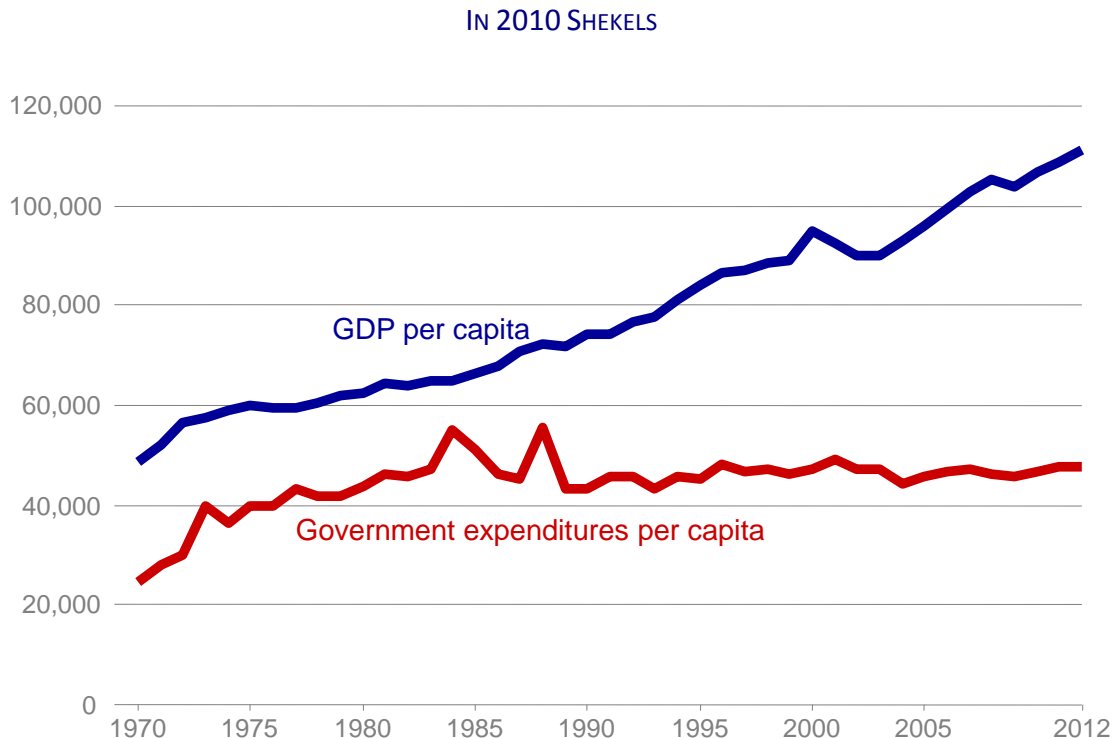
Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: Bank of Israel, *OECD Economic Outlook*

Public spending per person steady since mid-1980s

While Israel's overall economic output per person has steadily increased since the mid-1980s, the stabilization plan meant that successive governments kept a lid on public expenditures.

This resulted in almost no change in real (i.e., after discounting inflation) government spending per capita, and a subsequent steady multi-decade decline in Israel's debt-GDP ratio.



Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

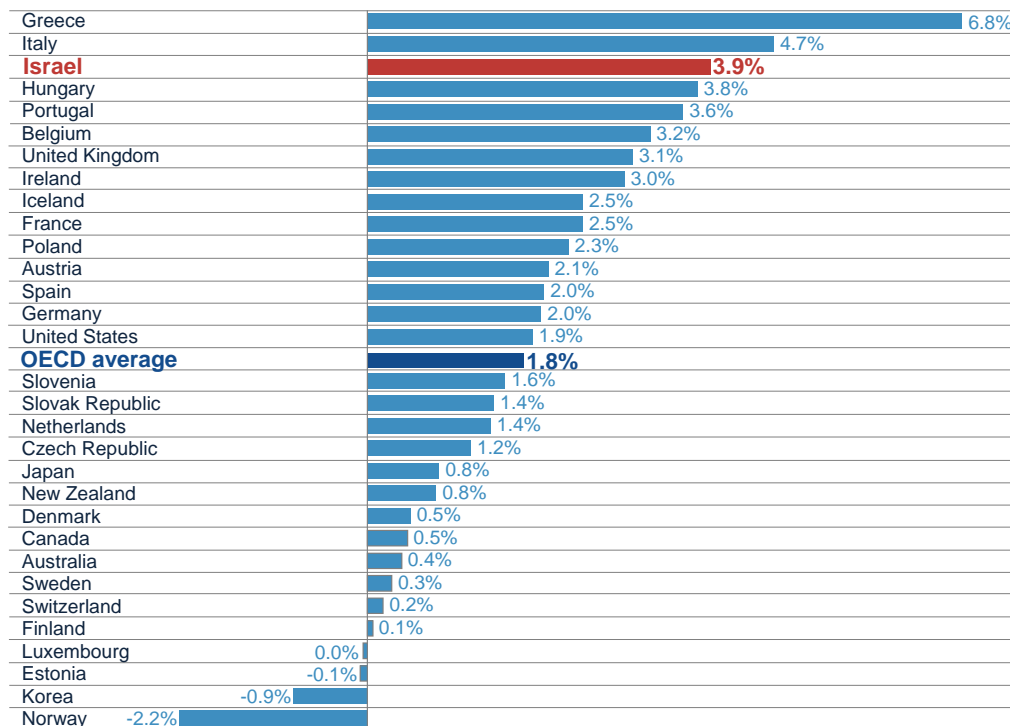
Data: Ministry of Finance, Central Bureau of Statistics

High interest payments on relatively low Israeli government debt

Despite Israel's currently low debt-GDP ratio, the long-run interest rates that Israel borrows at today are still very high – in some cases, double – the rates charged to countries with substantially higher debt-GDP ratios. Consequently, Israel's net interest payments relative to its GDP are still much higher than the OECD average.

In other words, Israel has a considerably smaller margin of error than do other countries when it comes to fiscal policy and debt creation.

NET INTEREST PAYMENTS ON GOVERNMENT DEBT AS PERCENT OF GDP, 2011

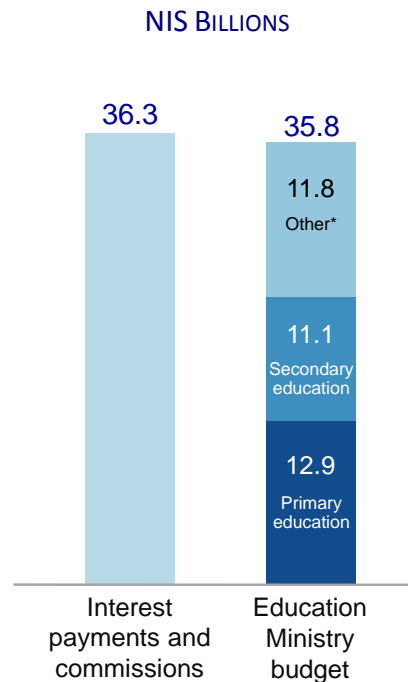


Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: Bank of Israel, *OECD Economic Outlook*

Interest payments exceed Israel's entire education budget

In 2011, Israel's interest payments reached NIS 36.3 billion. This is 51 percent greater than the country's entire primary and secondary school budget, and exceeds the entire education budget.



* Preschools, Haredi education, administration, and other

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

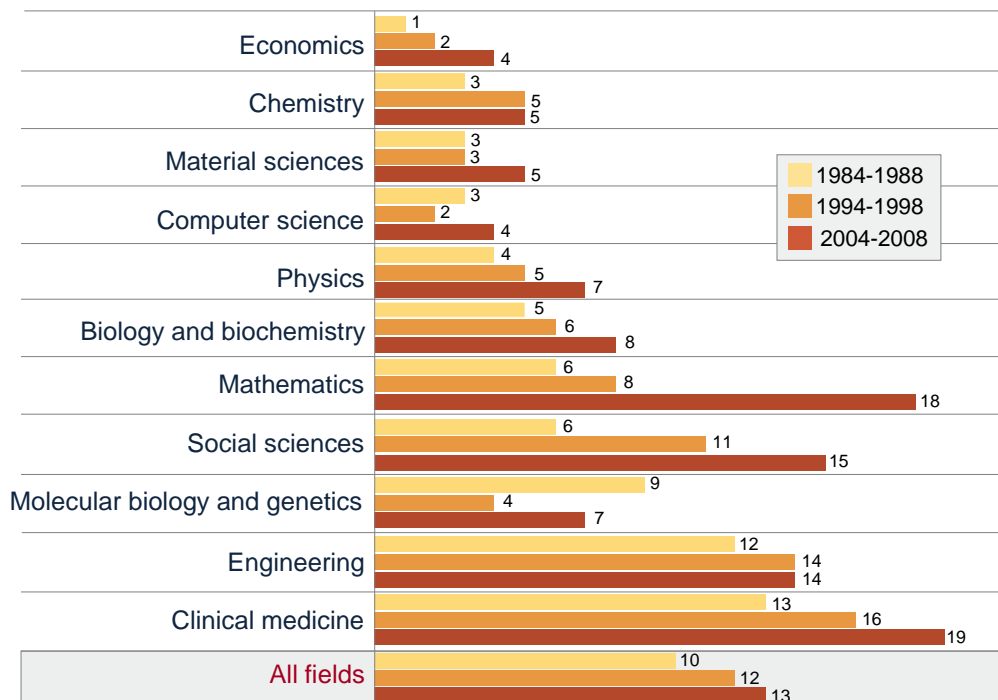
Data: Ministry of Finance

Israel's universities among the best in the world

The principal determinant of economic growth is productivity. Productivity is driven by innovation, something that Israel has in abundance – both in the area of basic, academic research and in the business sector.

The number of citations of academic articles written by Israelis is among the highest in the world – a very important indicator of originality and importance. Furthermore, six Israelis have received Nobel Prizes in the sciences over the past decade.

ISRAEL'S ACADEMIC RANKING*



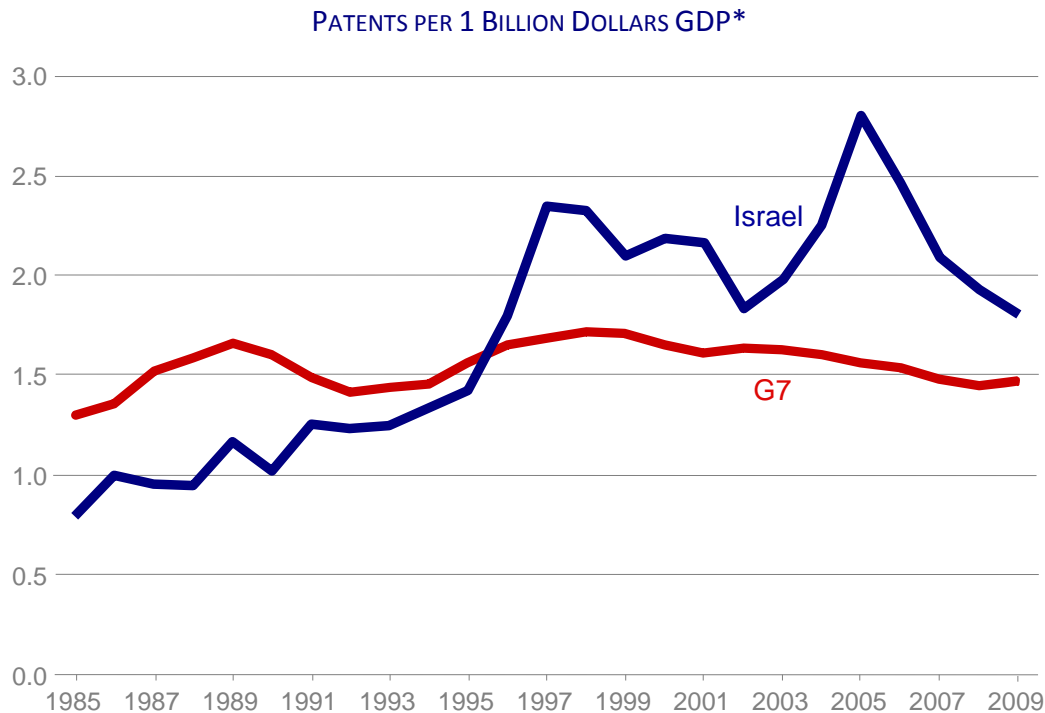
* Ranking of all countries by citations per article

Source: Uri Kirsh

Data: ISI Web of Knowledge

Israel among world's most innovative countries

Innovation in the business sector is difficult to quantify, but one indicator in this area is patents. The number of patents (relative to country size) filed by Israelis has increased steadily since the mid-1980s, and Israel overtook the leading G7 countries in the mid-1990s. Since then, Israel has remained above the G7.



* Patents filed in US, EU, and Japan. GDP in constant 2005 PPP-adjusted dollars

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

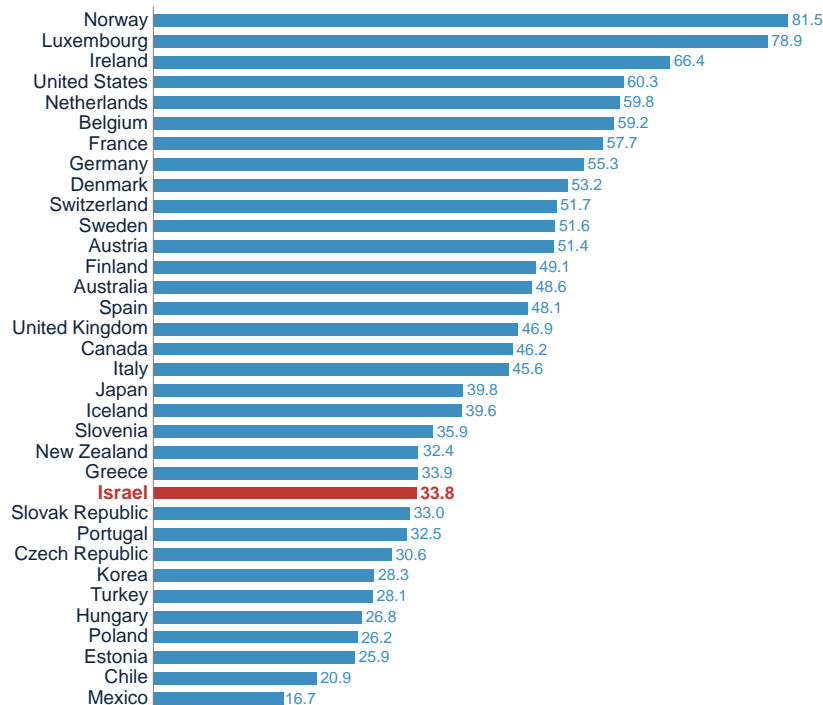
Data: OECD, World Bank

Despite Israel's high level of innovation, it has low labor productivity

Economic growth over the long run is determined by productivity improvements. Labor productivity is defined as the average amount of GDP produced in one hour of work. The more output that is produced in one hour, the greater the potential for higher hourly wages.

In 2011, Israel's labor productivity was lower than the labor productivity in 23 of the OECD countries – with all of the attendant implications that this has on incomes in the economy.

GDP PER HOURS WORKED*, 2011



* GDP per work-hour in current PPP-adjusted dollars

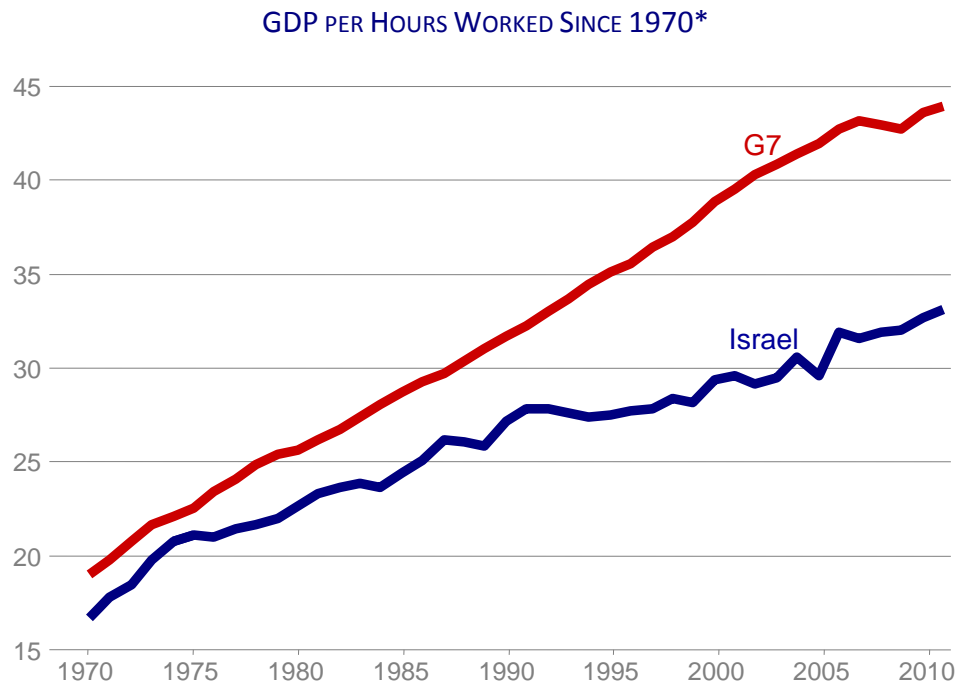
Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD

Productivity in Israel is steadily falling behind leading Western countries

In the G7 countries, labor productivity has increased at a very steady pace for three and a half decades, although it slowed with the onset of the massive recession in these countries. Labor productivity in Israel – which was close to the G7 average in the mid-1970s – has been falling further and further behind in relative terms for most of the past four decades.

A country's physical and human capital infrastructures are key to creating the productivity improvements necessary for economic growth, and in Israel, there are serious issues that need to be addressed in both areas.



* GDP per work-hour in 2005 PPP-adjusted dollars

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics, Bank of Israel, OECD

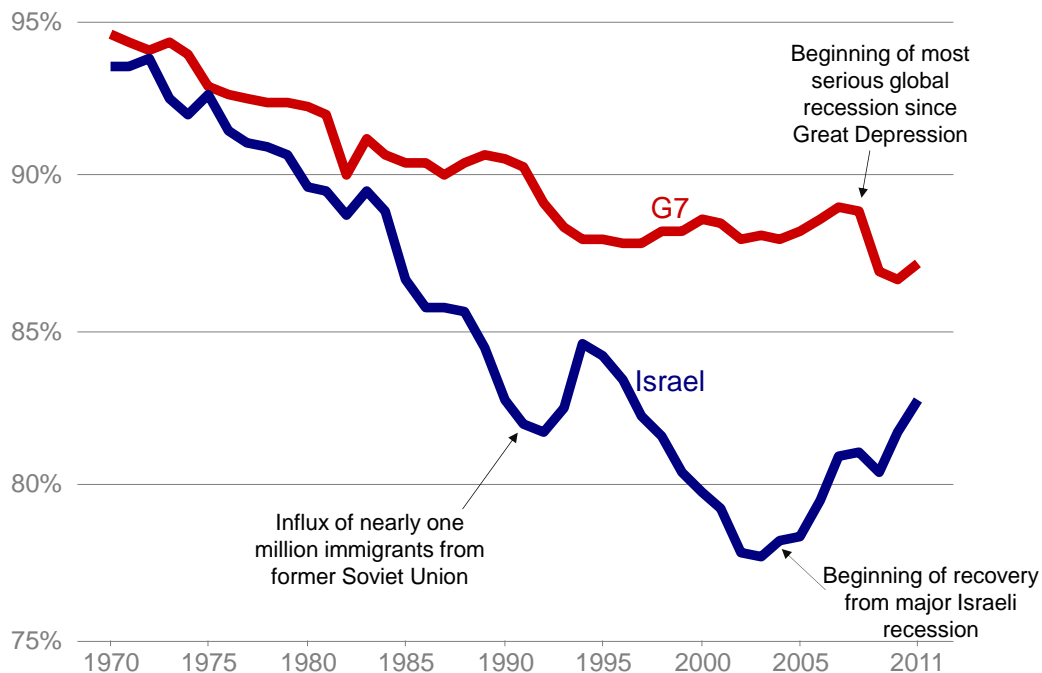
Male employment declining more quickly in Israel than in G7

Four decades ago, in 1970, male employment rates in both the G7 and in Israel were nearly identical, with a high of over 90 percent of the prime working age men.

Employment rates then fell in the G7, leveling off in the mid-nineties and falling sharply in recent years with the onset of the recession. Employment rates in Israel fell much more quickly and much further.

The current gap in employment, between the Israel recovering from its deep recession a decade ago and the G7 in the depths of its own recession, is still considerably larger than the employment gaps that existed four decades ago.

