SHORESH
Institution for Socioeconomic Research

*Changing the paradigms*

Policy Brief

October 2020

# Non-transparency's impact on Israel's future

## A socioeconomic perspective

Dan Ben-David*

## Abstract

In the absence of budgetary transparency, Israel underwent an extensive transformation over the years. In the 1970s, the country's national priorities pivoted and Israel moved to a new socioeconomic trajectory, one that is unsustainable in the long-term – with all of the existential consequences that this implies. While it is not possible to gauge the actual magnitude of the various budgeting priorities, this policy memo reviews some of the key outcomes resulting from the pivot. In the final analysis, the lack of transparency deprives Israelis of the ability to understand and internalize the full existential implications of the direction that the country has been led over the past decades.

## Background

Budgetary non-transparency is a cornerstone of policy-making in Israel. Decades ago, Israel's national priorities pivoted behind this veil to a socioeconomic trajectory that is unsustainable in the long-term. It is a veil that conceals politicians' aversion to public scrutiny

* Prof. Dan Ben-David, President of the Shoresh Institution for Socioeconomic Research; Department of Public Policy, Tel Aviv University. This policy brief will be published in a collection of articles by Nevo Press on the topic of *Transparency, corruption and everything in between* published towards the end of 2020 by Transparency International Israel – Shvil as a part of its Transparency Shield awarded in honor and in memory of its late founder, Prof. Dov Izraeli.

of their actual choices that is merged with senior officials' aversion – one sometimes accompanied by inadequate professional ability – to serious measurement and evaluation.

The lack of enthusiasm for measurement and evaluation reflects a less conspicuous aspect of the non-transparency, one that obscures the operational functioning of public services. For example, the Ministry of Education has been administering matriculation exams for decades, but these exams are not calibrated from year to year. Thus, the test results are not comparable over time and cannot provide valuable indications of possible improvements or deterioration in the knowledge levels of pupils. The reluctance toward evidence-based quality control extends to the administration of the government's vocational training programs, leaving taxpayers in the dark about their effectiveness. The health system's reluctance to carry out extensive testing after the onset of the coronavirus crisis prevented implementation of comprehensive policies that could have significantly reduced the subsequent health and economic losses. These are just some of the many examples of non-transparency involving the functioning of government ministries.

But the problem of non-transparency extends far beyond these issues. It lies at the base of a people's inability to make informed democratic decisions during periodic elections, forcing voters to choose between policy alternatives without any idea about their budgetary implications and accompanying socioeconomic impact. If, for example, the majority of citizens favor giving budgetary priority to persons living in the area undergoing incessant rocket attacks from the Gaza Strip, then how much do the various alternatives cost? Not only are possible alternatives not put forth, there is no governmental body actually calculating the full extent of the additional costs – not to mention the lack of transparency with regard to the costs of government programs in other areas – information that would allow the public to understand what it would have to give up.

When this is the picture on matters for which there is some consensus within the nation, one can only speculate as to how much uncertainty prevails when it comes to non-consensus budgetary expenditures such as the overall cost of funding Israelis living beyond the Green Line,

or the total cost of maintaining Haredi (ultra-Orthodox) lifestyles that are incapable – and in many instances, uninterested – in supporting themselves.

These are not issues that reflect the proverb "dogs barking while the caravan goes on." These are issues that have caused the entire caravan to change course.

## The pivot in Israel's long-term socioeconomic trajectory

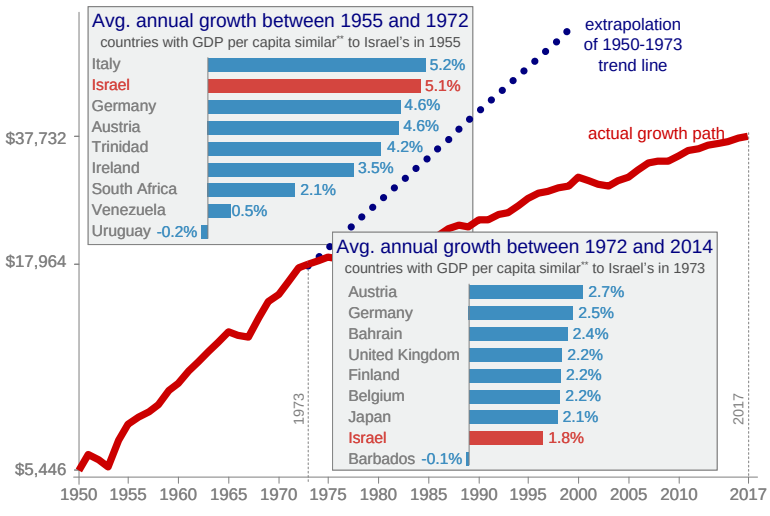
One of the stylized facts of growth processes is the trajectories' stability over periods spanning decades. It is very difficult to move countries off course. The United States, for example, has been on a growth path as straight as a ruler since the end of the 19th century,[1] with fluctuations – sometimes large ones – emanating from business cycles around the trajectory. And yet, a pivot is nonetheless possible when a country significantly changes the national priorities determining the physical and human infrastructures underlying its trajectory.

Until the 1973 Yom Kippur War, Israel was also on a very steady growth trajectory (Figure 1) – and a very steep one reflecting the rapid growth in Israel's living standards. In fact, Israel's average annual growth rate during this period was higher than that of seven of the eight countries with the most similar living standards to Israel in the early 1950s (the figure's upper-left insert provides a comparison with the four countries with GDP per capita immediately above Israel and the four countries with GDP per capita immediately below Israel).