MALE EMPLOYMENT RATES, 35-54 YEAR-OLDS

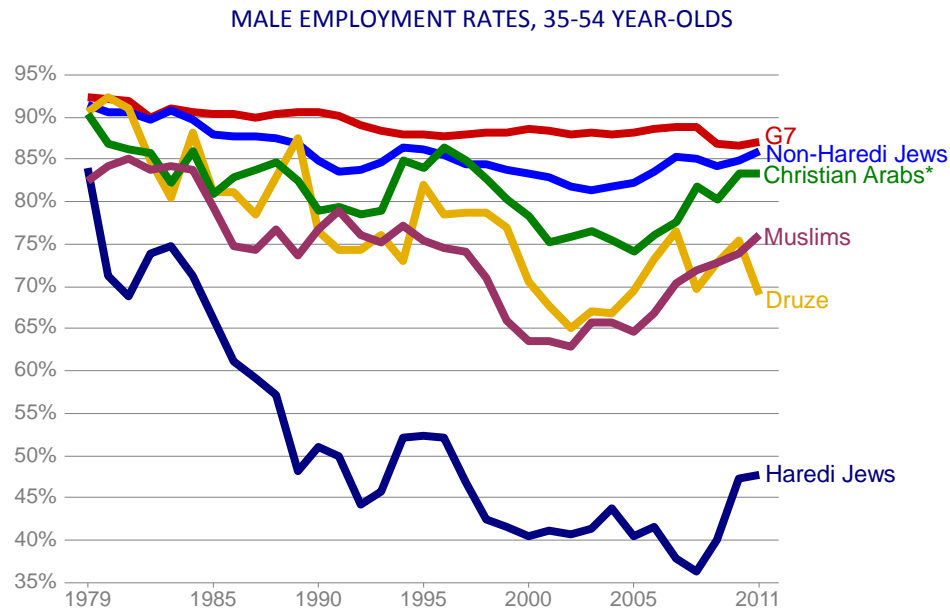


Source: Dan Ben-David and Eitan Regev, Taub Center

Data: Central Bureau of Statistics, OECD

Employment gaps formed between different male populations

Israel's employment problems cut across all of its population groups. The largest employment declines have been among Israel's Muslim, Druze and Haredi (ultra-Orthodox Jewish) men. This is in spite of some recovery in recent years amongst nearly all of the groups as Israel emerges from its deep recession of a decade ago.



* Distinction between Christian Arabs and other Christians is only from 2000

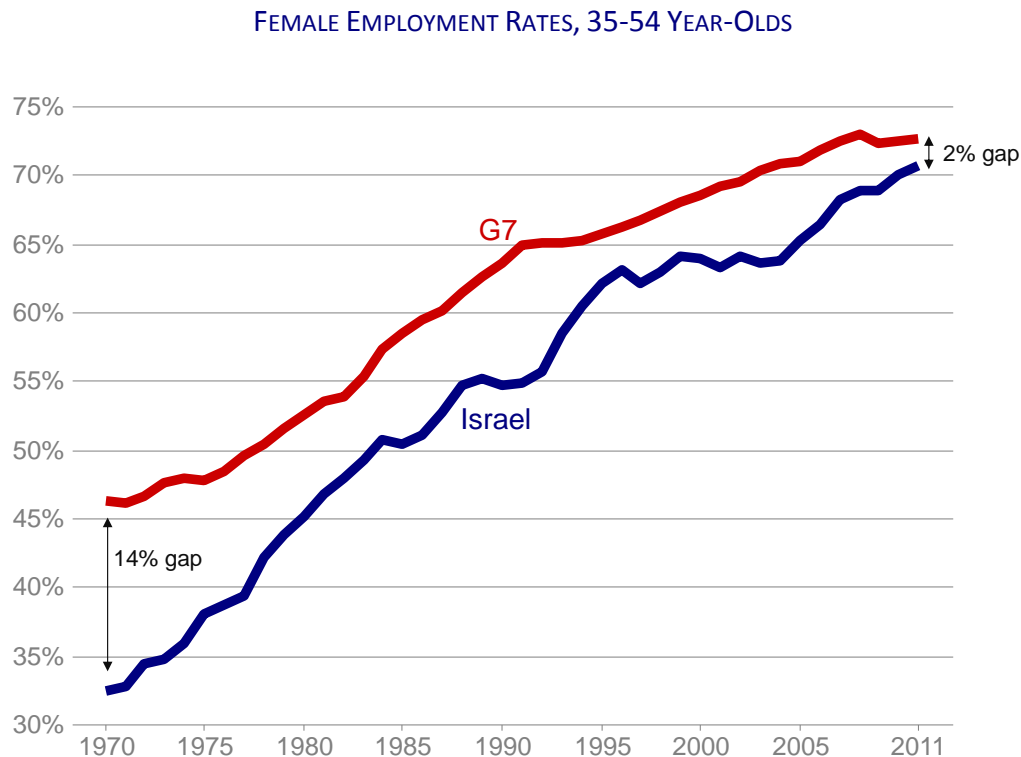
Source: Dan Ben-David and Eitan Regev, Taub Center

Data: Central Bureau of Statistics

Female employment rising more quickly in Israel than in G7

In contrast with the situation among men, employment rates among prime working age women – in Israel and in the G7 – have been steadily increasing over the past four decades.

The faster rate of increase in Israeli female employment led to a reduction in employment gaps between the G7 countries and Israel from 14 percentage points in 1970 to 2 percentage points in 2011.



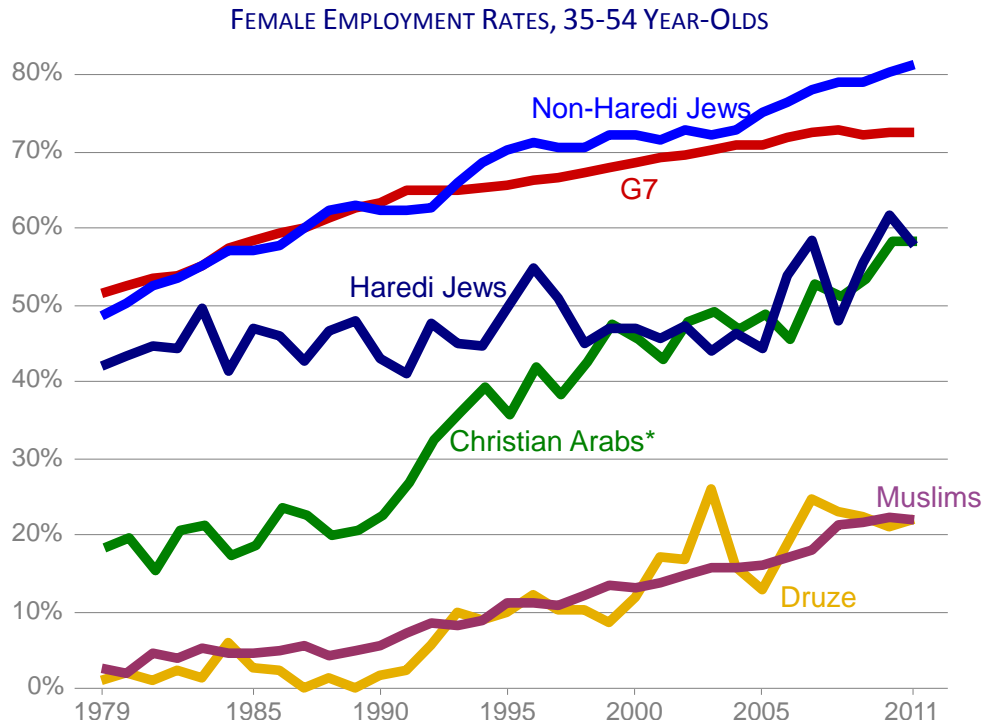
Source: Dan Ben-David and Eitan Regev, Taub Center

Data: Central Bureau of Statistics, OECD

Employment rising in all female populations

Employment rates among non-Haredi Jewish women were similar to G7 employment rates until the early nineties. Since then, employment rates among these women have been higher than in the leading Western countries – with the gap steadily increasing as the Israeli women extend their lead. The once very low employment rates among Muslim, Druze, and Christian Arab women have been rising much more quickly than G7 rates, steadily decreasing the gaps with the leading Western countries.

Three decades ago, employment rates among Haredi women were relatively high and close to those of non-Haredi Jewish women. Unlike other groups, there have been few changes in the employment of Haredi women for about a quarter century and their employment rates have only begun to rise in recent years.



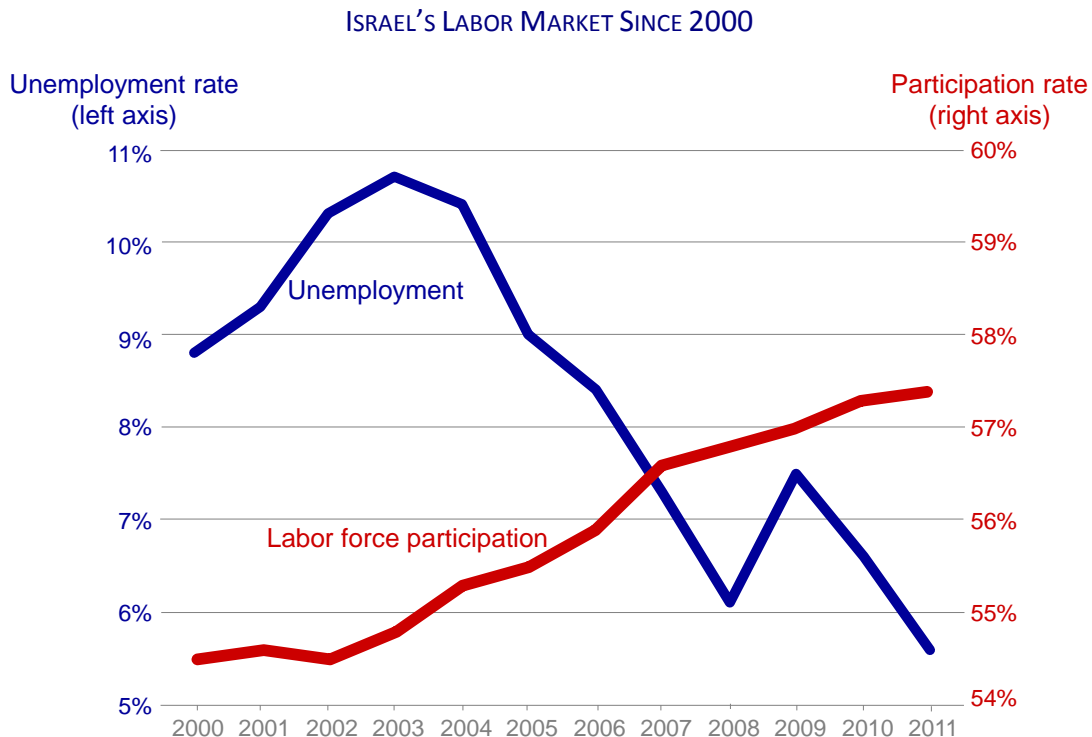
* Distinction between Christian Arabs and other Christians is only from 2000

Source: Dan Ben-David and Eitan Regev, Taub Center

Data: Central Bureau of Statistics

Labor participation up, unemployment down in recent decade

The improvement in employment rates since Israel's major recession a decade ago reflects two underlying developments. The share of the working-age population participating in the labor force has risen since 2002. In addition, as of 2003, the share of labor force participants unable to find employment – as rates of unemployment are defined – has been in decline.



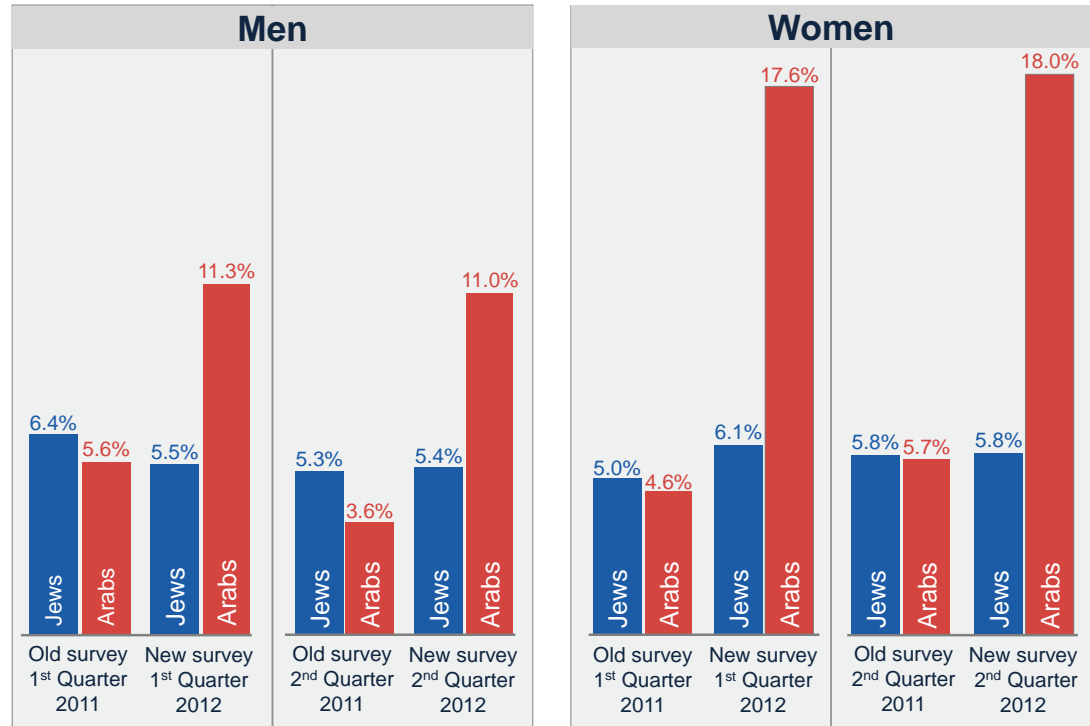
Source: Eran Yashiv, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD, Central Bureau of Statistics

Arab Israeli unemployment rates 2-3 times higher than previously thought

In 2012, Israel's Central Bureau of Statistics improved its labor force survey methodology. One of these improvements involved more accurate coverage of smaller towns and villages. These changes resulted in substantial differences in the unemployment data for Arab Israeli men and women. Initial results from the first two quarters of 2012 suggest that unemployment rates among Arab Israeli men are about twice what they were thought to be, while unemployment rates among Arab Israeli women are roughly three times higher.

UNEMPLOYMENT RATES



Source: Eran Yashiv, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

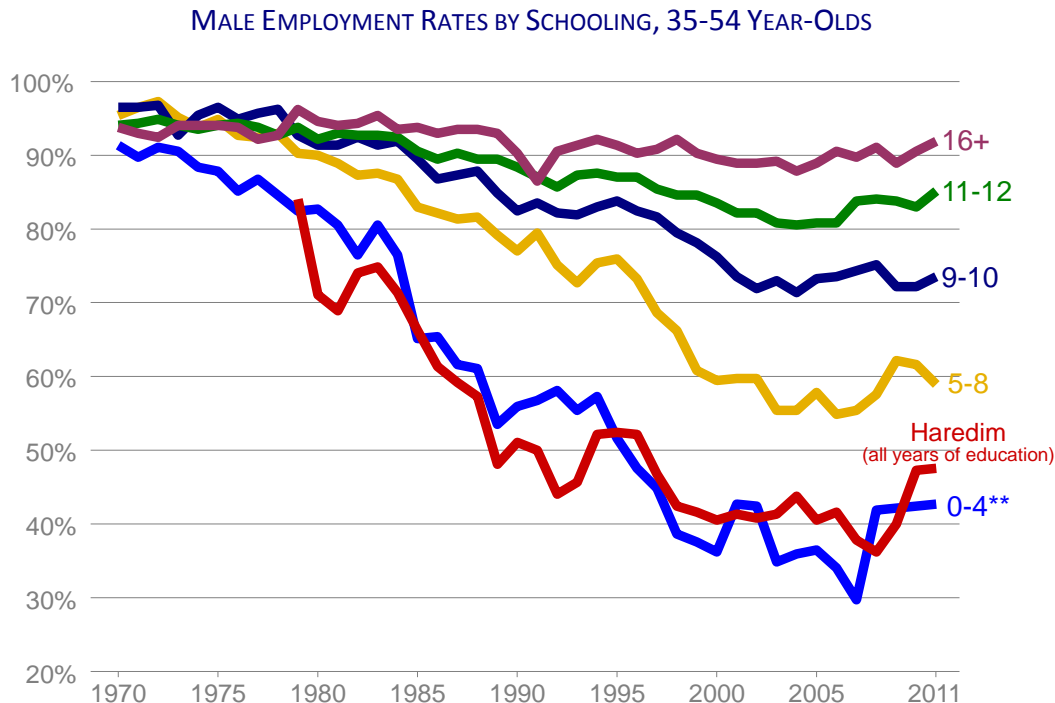
EMPLOYMENT AND EDUCATION

As an economy develops, the demand for educated and skilled workers rises while the relative demand for less educated and less skilled workers declines. A person's level of education has broad implications for employment opportunities and incomes on a personal level and on productivity, growth, and income gaps at the national level.

Male employment declining fastest among the least educated

The lower the educational level of prime working age men (35-54 year-olds), the more rapid and greater the decline over time in their employment rates.

Haredi men do not study any core curriculum subjects beyond eighth grade; what they do study is minimal at best. Haredi rates of employment – for all years of study – closely mimic the rates of employment among the least educated Israelis for the past 33 years.



* 1970-1978 includes Haredim, 1979-2011 excludes Haredim

**1-4 years of education for 1970-1978

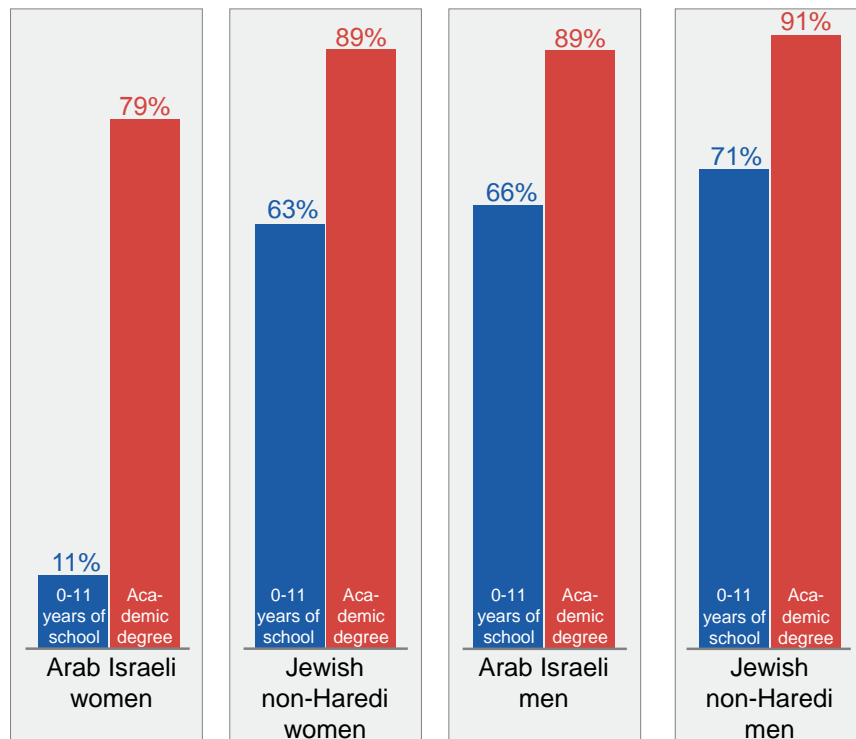
Source: Dan Ben-David, *State of the Nation Reports 2010-2012*, Taub Center

Data: Central Bureau of Statistics

Education's effect on employment cuts across gender and religion

Among all population groups in Israel – Jews and Arabs, men and women – those with an academic education have substantially higher employment rates than those who did not complete high school. The difference is particularly pronounced among Arab Israeli women.

EMPLOYMENT RATES, 35-54 YEAR-OLDS, 2011

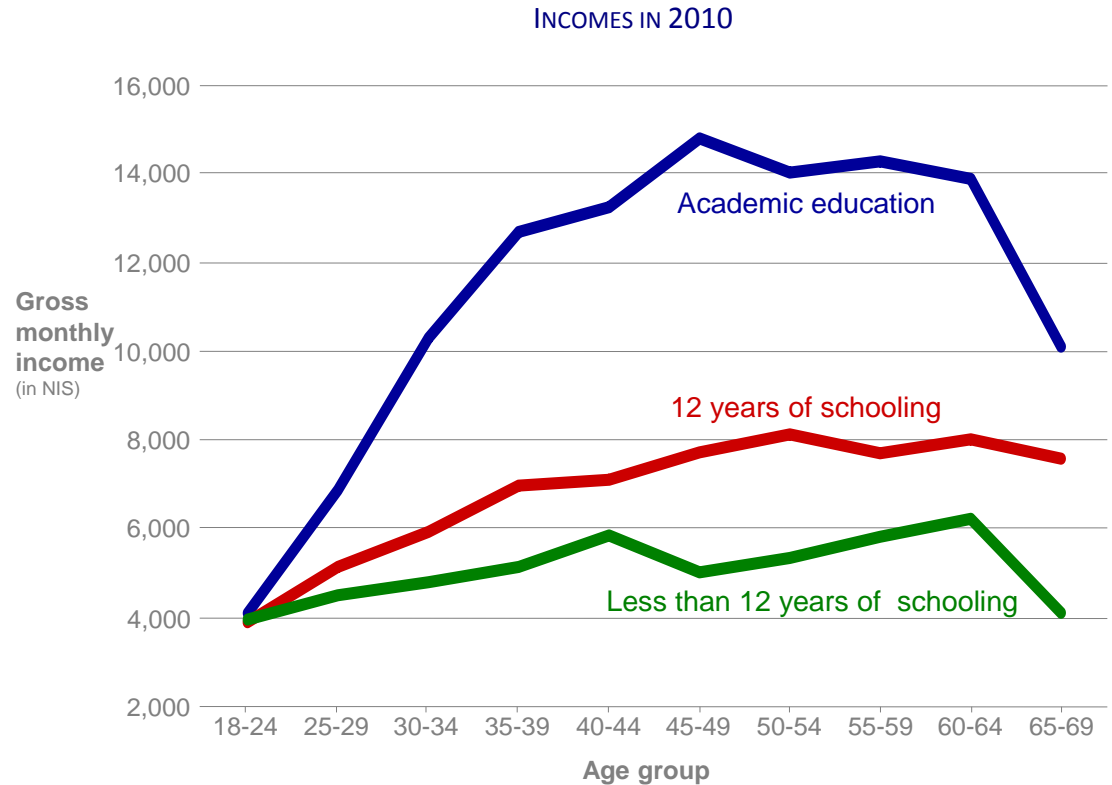


Source: Dan Ben-David, *State of the Nation Reports 2010-2012*, Taub Center

Data: Central Bureau of Statistics

More education equals higher incomes

As age – and, presumably, work experience – increase, the average incomes of all education groups rise. Those with successively higher education levels show a steadily growing income advantage. In the ages close to retirement, monthly income begins to decline in all groups.



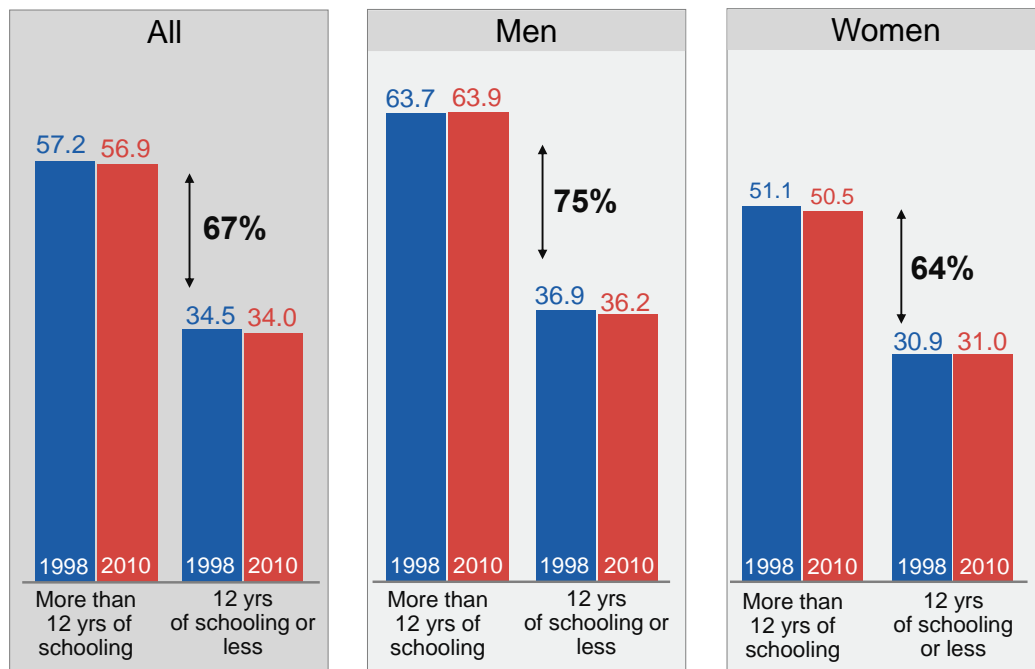
Source: Dan Ben-David, *State of the Nation Reports 2009*, Taub Center (updated)

Data: Central Bureau of Statistics

Education is greater source of wage gaps than gender

The wage gaps that exist between workers of different education levels dwarf even the male-female wage gaps. While there is a 17 percent gap in hourly wages between men and women with comparable levels of education, workers with over 12 years of schooling earn 67 percent more than workers with less than 12 years of schooling.

GROSS WAGE PER WORK HOUR FOR SALARIED WORKERS, 2010 NIS

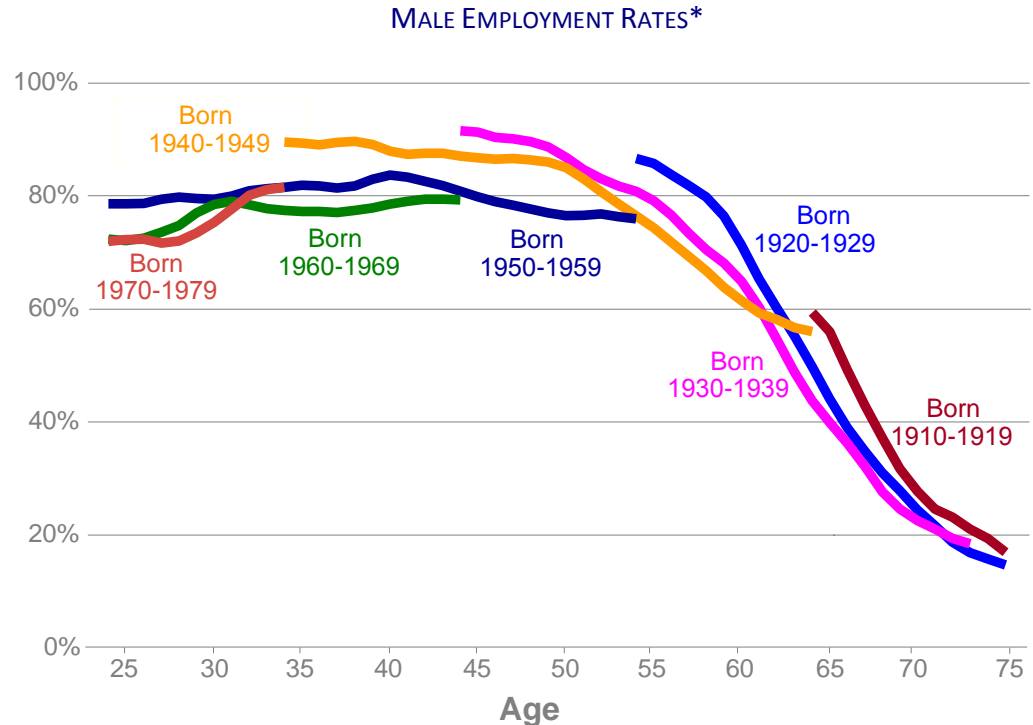


Source: Ayal Kimhi, Taub Center and Hebrew University

Data: Central Bureau of Statistics

Successive generations of men work less than previous generations

In general, male employment rates rise until age 40, and then begin to decline. This is true for each generation. However, there is also a decline in male employment rates from generation to generation, as indicated by the curves starting and remaining lower (at each age) for each subsequent generation. This change in behavior appears to be related to education, particularly among men who are middle-aged and older.



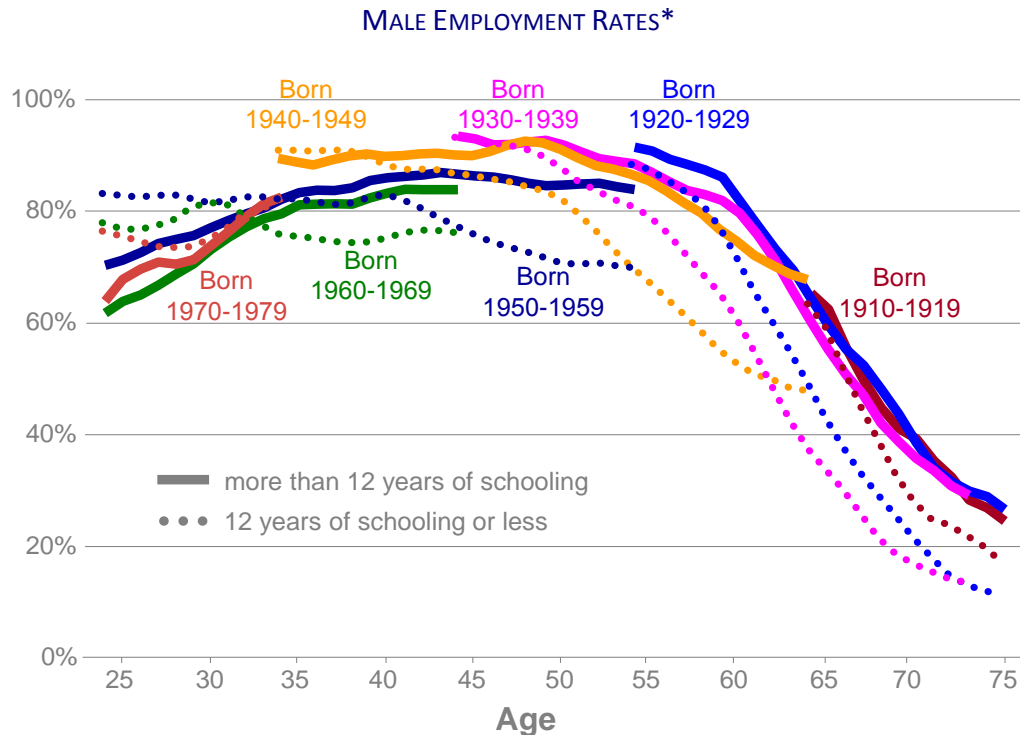
* 3-year moving average

Source: Ayal Kimhi, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Lower levels of education yield lower male employment in all generations

Older generations with more than 12 years of schooling have similar employment rates at different ages. Younger generations with more than 12 years of schooling have successively lower employment rates. In each generation, men with 12 years of schooling or less have lower employment rates than men with comparable education levels in each previous generation. As a result, male employment rates have been falling from generation to generation.



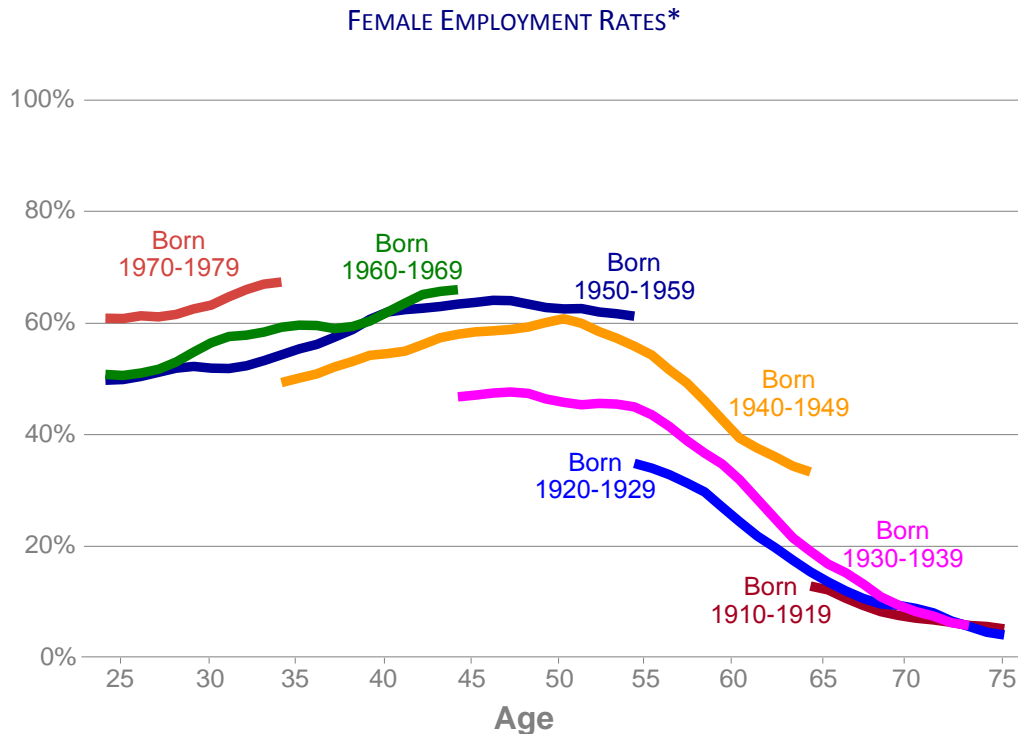
* 3-year moving average

Source: Ayal Kimhi, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Each generation of women works more than the previous generation

Each generation of females has higher employment rates than the previous generation. Nevertheless, employment rates among females, regardless of their level of education, are still considerably lower than among their male counterparts.



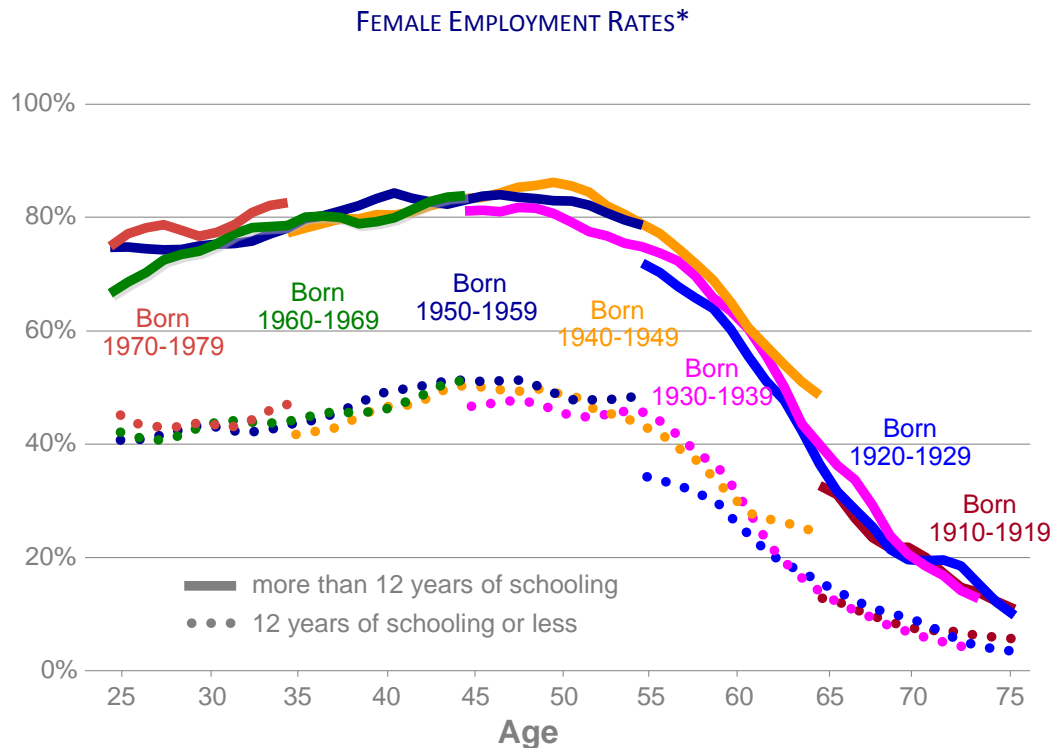
* 3-year moving average

Source: Ayal Kimhi, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Higher education levels are behind increasing female employment

Since the 1940s, generations of women have had similar employment rates when they are divided by education level. On the face of it, this would seem to indicate no change in behavior over time. However, the share of females with more than 12 years of schooling has been rising over time, so national employment rates among women have been rising from generation to generation.



* 3-year moving average

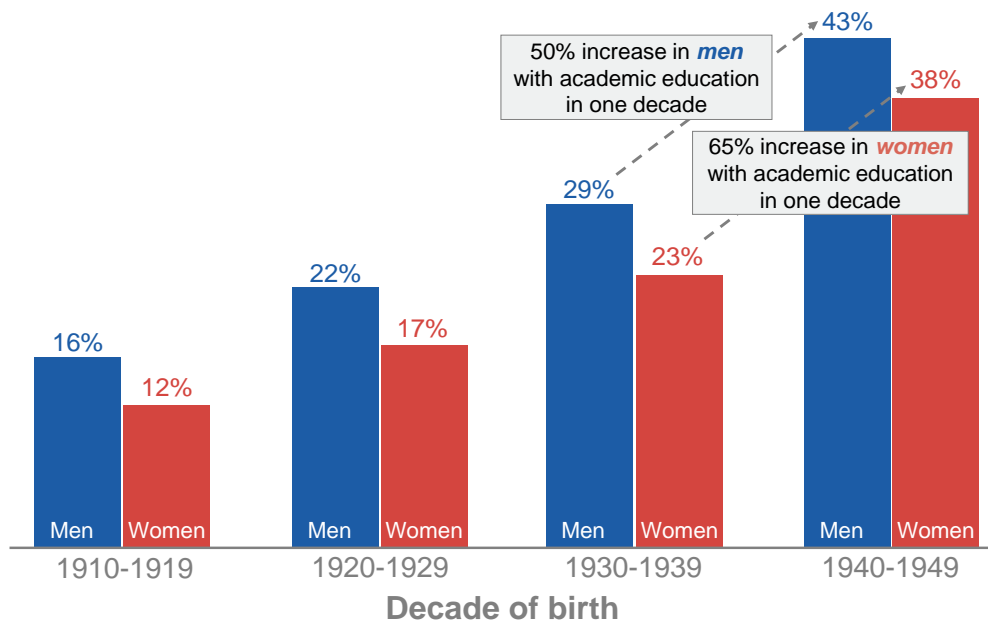
Source: Ayal Kimhi, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Successive generations of 64 year-olds are more educated

One of the most impressive changes to have taken place in Israel over the last few decades is the increased accessibility of higher education. Only 16 percent of the 64 year-old men – and 12 percent of the women – born between 1910 and 1919 had more than 12 years of schooling. These rates rose to 43 and 38 percent, respectively, for those born in the 1940s.

FRACTION OF 64 YEAR-OLDS WITH MORE THAN 12 YEARS OF SCHOOLING



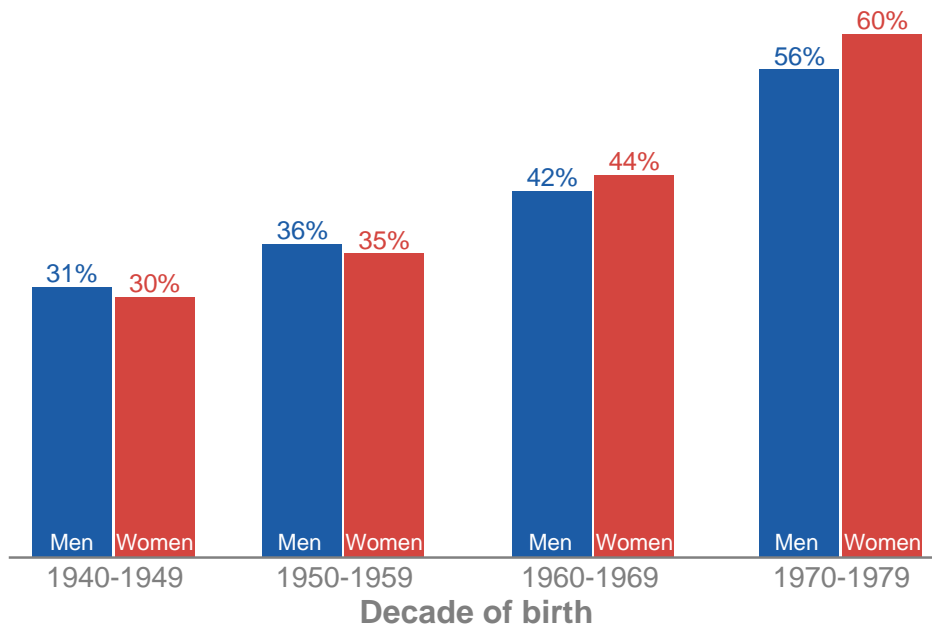
Source: Ayal Kimhi, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Each generation of 34 year-olds is more educated than the previous generation

The share of individuals with more than 12 years of schooling also rose from generation to generation among 34 year-olds. Less than a third of the 34 year-olds born in the 1940s had more than 12 years of schooling while over half of the 34 year-olds born in the 1970s achieved this level of education.

FRACTION OF 34 YEAR-OLDS WITH MORE THAN 12 YEARS OF SCHOOLING



Source: Ayal Kimhi, *State of the Nation Report 2011-2012*, Taub Center
Data: Central Bureau of Statistics

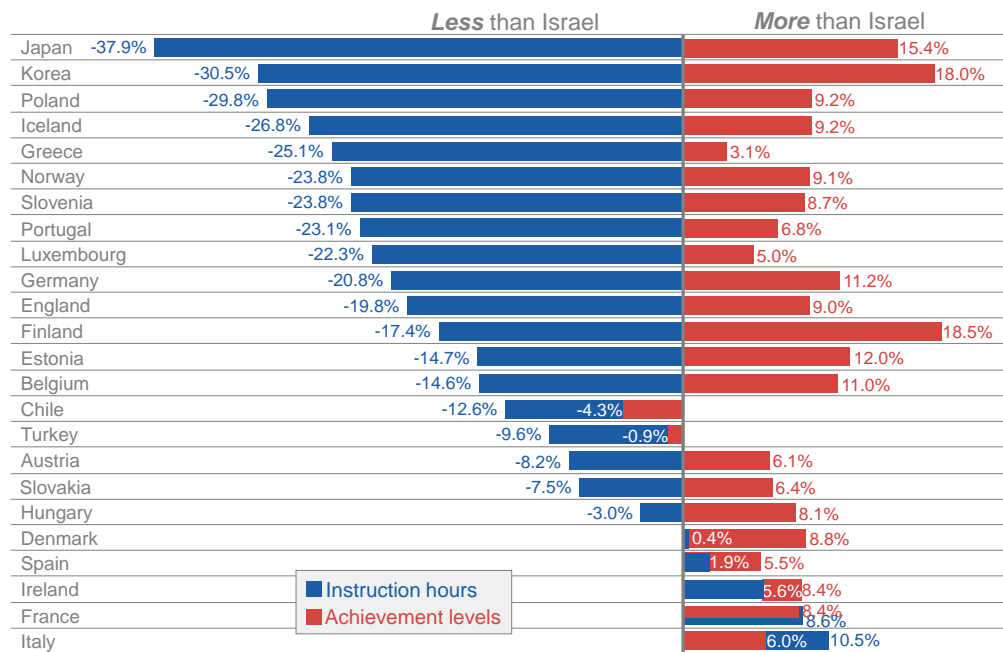
EDUCATION

The need for education reform in the country is urgent in light of the very problematic long-run socioeconomic trajectories that Israel is situated on and given the future socioeconomic implications of the current state of the education system.

Extra instruction hours in Israel do not yield greater educational achievement

In 19 of the 24 OECD countries for which there is data on both instructional hours and educational achievements in core subjects, pupils received fewer instructional hours than the children of Israel. However, in 17 of these 19 countries, levels of achievement were higher than in Israel.

INSTRUCTION HOURS AND ACHIEVEMENT RELATIVE TO ISRAEL, 2009*



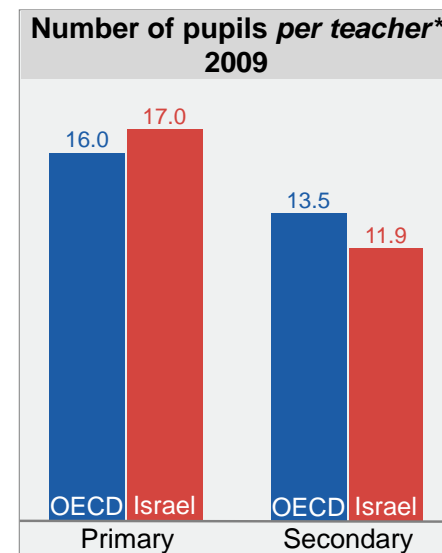
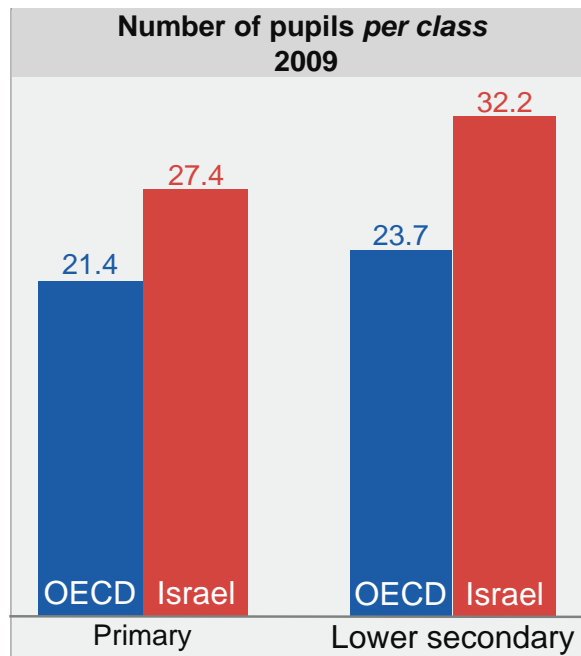
* Cumulative number of intended instruction hours for 7-15 year-olds and average achievement levels in math, science and reading in PISA 2009

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center (updated)

Data: OECD, PISA

More crowded classes, but same number of pupils per teacher

Class sizes were larger in Israel than in the OECD in 2009. On the other hand, the number of pupils per teacher (in terms of full-time equivalents) in Israel's primary school system (17.0) exceeded the OECD number by just one pupil. In secondary schools, there are actually fewer pupils per teacher in Israel (11.9) than the OECD average (13.5). This is because although there are more teachers in Israeli schools, they work fewer hours than their OECD counterparts.



* According to full-time equivalents

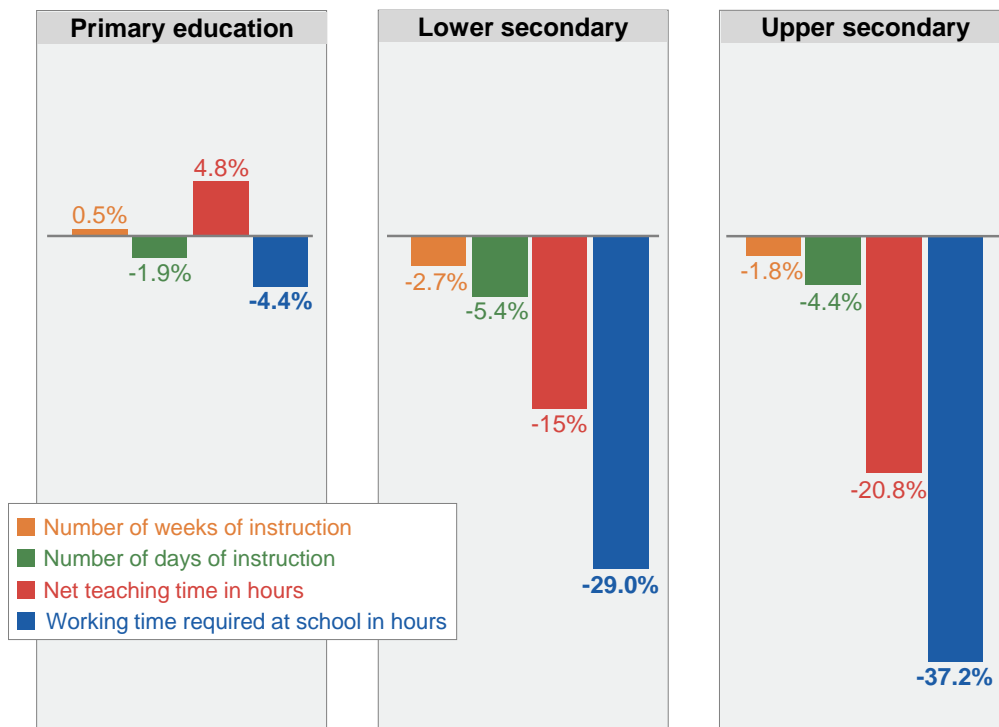
Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center (updated)

Data: OECD

Israeli teachers work fewer hours in school year

There appear to be some major discrepancies in the amount of teachers' working time over the school year. In all three levels of education – primary, lower secondary, and upper secondary – the number of weeks of instruction in Israel is roughly the same as in the OECD. On the other hand, the number of days of instruction in Israel is lower than in the OECD, net teaching time in hours over the school year is higher in primary schools, but substantially less in secondary schools. The number of hours that teachers are required to work in all Israeli schools is considerably below the OECD average.

PERCENT DIFFERENCE BETWEEN ISRAEL AND OECD AVERAGE*, 2009



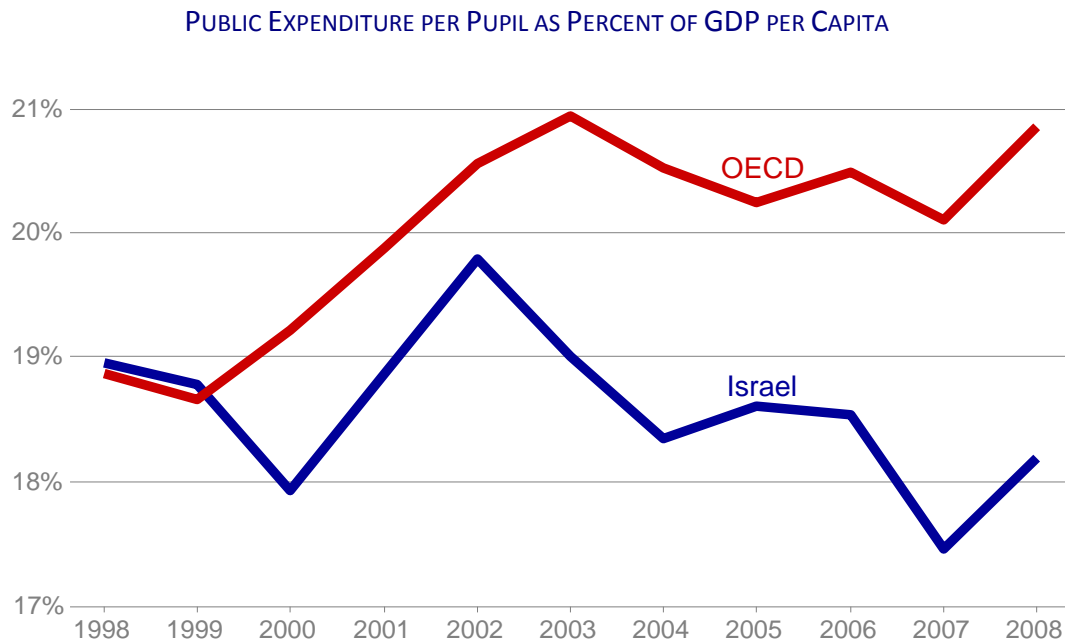
* In public institutions

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD

Education expenditure gap has opened between OECD and Israel

Education expenditures per pupil in Israel and in the OECD – after accounting for differences in living standards as reflected by GDP per capita – were generally similar in 1998. Since then, spending in Israel has fallen while education spending in the OECD countries has risen.

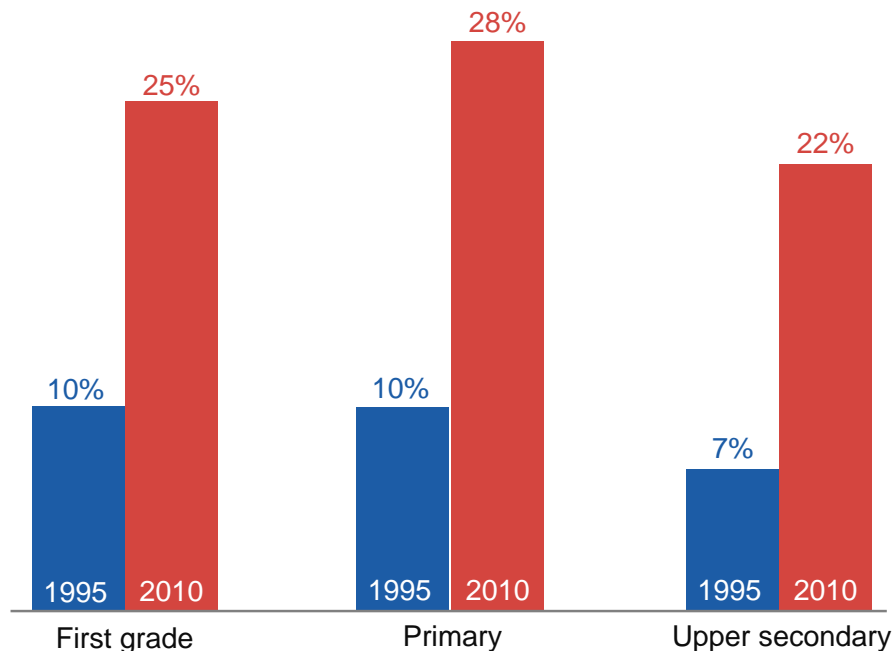


Source: Nachum Blass, *State of the Nation Report 2011-2012*, Taub Center
Data: OECD

Haredi share of Jewish pupils 2.5-3 times higher than in 1995

Differences in fertility rates and the number of children per family are leading to some major changes in the composition of pupils in Israel's education system. In particular, the Haredi educational stream's share among all segments of Jewish education in Israel has expanded considerably over the past decade and a half – with a slight reduction in this rate of expansion during the past 2-3 years.

CHILDREN IN HAREDI SCHOOLS OUT OF ALL JEWISH PUPILS

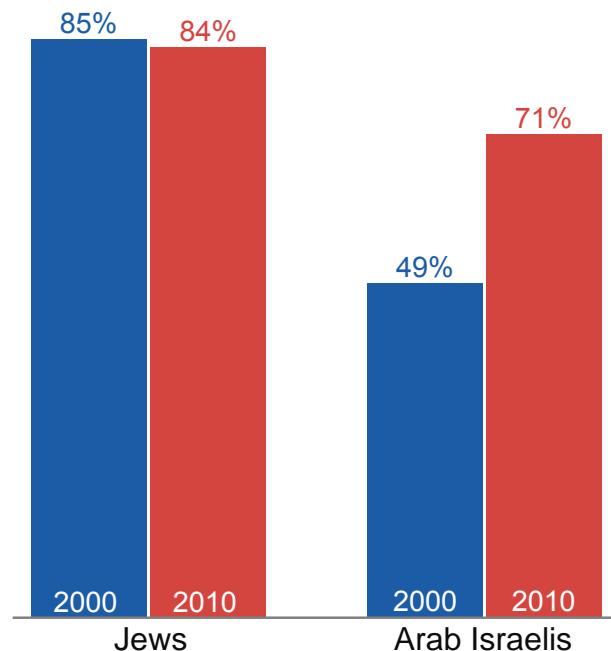


Source: Nachum Blass and Haim Bleikh, *State of the Nation Report 2011-2012*, Taub Center
Data: Central Bureau of Statistics

Rise in preschool attendance among Arab Israeli children

A large share of Jewish children attend preschool in Israel, and this share has remained relatively unchanged over the past decade. Among Arab Israeli children, there was a substantial increase over the course of the decade. The increase in attendance rates in Arab preschools was primarily due to increased awareness of the importance of early childhood education and the implementation of the Compulsory Education Law for ages 3-4 among this population.

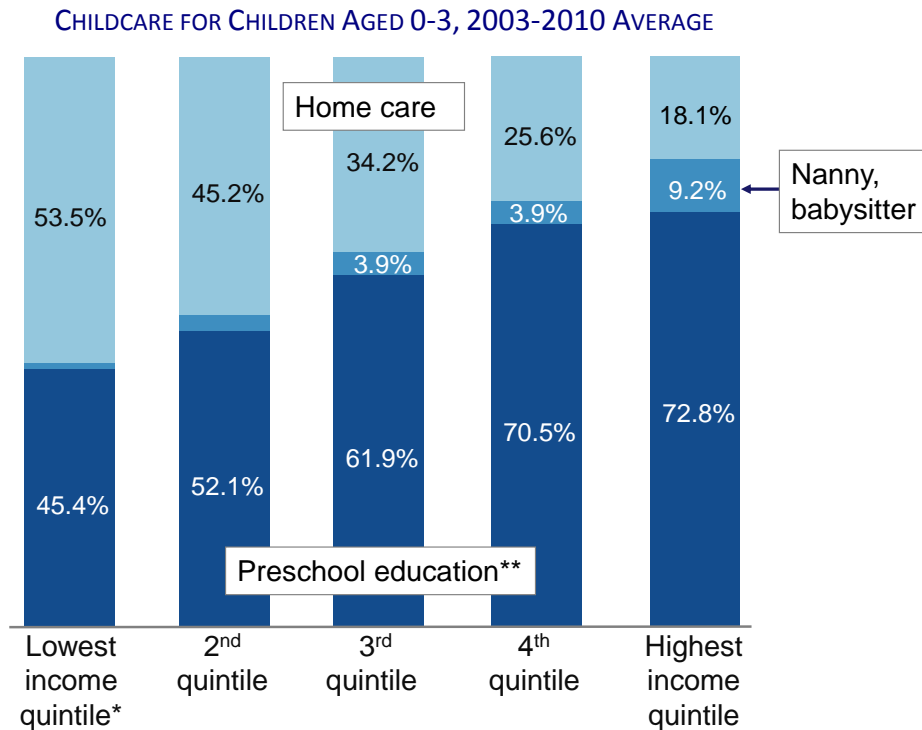
SHARE OF 3-5 YEAR-OLDS IN PRESCHOOL



Source: Nachum Blass and Haim Bleikh, *Pre-Primary Education in Israel* (2012),
Taub Center

Greater preschool enrollment among higher income families

The higher a family's income, the greater the enrollment in preschools, the more use is made of a nanny at home – and the less use is made of internal domestic arrangements.



* Quintiles by net monetary income per standard person

**Private preschools, day care, pre-compulsory preschool, Haredi *heder*

Source: Nachum Blass and Kyrill Shraberman, *State of the Nation Report 2011-2012*, Taub Center

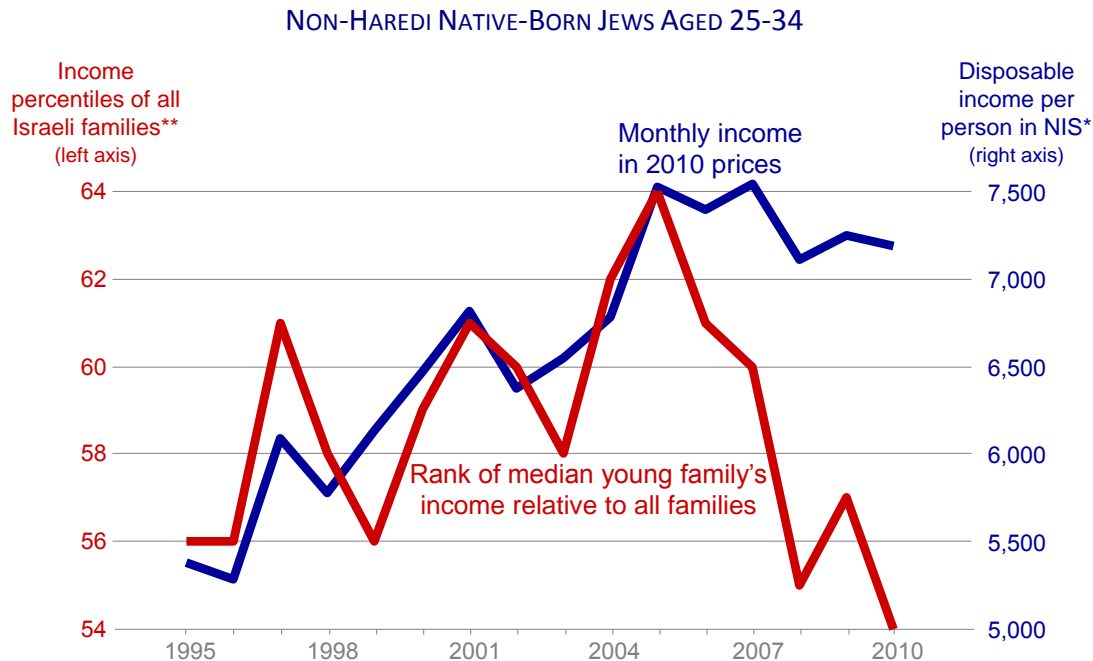
Data: Central Bureau of Statistics

THE MIDDLE CLASS AND THE COST OF LIVING IN ISRAEL

Israel experienced widespread social protests in the summer of 2011. They peaked on a warm Saturday evening when 400,000 protestors out of a population of under 8 million came out to the streets to protest. The mainstay of the protests were young, native-born, middle-class Israeli families who have been feeling increasingly squeezed financially. Some of this underlying discontent spilled over into the elections that took place in January 2013.

Incomes of young working families falling relative to rest of society

After rising substantially during the decade following 1995, real incomes of younger families of native-born Israeli Jews have been relatively stagnant since 2005, with a slight decline in recent years. In relative terms – that is, when compared to incomes among Israel's remaining families – there has been a substantial deterioration of roughly 10 percentage points in the position of these young families since 2005. In other words, while the median incomes of young families stayed about the same from 2005 to 2010, the incomes of other Israeli families increased more, leaving these young native-born families relatively worse off.



* Disposable income per standardized person (using OECD weights) in households headed by married salaried person aged 25-34 with children

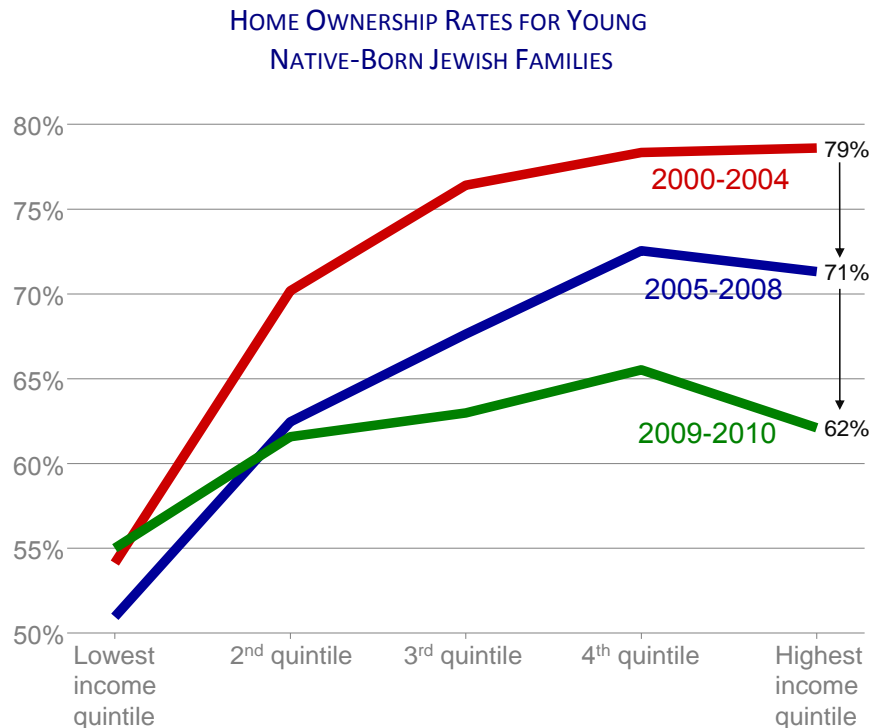
**Families headed by individuals under the age of 65

Source: Michael Shalev, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Home ownership drops among young middle- and higher-income working families

Among young families, the poorest have the lowest rates of home ownership – and this has barely changed over the past decade. During this period, however, home ownership has been declining more rapidly among successively higher-income young families. Changing social behavior among the young – delaying school, marriage, and “settling down” – is one reason for these changes. Another possible explanation is high and rising housing costs over the past decade.



* Not including Haredi families

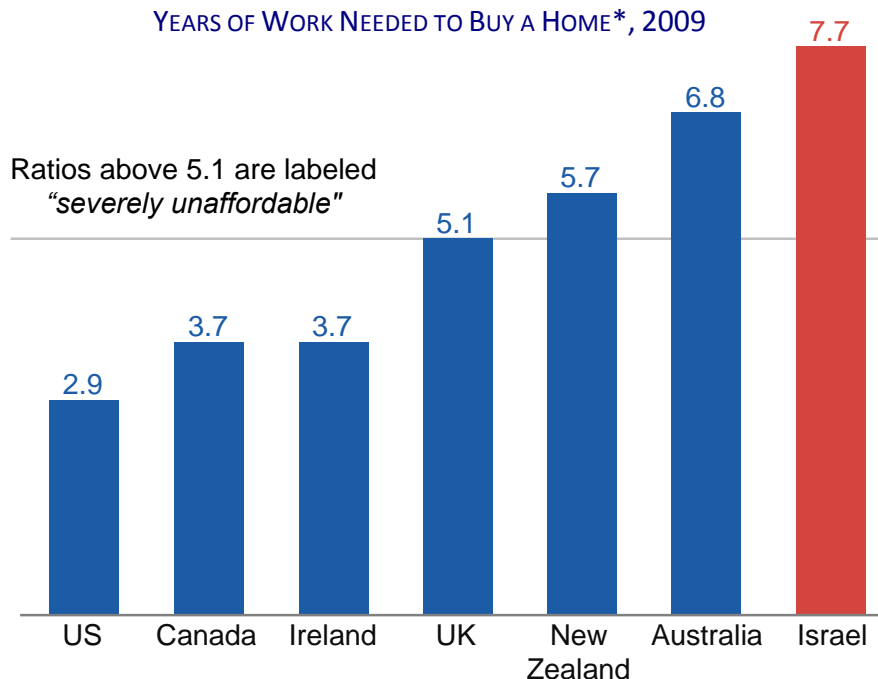
Source: Michael Shalev, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Buying a home takes more years of work in Israel

In 2009, it took 2.9 years of median income to purchase the median American home. While housing costs in Canada, Ireland, England, New Zealand, and Australia are higher – relative to income – than in the United States, housing costs in Israel are higher than in any of these countries. An Israeli needs 7.7 years of median income to purchase the median home, which is actually an apartment.

In fact, the cost of housing in Israel – relative to income – is more expensive than in 32 of England's 33 metropolitan areas (including London) and more expensive than housing in 174 of America's 175 metropolitan areas (including New York City).



* Median housing prices divided by annual median household incomes. The focus is on the representative housing price in each country rather than on specific housing characteristics (size, quality, etc.) that may differ across countries.

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

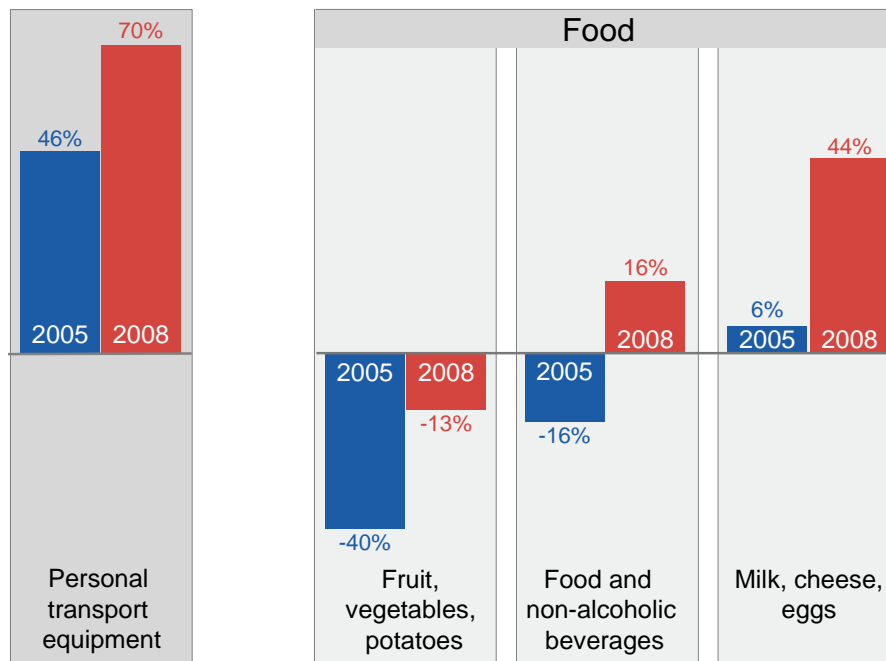
Data: Demographia International Housing Affordability Survey

Dairy products and vehicles are higher priced in Israel

In 2005, prices of dairy products in Israel were 6 percent higher than their average price in the OECD countries. By 2008, these prices were 44 percent higher in Israel. In other food areas, prices increased relative to the OECD, such that products either became more expensive or remained cheaper in Israel, but less so.

In the case of personal transport equipment, Israeli prices exceeded the OECD average by 46 percent in 2005 and by 70 percent in 2008. Limited competition within Israel along with heavy taxes combined to create this situation.

PRICES IN ISRAEL RELATIVE TO THE OECD AVERAGE*



* The difference between prices in Israel and the average OECD prices

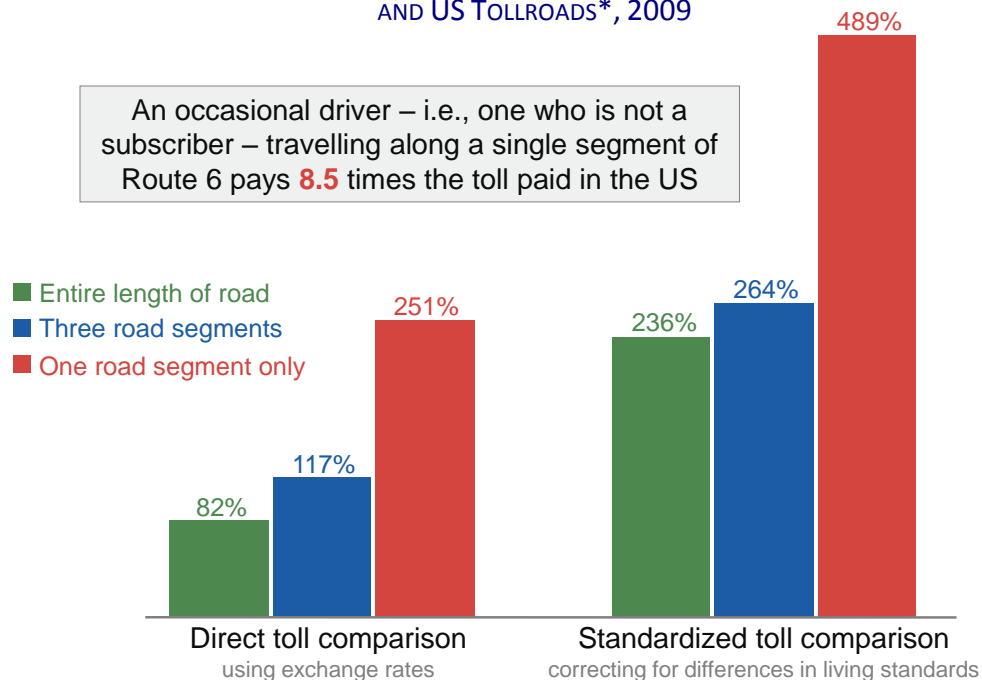
Source: Dan Ben-David and Nir Eilam, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD purchasing power parity

Road tolls in Israel are higher than in US

One way that Israel has adopted to relieve pressure on public resources in funding the construction of roads has been the extensive use of private investment. The tolls for driving on Route 6, Israel's primary north-south artery, are substantially higher than the price of driving on five of the most travelled toll roads in the United States. When income differences between the two countries are factored in, this represents an even higher cost to Israelis.

PRICE DIFFERENCES BETWEEN ISRAEL AND US TOLLROADS*, 2009



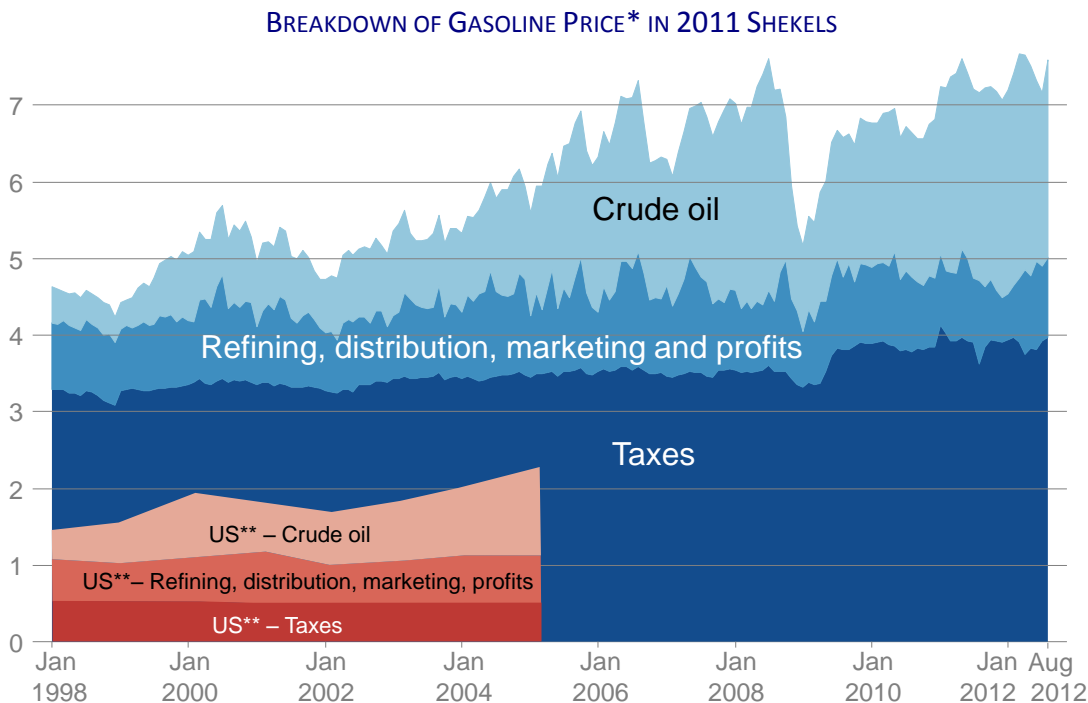
* Price difference per kilometer. Comparison of Paskal discount rate (for subscribers) to discount rates on toll roads in New York, New Jersey, Pennsylvania, Ohio, and Florida

Source: Ida, Yoram and Gal Talit, *Transportation Mobility and Its Influence on Accessibility in Israel* (2010), Taub Center

High gasoline prices in Israel due primarily to high taxes

The primary determinant of the price of gasoline in Israel is taxes, which have risen in recent years. Although the price of crude oil has gone from being a relatively negligible part to a significant element in the overall price of gas, it remains less than the taxes on each liter of gasoline.

The tax levied on a liter of gasoline in Israel was higher than the entire gas pump price in the United States and more similar to the higher end gasoline taxes paid in Western European countries.



* Gasoline price per liter, 95 octane

**Annual United States data from Kim Rueben and Sonya Hoo, "Gasoline Taxes and Rising Fuel Prices in the Aftermath of Katrina"

Source: Source: Dan Ben-David and Yulia Cogan, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics, Ministries of Finance, Energy and Water, Bank of Israel, OECD

Gasoline price components relatively more expensive in Israel

Gasoline taxes in roughly three-quarters of the countries in the table are lower than Israeli gasoline taxes, with prices at the pump higher in Israel than in all but three of the other countries. This translates into substantially higher transportation costs for consumers and industry in Israel.

If the goal was to reduce environmental impact by steering people to other forms of transportation, this policy might not be too problematic. Unfortunately, as is shown elsewhere in this publication, there are few adequate alternatives to the use of vehicles in Israel.

GASOLINE PRICES AND THEIR DOMESTICALLY DETERMINED COMPONENTS*

Israel, Western Europe, North America, and Oceania, 2011, in PPP dollars per liter

	Gasoline prices		Taxes		Margins**	
1	Portugal	2.45	Greece	1.38	Portugal	0.27
2	Greece	2.34	Portugal	1.38	Spain	0.26
3	UK	2.02	UK	1.22	Greece	0.25
4	Israel	2.00	Netherlands	1.18	Israel	0.25
5	Netherlands	1.97	Germany	1.13	New Zealand	0.25
6	Germany	1.96	Israel	1.08	Belgium	0.25
7	Italy	1.95	Italy	1.08	Italy	0.25
8	Spain	1.86	Belgium	1.03	Ireland	0.22
9	Belgium	1.85	France	0.99	Canada	0.21
10	Ireland	1.77	Finland	0.97	Australia	0.20
11	France	1.73	Ireland	0.96	Denmark	0.20
12	Finland	1.65	Spain	0.91	Germany	0.20
13	Austria	1.60	Sweden	0.90	Netherlands	0.19
14	Sweden	1.57	Austria	0.88	US	0.19
15	Denmark	1.53	Norway	0.86	Switzerland	0.17
16	Norway	1.42	Denmark	0.85	Luxembourg	0.17
17	New Zealand	1.41	Luxembourg	0.67	Sweden	0.16
18	Luxembourg	1.38	Switzerland	0.58	France	0.16
19	Switzerland	1.16	New Zealand	0.57	Norway	0.16
20	Canada	1.09	Australia	0.33	Finland	0.15
21	Australia	0.99	Canada	0.33	UK	0.13
22	US	0.96	US	0.13	Austria	0.12

* Comparisons are for premium (95 octane) unleaded gasoline

** Margins between crude oil cost and pretax prices (refining, distribution and profits)

Source: Dan Ben-David and Yulia Cogan, *State of the Nation Report 2011-2012*, Taub Center

Data: CBS, Ministries of Finance, Energy and Water Resources, Bank of Israel, OECD

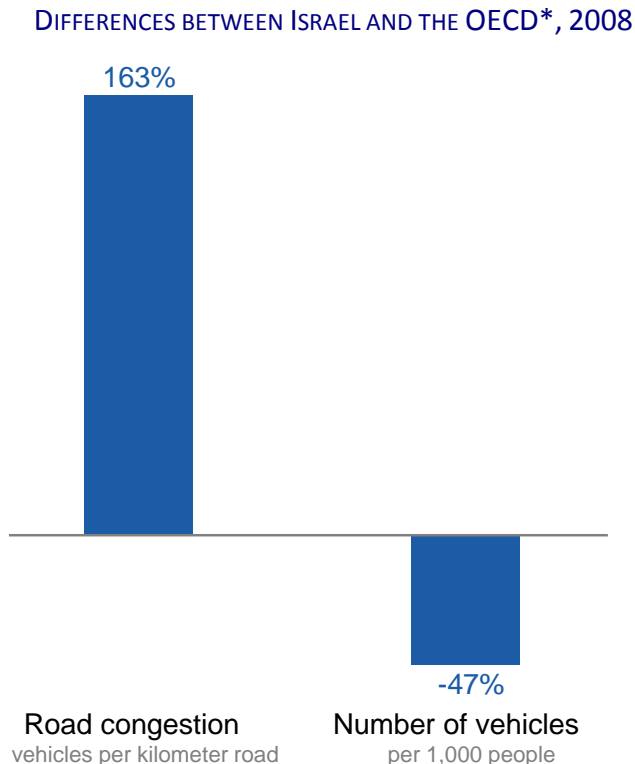
TRANSPORTATION AND INFRASTRUCTURE

A very central part of Israel's physical infrastructure is the state of its roads and rail system. This is an infrastructure that has been neglected for decades by successive governments. To a certain extent, that neglect has been replaced by considerably higher investments over the past decade. Nevertheless, these investments and the current state of the infrastructure need to be put in perspective.

In the absence of even remotely comparable rail alternatives to what other developed countries have, Israelis are buying more cars; and in the absence of adequate road infrastructure, the congestion on the country's roads is already substantially greater than the congestion in the West. As incomes in Israel rise, this situation on the roads can only be expected to deteriorate.

Much greater road congestion, but only half the vehicles per person

The congestion on Israel's roads is over two and a half times the OECD average although the number of vehicles per person is about half the OECD average. As Israel manages to close the gap in standards of living between itself and the wealthier OECD countries, it stands to increase substantially the number of vehicles per capita. This will have very clear implications regarding the already heavy congestion on the country's roads.



* Average of 22 OECD countries

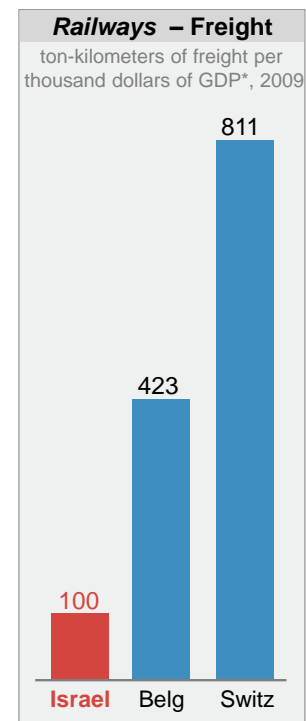
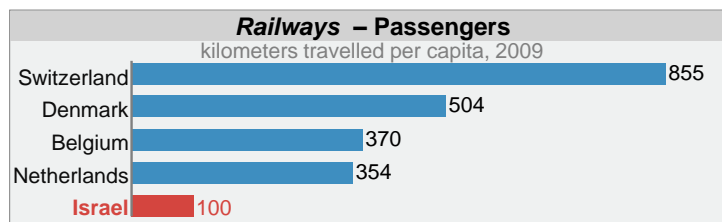
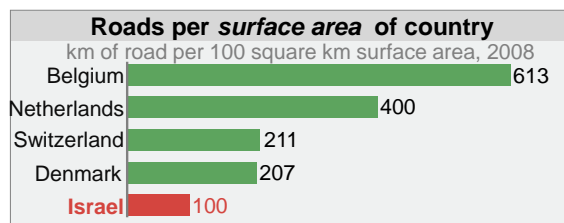
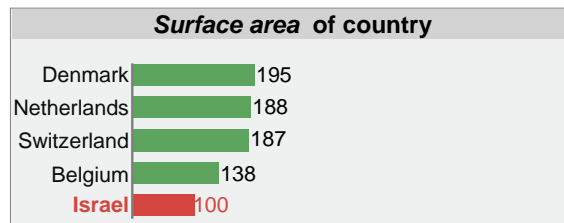
Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: World Bank

Transportation infrastructure “forgotten” in Israel

A comparison of Israel to small developed OECD countries indicates that every one of these countries has at least twice as many roads relative to country size; three and a half times as many kilometers travelled by rail per person; and at least four times as much use of freight railway.

ISRAEL = BASE COUNTRY



* 2009 GDP in US dollars and current PPPs

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

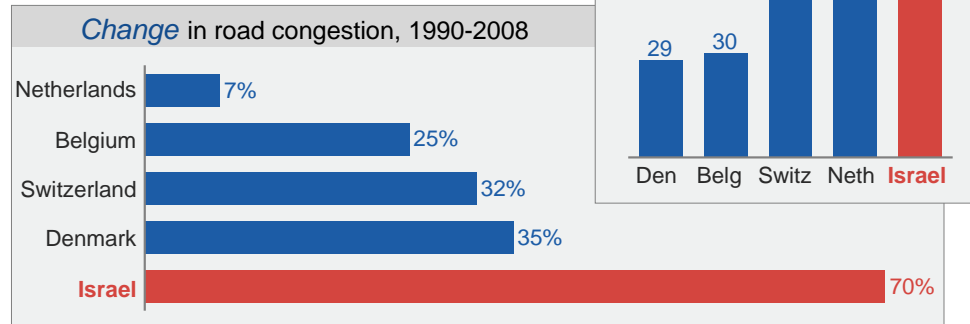
Data: World Bank

Road congestion higher and increasing more quickly in Israel

Between 1990 and 2008, the increase in road congestion among the smaller European countries ranged from 7 percent in the Netherlands to 35 percent in Denmark. In Israel, road congestion rose by 70 percent during this period. Consequently, road congestion in the Netherlands is 49 percent of the congestion in Israel while in Denmark it is only 29 percent of the road congestion in Israel.

ISRAEL = BASE COUNTRY

OECD* **48** vehicles per kilometer of road
Israel **126** vehicles per kilometer of road



* 22 OECD countries

Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

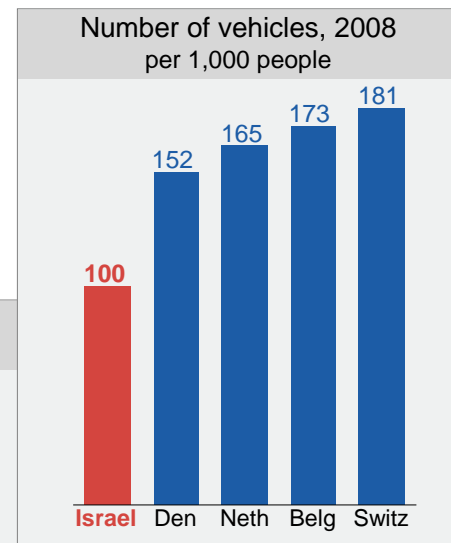
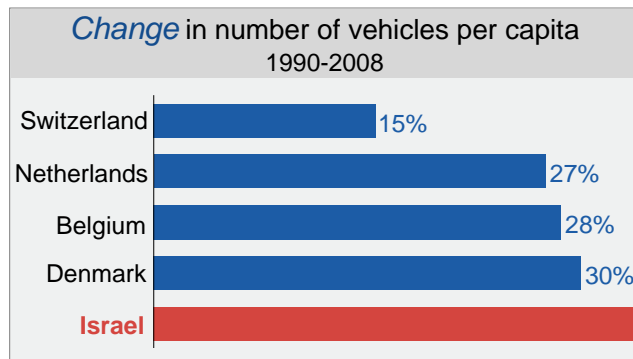
Data: World Bank

Fewer vehicles per person, but increasing more quickly

The lack of transportation alternatives has led Israelis to buy many more cars. While the increase in the number of vehicles per capita in the smaller European countries ranged from 15 percent (Switzerland) to 30 percent (Denmark) between 1990 and 2008, the number of vehicles in Israel increased by 49 percent during the same period. Even so, Israel's standard of living remains below that of the smaller European countries, so there are still currently more vehicles per capita in those countries – from 52 percent more in Denmark to 81 percent more in Switzerland.

ISRAEL = BASE COUNTRY

OECD*	594	vehicles per 1,000 people
Israel	313	vehicles per 1,000 people



* 22 OECD countries

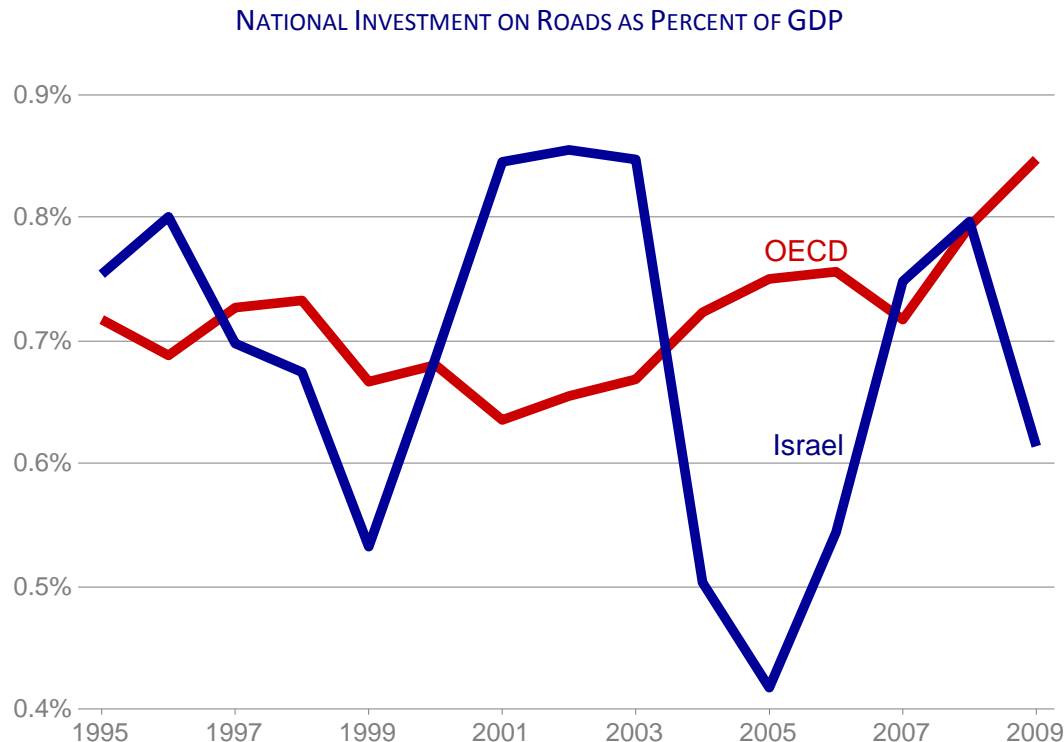
Source: Dan Ben-David, *State of the Nation Report 2011-2012*, Taub Center

Data: World Bank

Spending on roads near OECD average, but more volatile

National investment on roads in Israel, as a share of GDP, has been particularly volatile in comparison with the OECD. With the exception of just a few years at the beginning of the last decade in which spending was relatively high, overall spending on Israeli roads has been close to OECD spending – and in some cases, it has been far below it.

While OECD road expenditures primarily reflect maintenance costs, Israel's spending still needs to be able to facilitate the creation of the type of infrastructure that already exists in the OECD.



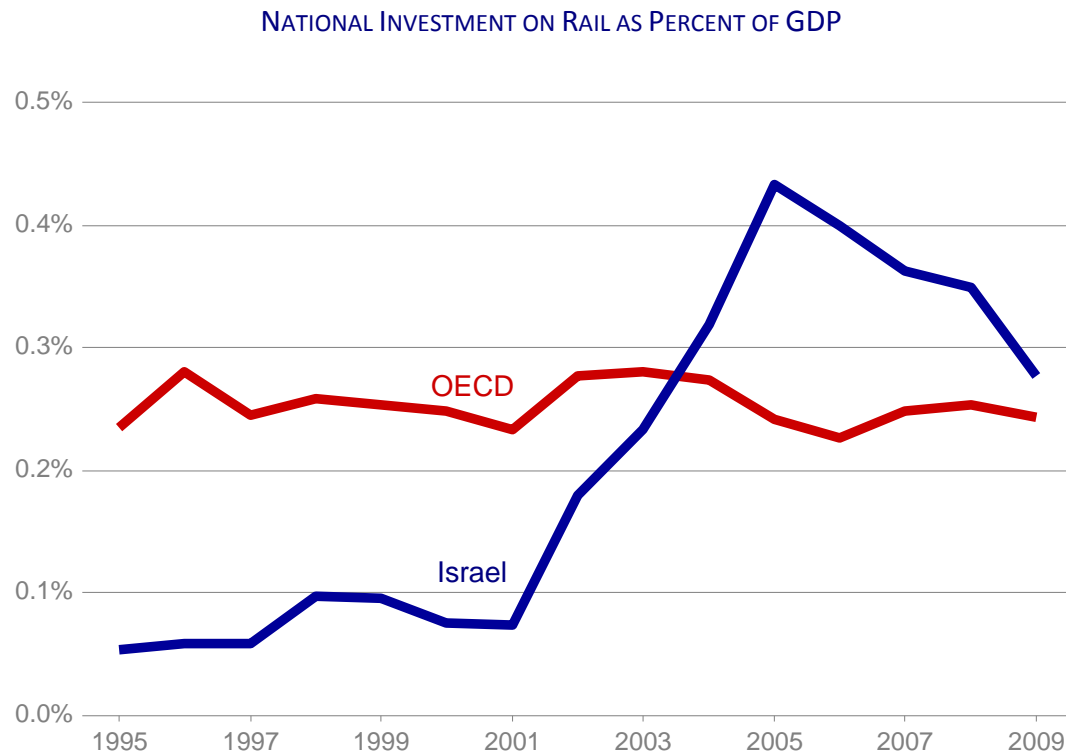
Source: Dan Ben-David and Nir Eilam, *State of the Nation Report 2011-2012*, Taub Center

Data: International Transport Forum, Central Bureau of Statistics

Investment in rail system falls back to OECD average

Underinvestment in Israeli rail infrastructure alternated between about 70 and 80 percent below the OECD from the mid-1990s through 2001. Four years of heightened investment that brought Israel above the OECD levels were followed by four years in which the share of infrastructure spending on Israeli railroads fell steadily.

At this rate of investment, it does not appear that the gaps in rail infrastructure will be narrowing in a way that will relieve the congestion on Israel's roads anytime soon.



Source: Dan Ben-David and Nir Eilam, *State of the Nation Report 2011-2012*, Taub Center

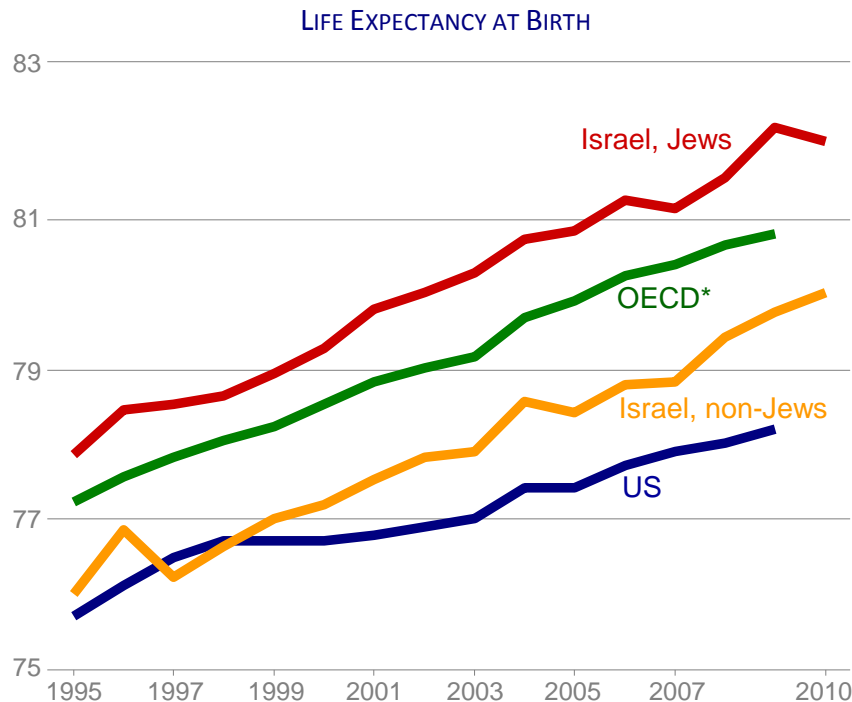
Data: International Transport Forum, Central Bureau of Statistics

HEALTH

Increases in manpower were recently authorized within the healthcare system, and access to health care in Israel's periphery is expanding. Nevertheless, there is a lack of long-term government policy, leading to an ongoing erosion of the public health care system which continues to be managed from crisis to crisis. Decades of achievement in the realms of equity and efficiency are eroding, and public health may ultimately suffer. Within the overall context of initiatives and long-term policy with far-reaching consequences for Israel's social services system, the country's rapidly increasing elderly population necessitates a serious assessment regarding the direction of long-term care insurance in Israel.

Life expectancy in Israel has been rising steadily

Non-Jewish Israelis have a higher life expectancy than the populations of neighboring Arab and Muslim countries and have surpassed that of Americans, although their life expectancy is still below that of Jewish Israelis and most Western countries. The life expectancy of Jewish Israelis continues to exceed that of the populations of most developed countries.



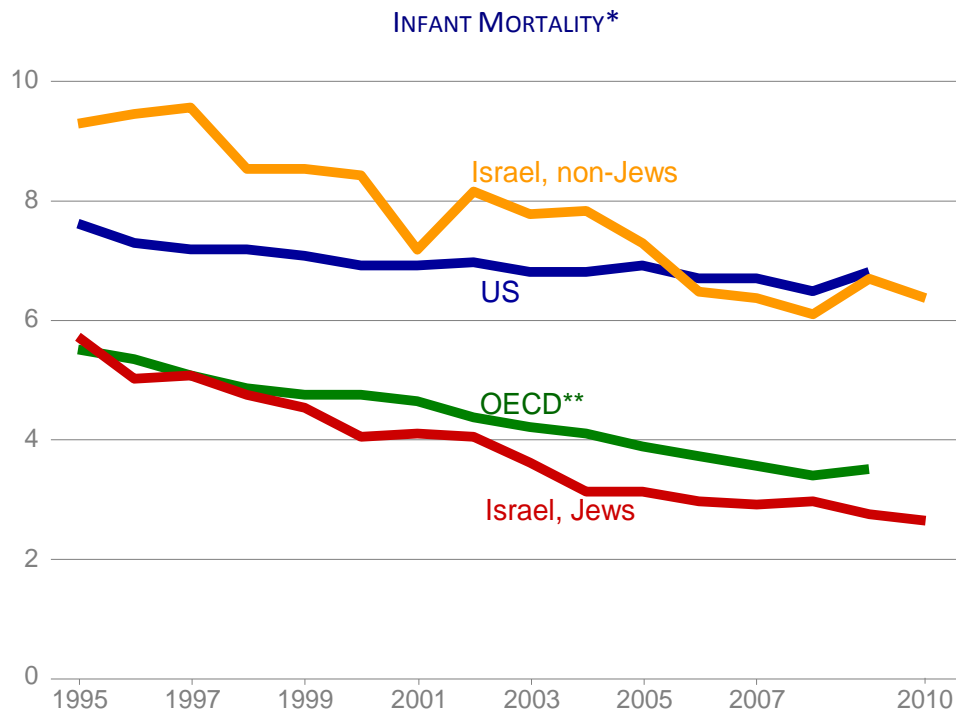
* Average of the 22 most developed OECD countries (excluding the US)

Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD, Central Bureau of Statistics

Infant mortality falling in Israel

The trend towards lower infant mortality rates in Israel has resulted in Jewish Israeli rates below the OECD average and non-Jewish Israeli rates below those in the US. That said, closing the gaps between Jewish and non-Jewish Israelis is one of the main challenges facing the healthcare system.



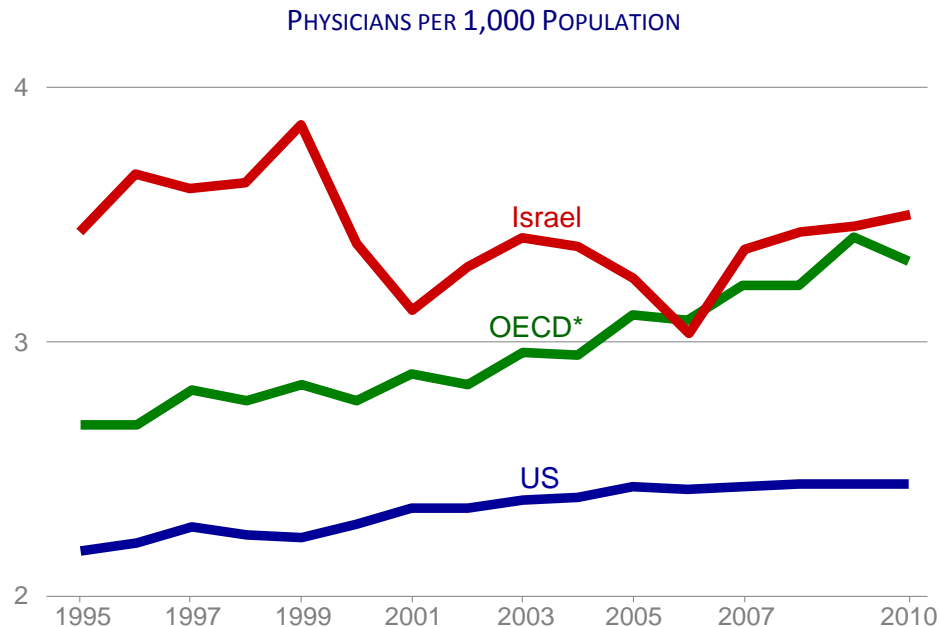
* Infant mortality up until age 1 per 1,000 live births

**Average of the 22 most developed OECD countries (excluding the US)

Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center
Data: OECD, Central Bureau of Statistics

More physicians per person in Israel, but gap is narrowing

Over the years, Israel has enjoyed a high physician-to-population ratio compared with other developed countries. A significant increase in this ratio occurred during the early 1990s with the influx of a large number of physicians who came to Israel in the great immigration wave from the former Soviet Union. In the absence of continued immigration of doctors, Israel's physician-to-population ratio fell in the late 1990s and then stabilized. Disparities narrowed between Israel and the OECD countries as a result of a steady increase within the OECD.



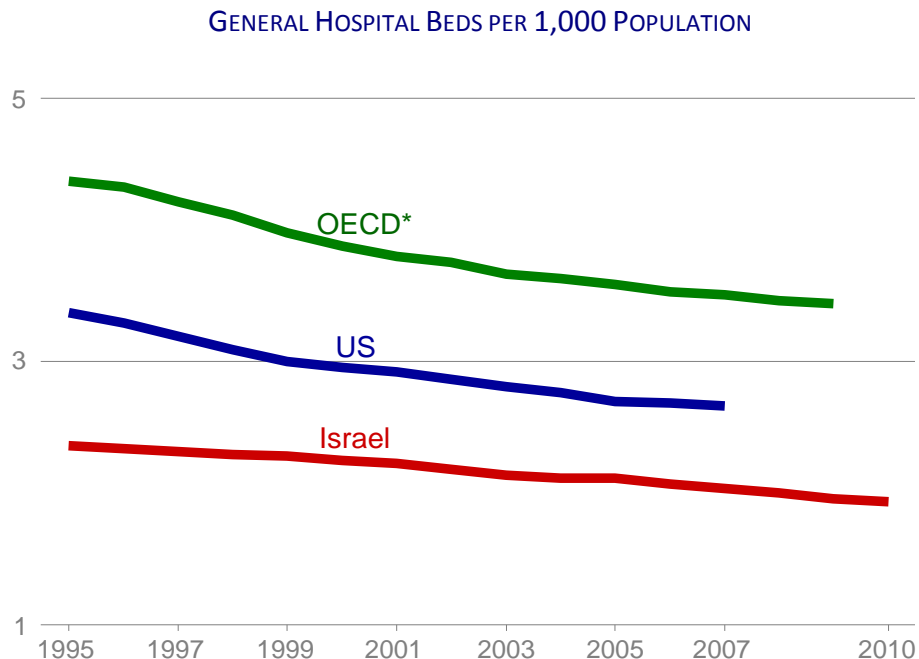
* Average of the 22 most developed OECD countries (excluding the US)

Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD, Central Bureau of Statistics

Israel is suffering from a shortage of hospital beds

The downward trend of recent decades in the number of general inpatient beds, observed in the US and the OECD as well, appears mainly to reflect technological developments that have led to a relative decline in the need for general inpatient care. However, because Israel's starting point was lower than that of the other developed countries, the decline in inpatient bed numbers per capita is problematic. Scenes of patients being cared for in hospital corridors rather than inpatient rooms are an all-too-common sight in Israeli hospitals.



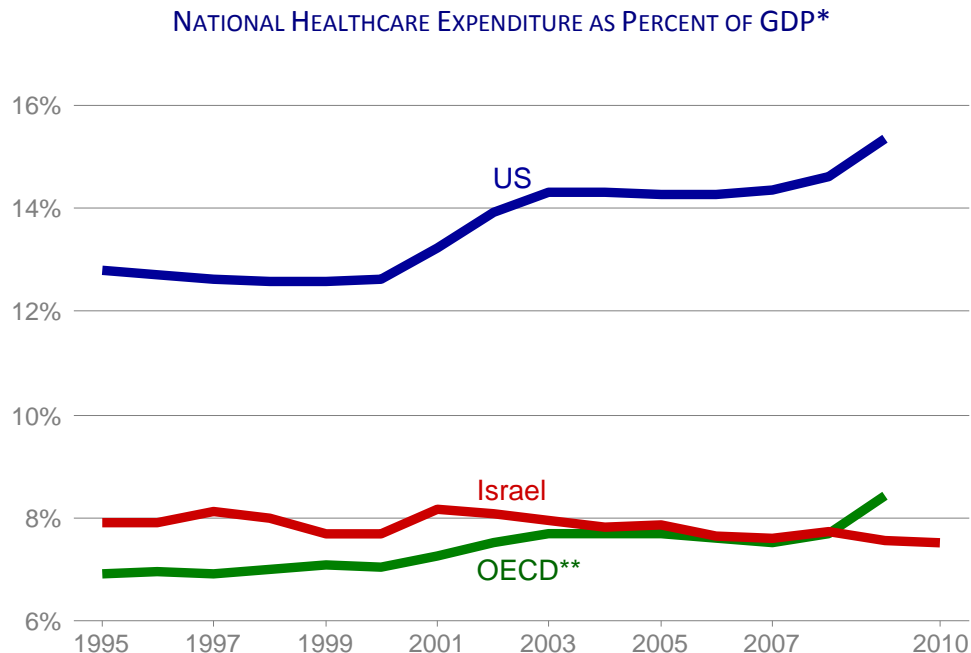
* Average of the 22 most developed OECD countries (excluding the US)

Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

National healthcare expenditures are close to OECD average

Israel's national healthcare expenditures (public and private) relative to GDP have been declining and have recently fallen below the average of the OECD's 22 most developed countries. This is in spite of a rise in private expenditures. The underlying reason for this decline has been substantial erosion in public financing which has not kept up with the rise in GDP.



* Expenditure per standardized person (using "old" capitation formula) as percent of GDP per capita

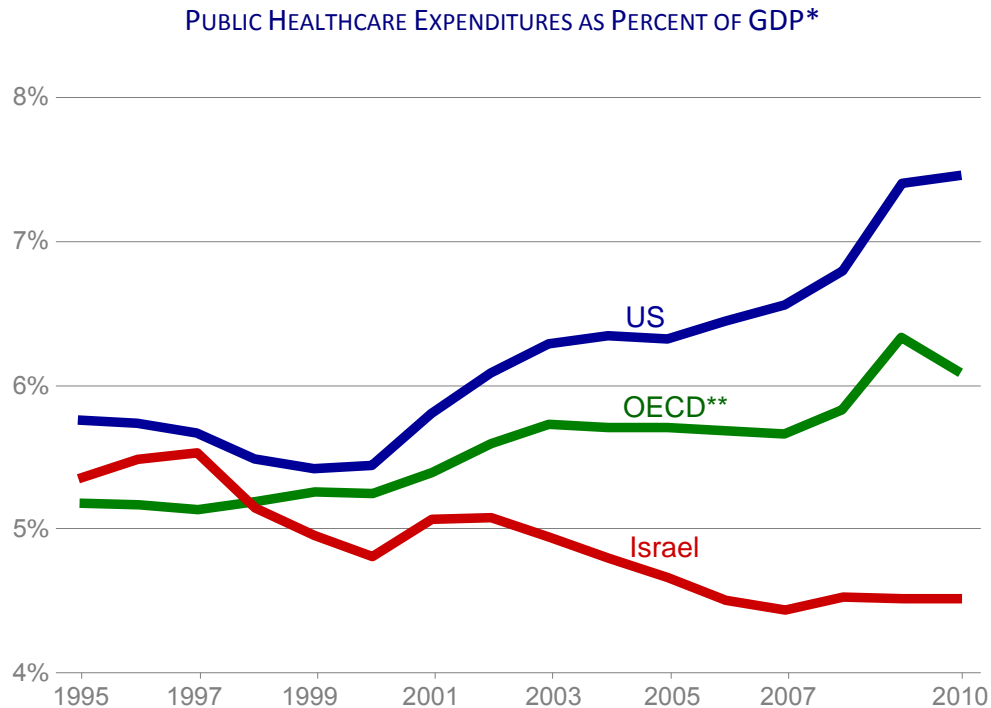
**Average of the 22 most developed OECD countries (excluding the US)

Source: Dov Chernichovsky and Eitan Reggev, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD, Central Bureau of Statistics

Public healthcare expenditures are below OECD average –and dropping

While Israel's share of national healthcare expenditures out of GDP has only recently fallen below the OECD average, its public healthcare expenditures relative to GDP have been below the OECD – and falling – since the late nineties. This downward trend stands in sharp contrast to steadily rising public healthcare spending in the developed world.



* Expenditure per standardized person (using "old" capitation formula) as a percent of GDP per capita

** Average of the 22 most developed OECD countries (excluding the US)

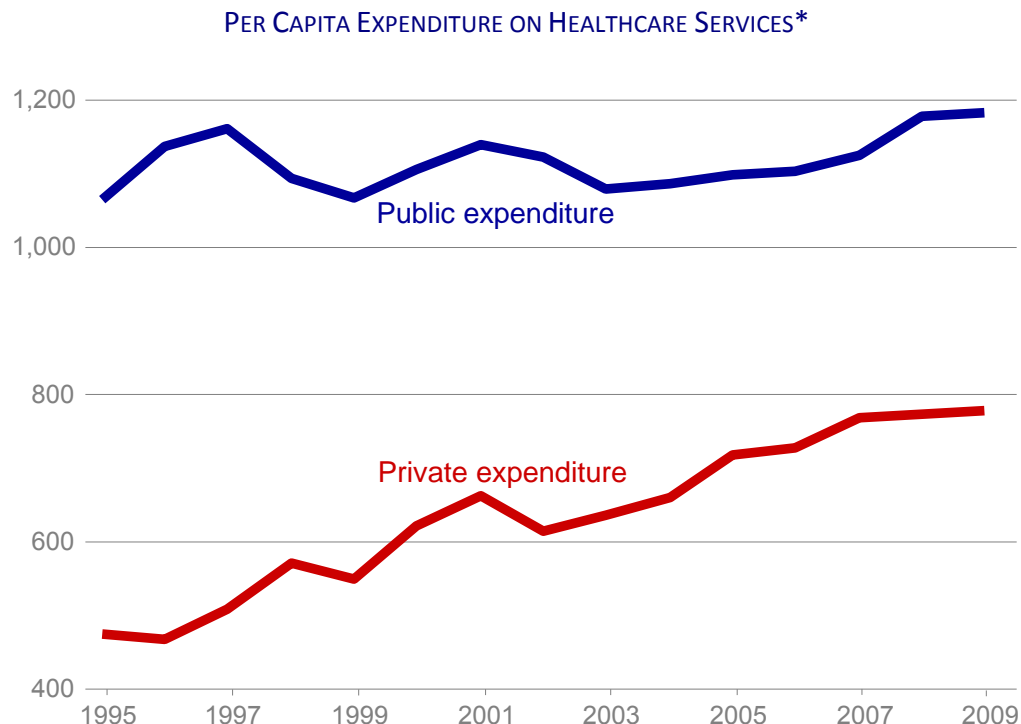
Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD, Central Bureau of Statistics

Private healthcare expenditures are steadily rising

Israel's public healthcare expenditure per capita grew by 11 percent between 1995 and 2009, and was characterized by a high degree of fluctuation. At the same time, private per capita expenditure grew by 64 percent.

The increase in private funding of healthcare translates into heightened income inequality (after healthcare payments) and increased poverty within sectors that are already weak. It also results in less accessibility to healthcare services among these groups, due to both a decline in their ability to pay the rising prices and reduced availability of public healthcare services.



* In 2000 PPP-adjusted dollars

Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center

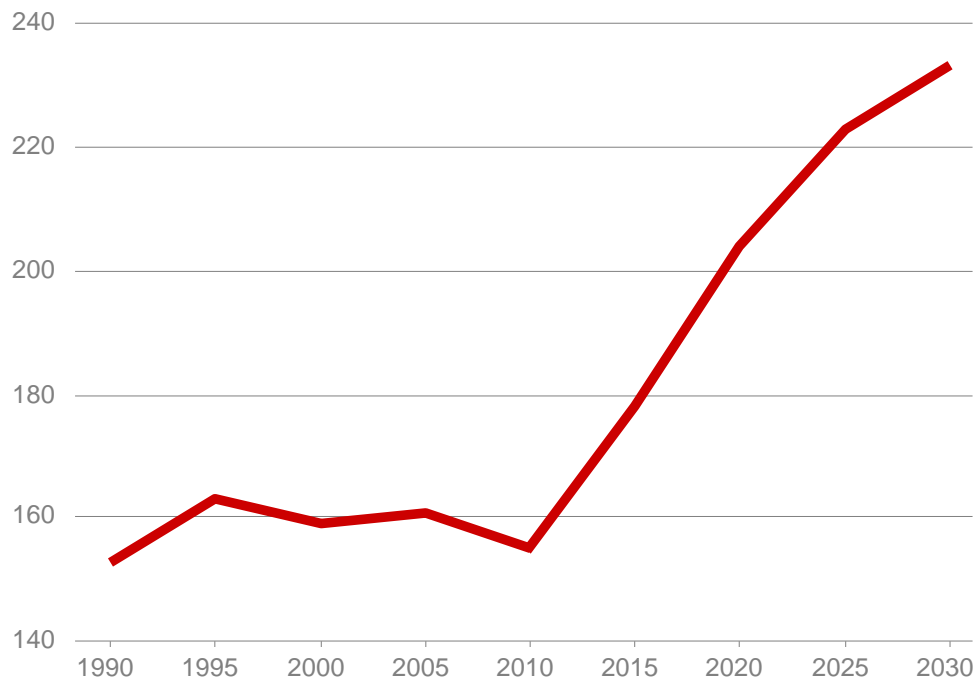
Data: OECD, Central Bureau of Statistics

Ratio of elderly to working-age adults has started to take off

Due to Israel's high birth rate, its population is characterized by a relatively low percentage of people aged 65 and over. However, Israel's rate of aging in the population has recently taken off. Over the past twenty years – between 1990 and 2010 – the ratio of elderly persons to working-age adults has been relatively steady, with approximately 160 elderly persons per 1,000 working age adults.

During the next twenty years – from 2010 to 2030 – this ratio is expected to increase by 40 percent, reaching 230 elderly people in Israel for every 1,000 working-age persons by 2030. With fewer working-age adults for every older adult, funding ongoing care for the elderly will become increasingly difficult.

ELDERLY (65+) PER 1,000 WORKING-AGE ADULTS (15-64)*



* Data for 2012-2030 are projections based on current age distribution

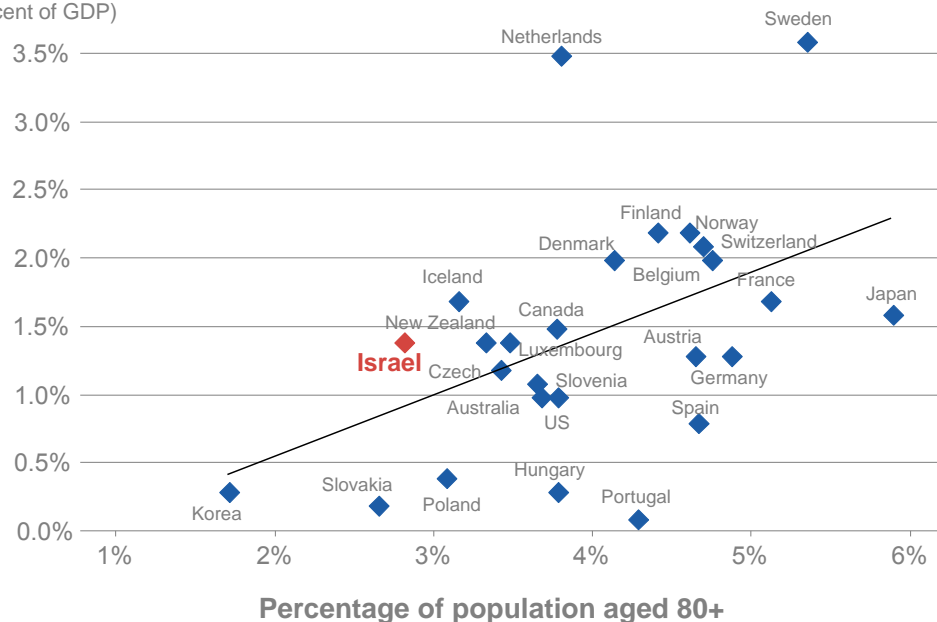
Source: Eliahu Ben-Moshe, *Changes in the Structure and Composition of Israeli Population* (2011)

Smaller percentage of elderly, but long-term expenditures similar to OECD

Although Israel currently has a low share of elderly in the population, its expenditure on long-term care as a share of GDP is close to the OECD average – meaning that Israel spends a relatively high proportion of its GDP on long-term care for a smaller share of elderly persons. Israel's changing demographics indicate a substantial increase in future long-term care needs. Older adults tend to have multiple and complex health problems, which raises a question regarding the sustainability of current practices. Careful planning will be required to sustain adequate care for Israel's aged in the future.

Expenditure on
long-term care
(percent of GDP)

OVER 80 YEAR-OLDS, 2008*



* Data include private and public expenditure on long-term nursing care. Expenditure data for Austria, Belgium, Canada, Denmark, Hungary, Iceland, Norway, Portugal, Switzerland, and US include actual expenditure on nursing care only and do not include any other national expenditure on long-term care.

Source: Dov Chernichovsky and Eitan Regev, *State of the Nation Report 2011-2012*, Taub Center
Data: Bank of Israel, Ministry of Health, OECD

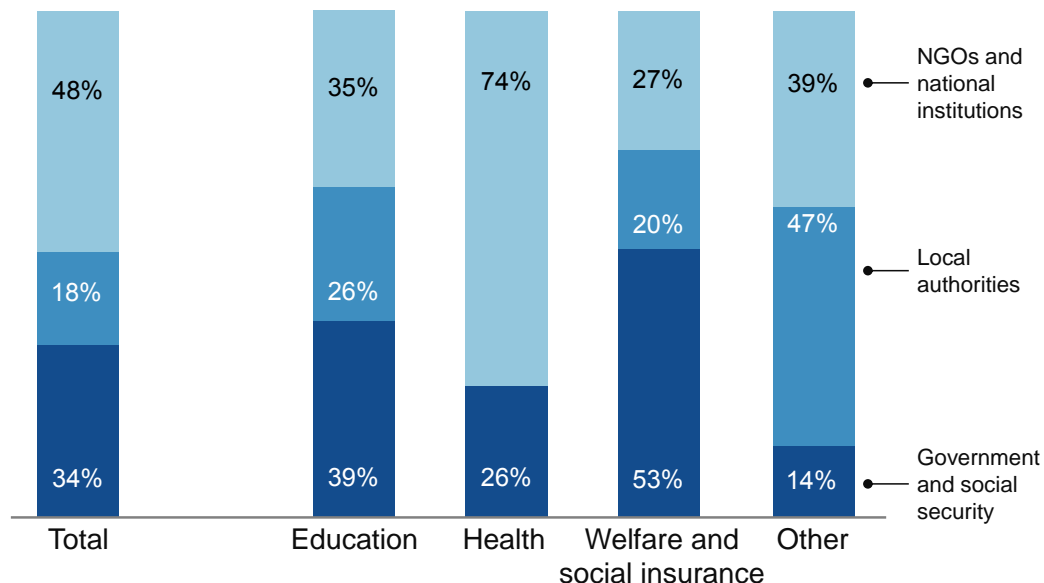
SOCIAL SERVICES: EXPENDITURES AND PRIVATIZATION

Israel's public social expenditure is relatively low, and in several areas – health being a major exception – it is similar to the United States. The overall magnitude of public social expenditure in Israel fell during the 2000s at a rate without parallel in other countries. Privatization of social services has become one of the most controversial issues in Israel's socioeconomic discourse. In the past decade there has been no significant change in the transfers from the government to the local authorities, the non-profits and the business sector, or in the relative contribution of public bodies involved in the provision of services. On the other hand, household contribution to the funding of services (especially health services) has increased, affecting equality. Israel's government must make improvement in service quality an overarching objective of its policy. Consumers of social services are often unable to assess the quality of the services they receive and are unable to select a service provider of their choice.

Largest providers of social services in Israel are non-profit organizations

The current level of privatization in Israel can be seen in the division of social services among government and other organizations. Non-profit organizations jointly provide about one-half of all public services, including about three-quarters of health services and over one-third of educational services. The central government's portion in the provision of education services is similar to that of non-profits. It provides only a quarter of the healthcare services and over half of the social insurance and welfare services. Local authorities deliver just over one-quarter of all education services and less than one-fifth of all social services.

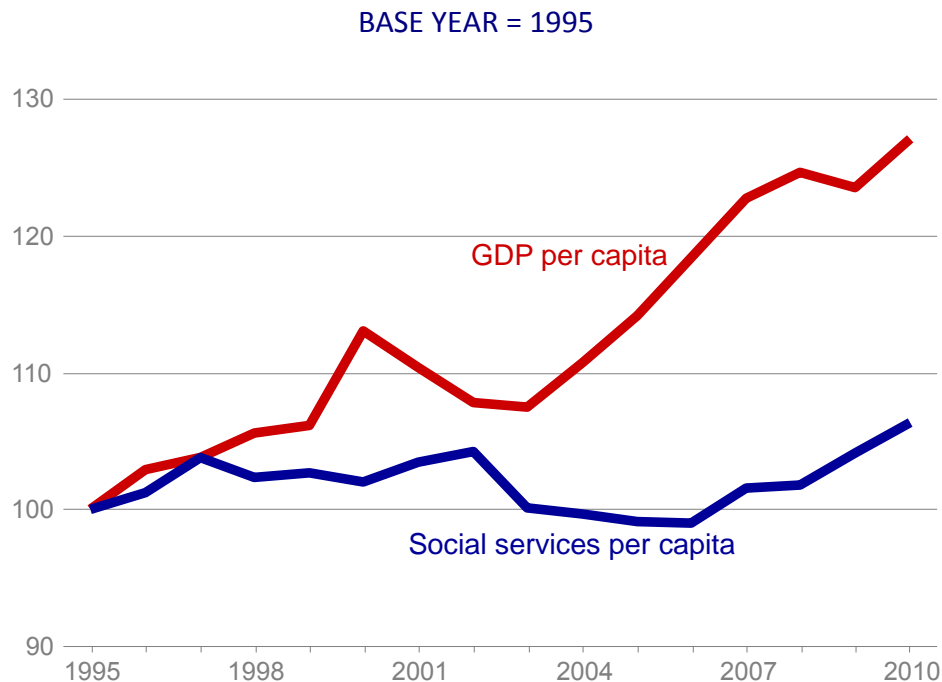
DISTRIBUTION OF SOCIAL SERVICES CONSUMPTION, 2010



Source: Reuben Gronau, *State of the Nation Report 2011-2012*, Taub Center
Data: Central Bureau of Statistics

Growth in social services far below growth in living standards

Between 1995 and 2010, GDP per capita grew by more than a quarter and private consumption grew by almost one-third. Spending on social services, primarily education and health services, grew by just 6 percent. Consequently, the share of spending on these services has declined relative to income and private consumption.



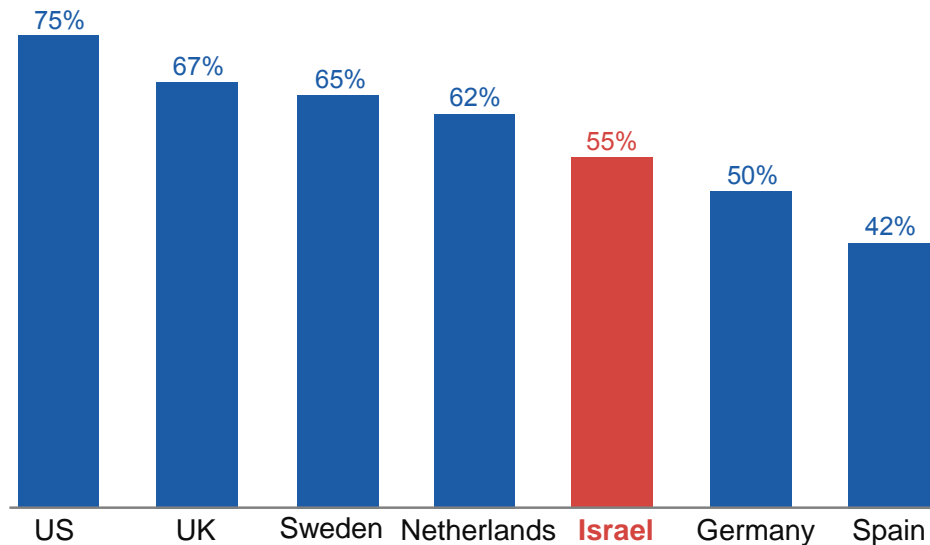
Source: Reuben Gronau, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Social expenditure per elderly person places Israel in the middle range

To get a sense of how much is spent per elderly person, it is useful to look at the relationship between social expenditure per elderly person and average income per person (as measured by GDP per capita). Such a comparison places Israel below the US and above Germany and Spain.

SOCIAL EXPENDITURE PER ELDERLY PERSON AS PERCENT OF GDP PER CAPITA*



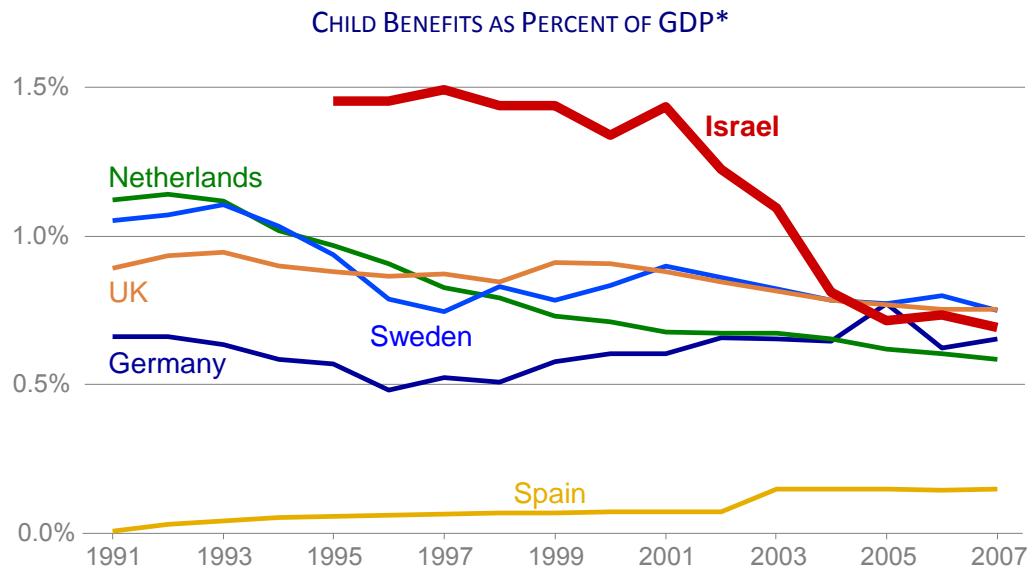
* Average for 2005-2007

Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD

Child benefits drop to other Western country levels

Until the early 2000s, Israel's expenditures on child benefits were exceptionally high – approximately 1.5 percent of GDP. Since 2001, this spending has fallen by half, decreasing to typical European levels (excluding Spain).



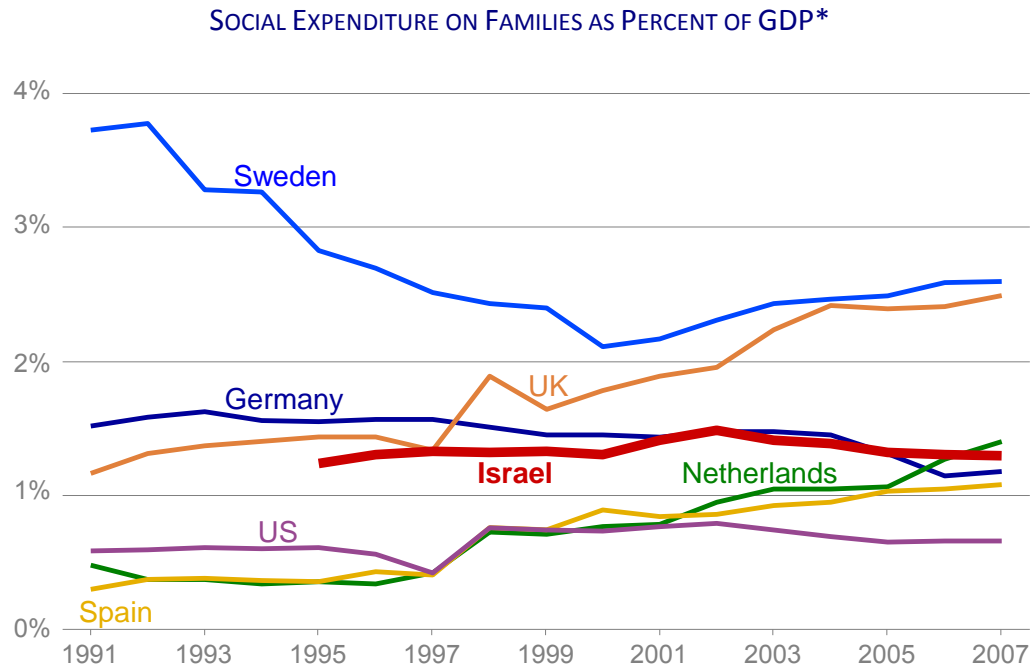
* The US does not provide universal child benefits

Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD

Social expenditures on families place Israel in the middle

Israel is positioned moderately in a comparison of in-cash and in-kind social expenditures on families, such as maternity benefits and leave, funding for daycare, and child and family welfare services (excluding child benefits). Sweden and the UK spend roughly 2.5 percent of GDP, Israel and the other European countries spend approximately half of this amount, and the United States spends 0.7 percent of GDP (and does not pay universal child benefits).



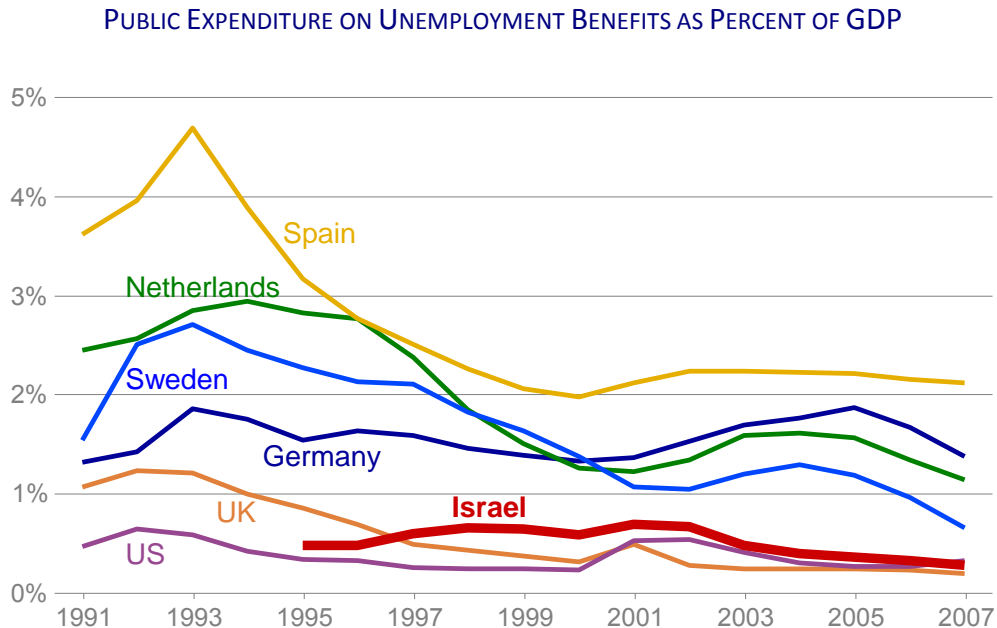
* Excluding child benefits

Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD

Unemployment benefits low in Israel

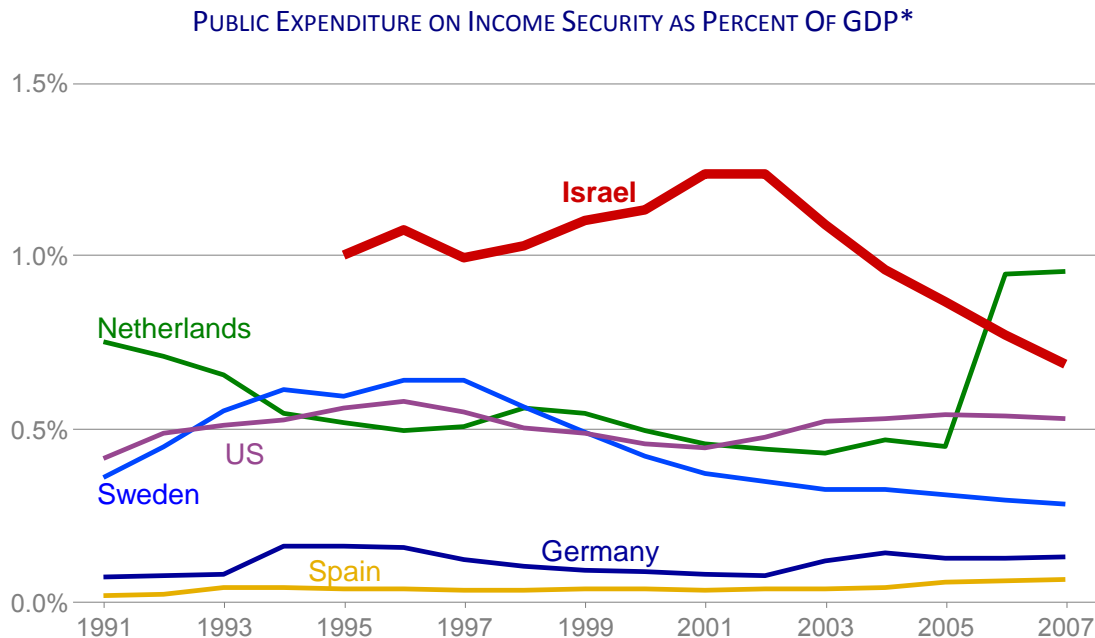
At 0.5 percent of the GDP, Israel's average unemployment expenditure since the mid-1990s has been rather modest, placing Israel alongside the US and UK. This was during a period in which Israel's unemployment rates were relatively high compared with the other countries in the figure. From 1999-2003, Israel ranked second in unemployment (after Spain), and from 2003-2007, Israel declined to third place.



Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center
Data: OECD

Public expenditure on income security falling, but remains relatively high

Israel's income security expenditures relative to GDP rose markedly in the late 1990s, peaking in 2002, and then steadily declining by 50 percent. This decline was the result of benefit cuts and restricted eligibility as well as from the partial and temporary shift to alternative "welfare-to-work" programs.



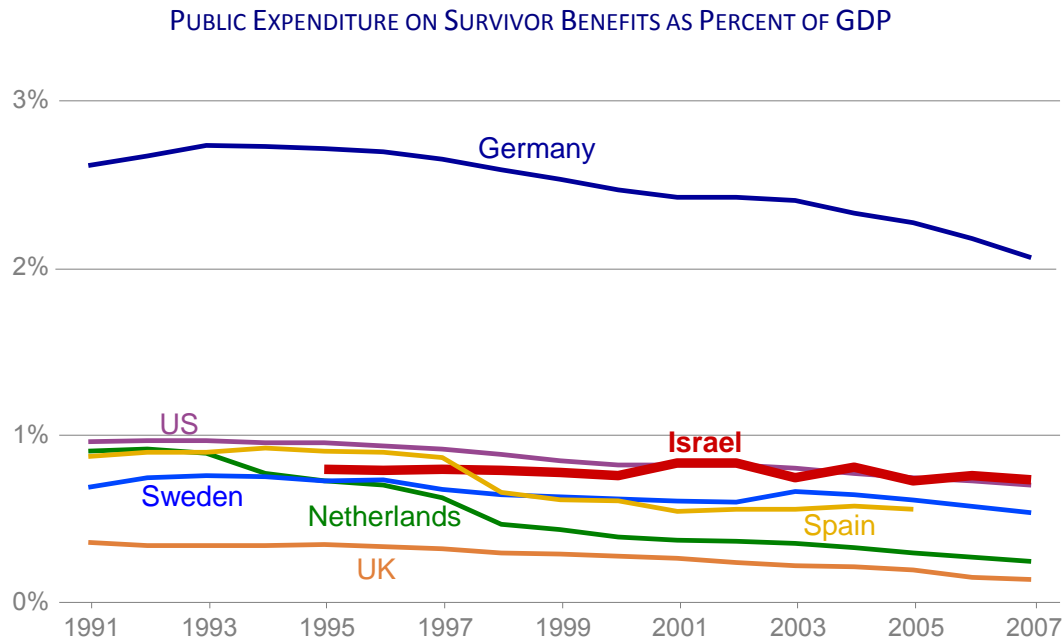
* The UK does not report expenditure on income security

Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center

Data: OECD

Public expenditure on survivor benefits in Israel among the highest

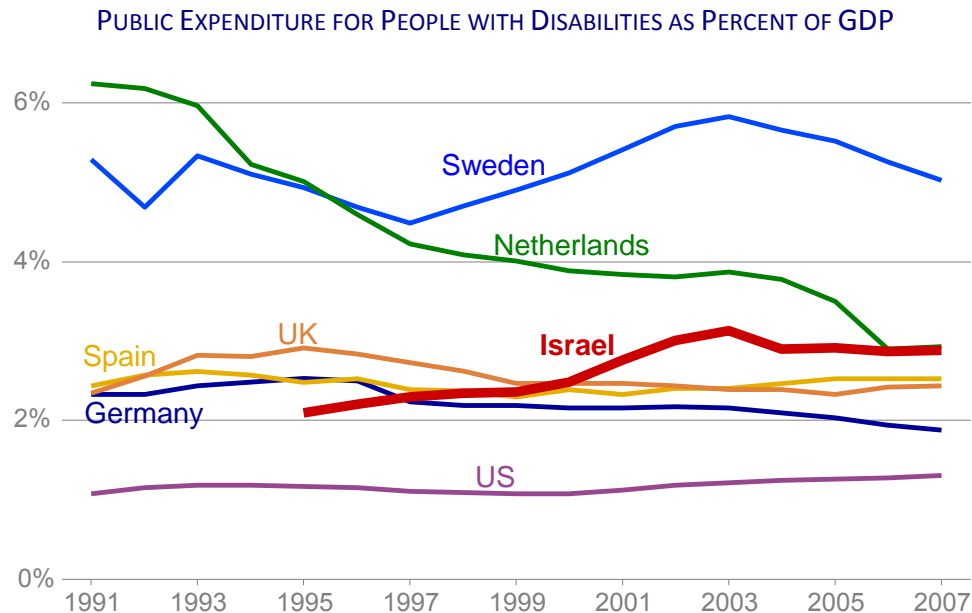
Germany has by far the highest percentage of spending on survivor benefits. This is largely due to sharply rising expenditures in the wake of German reunification in 1990, prior to which Germany did not differ significantly from the other countries under discussion. Survivor expenditures are also very high in Israel and in the United States, where they constituted approximately 0.75 percent of GDP during the 2000s. In the case of Israel, these include benefits to widows and orphans of fallen military personnel.



Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center
Data: OECD

Rising public expenditure for people with disabilities

Public expenditure to support people with disabilities substantially differs across countries, with Israel somewhere between the extremes of the United States (1 percent of GDP) and Sweden (5 percent of GDP). Over time, spending in Israel has increased, from 2 percent of GDP in 1995 to a high of over 3 percent in 2003. In recent years, Israel and the Netherlands ranked second on this measure after Sweden. Israel's disability expenditures include old-age nursing care benefits and special programs for disabled army veterans.

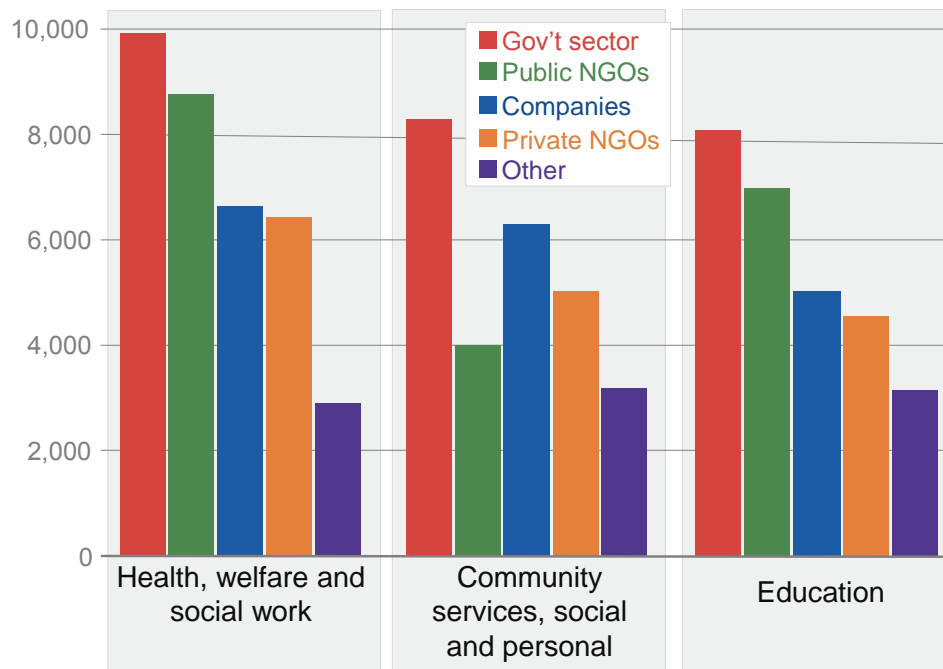


Source: Shalev, Gal and Azary-Viesel, *State of the Nation Report 2011-2012*, Taub Center
Data: OECD

Social service workers in the public sector earn more

Wages of private sector employees in the social services are substantially lower than those of public sector workers. In the three main areas of social services, health and welfare, education, and community services, public sector salaries are approximately 50 percent higher than the median alternate service provider.

AVERAGE WAGE IN SOCIAL SERVICES IN SHEKELS, 2010



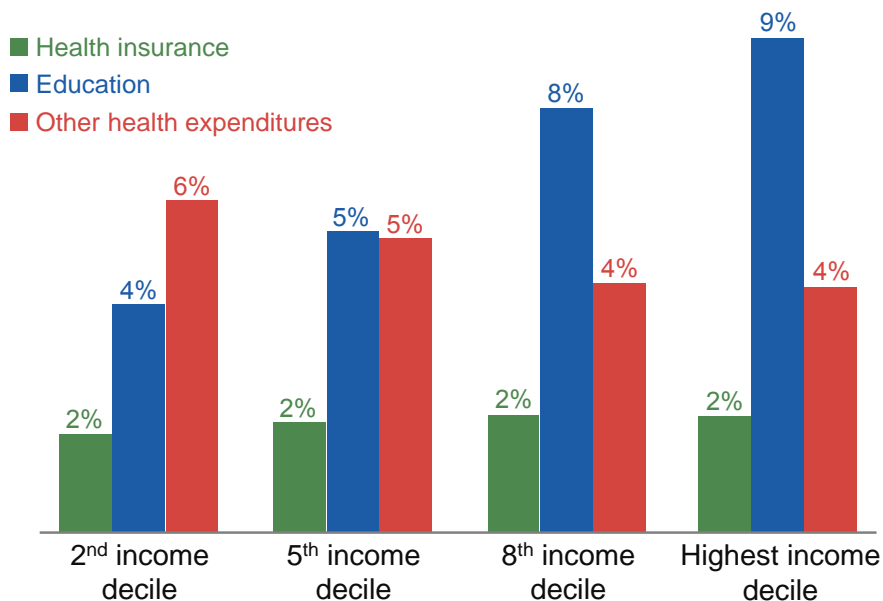
Source: Reuben Gronau, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

Share of household spending on education rises; health expenditure falls

As total household expenditures rise, the share of private expenditure on education out of total household spending grows. At the same time, the share of private spending on health in household consumption falls as the family's total expenditures grow. Private spending on education and health may be seen as a tax imposed on private consumers. In these terms, cutbacks in government-provided education services impose a progressive tax on households while cutbacks in government-provided health services serve as a regressive tax on households.

HOUSEHOLD SPENDING ON EDUCATION AND HEALTH
OUT OF ALL EXPENDITURES*, 2009



* By gross income deciles

Source: Reuben Gronau, *State of the Nation Report 2011-2012*, Taub Center

Data: Central Bureau of Statistics

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