Figure 1

Israel's economic growth path

GDP per capita,1950-2017*




* 2015 prices, logarithmic scale.
** Four countries above and four countries below Israel.

Source: Dan Ben-David, Shoresh Institution and Tel Aviv University
Data: Central Bureau of Statistics and Penn World Tables

[1] On a logarithmic scale, where the slope reflects annual rates of growth.

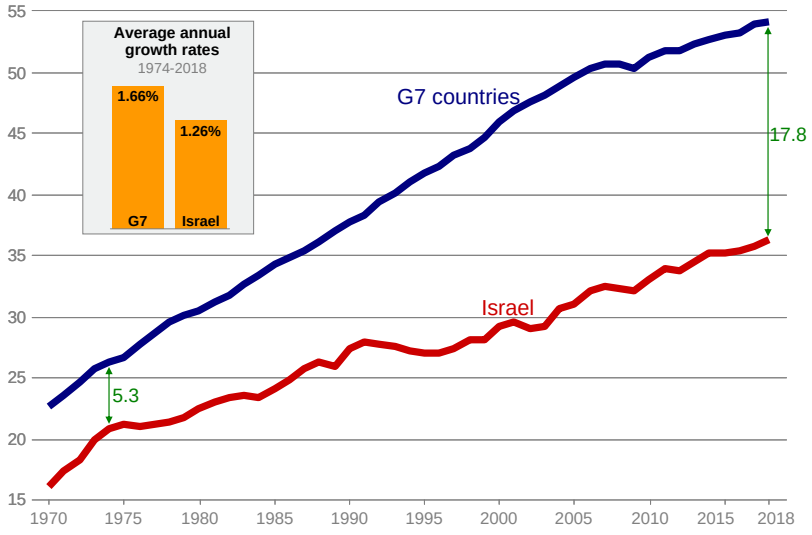
After the war, Israel's national priorities changed diametrically. Its growth rate dropped significantly, becoming one of the lowest among the eight countries with living standards similar to Israel's in the early 1970s (bottom-right insert).

The extent of the problematic pivot in national priorities can be seen in Figure 2, which sharpens the perspective by focusing on output per hour worked (which determines the upper limit of hourly wages) in Israel compared to the leading G7 countries.[2] Since the mid-1970s, GDP per hour – also referred to as labor productivity – in Israel has been declining in relative terms from the average of the leading countries. Since 1974, Israel's labor productivity growth has been nearly half a percentage point lower than the G7 average. Consequently, the gap between the G7 and Israel has more than tripled over the past decades.

Figure 2

Labor Productivity, 1970-2018

GDP per hour worked*




* In 2010 PPP-adjusted dollars.

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

As the disparity between the leading countries and Israel grows, the incentive for educated and skilled Israelis to emigrate there rises – a process that is already in progress. For every Israeli with an academic degree who returned to Israel in 2014, 2.8 left. By 2018, this ratio rose to 4.1 academics who left per every one who returned. Over the course of one decade, from 2006 to 2016, the number of Israeli physicians in OECD countries as a share of the total in Israel increased by nearly half, from 9.8% to 14.0%. While these are fairly steady processes, they are

[2] The G7 countries include the United States, Canada, the United Kingdom, France, Germany, Italy and Japan.

still relatively limited in size. However, what this phenomenon and its direction imply is that if Israel wants to safeguard its existence, then its citizens need to comprehend that the country does not have another half century ahead that can be similar to the past half century.

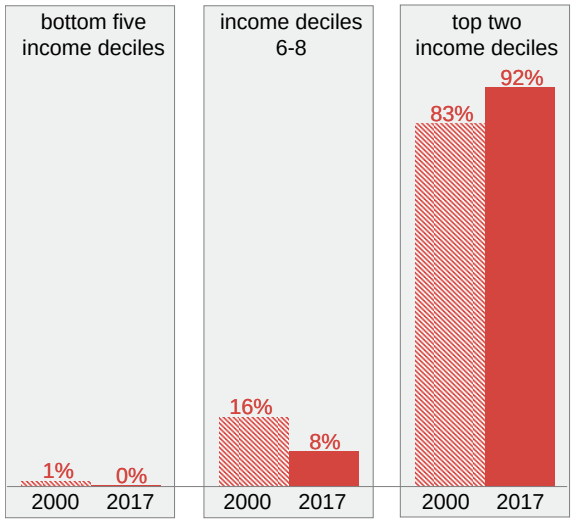
How is it possible that the "Start-up Nation" is not converging with, but is instead falling further and further behind, the leading countries for almost five decades? While Israel has state-of-the-art universities and high-tech companies at the forefront of human knowledge, they comprise just one part of the population. There is another population group in the country that does not receive either the tools or the conditions to work in a competitive, global and modern economy – and this population group's share out of the total is growing over time. The result has been like a weight pulling down the entire country. Providing this population with the appropriate tools and conditions is not only the right thing to do from a social perspective, it is also the right thing to do from an economic vantage point because Israel needs these persons to be a part of the national engine pulling the country forward.

Already today, half of Israel's population is so poor that it does not reach the lowest income tax bracket and pays no income tax at all (Figure 3). In contrast, 20% of the population – those in the top two income deciles – pay 92% of total tax receipts, a gradual increase from the 83% twenty years ago.

The direction that Israel is headed is clear, and the picture emerging from its schools only reinforces this direction for the future. Despite the high education budget, which recently overtook the country's defense budget for the first time, the average achievement level of Israeli children in the basic fields (mathematics, science and reading) is at

Figure 3

Share of total income tax revenue paid by income deciles




Source: Dan Ben-David, Shoresh Instit. and Tel Aviv Univ.
Data: Finance Ministry

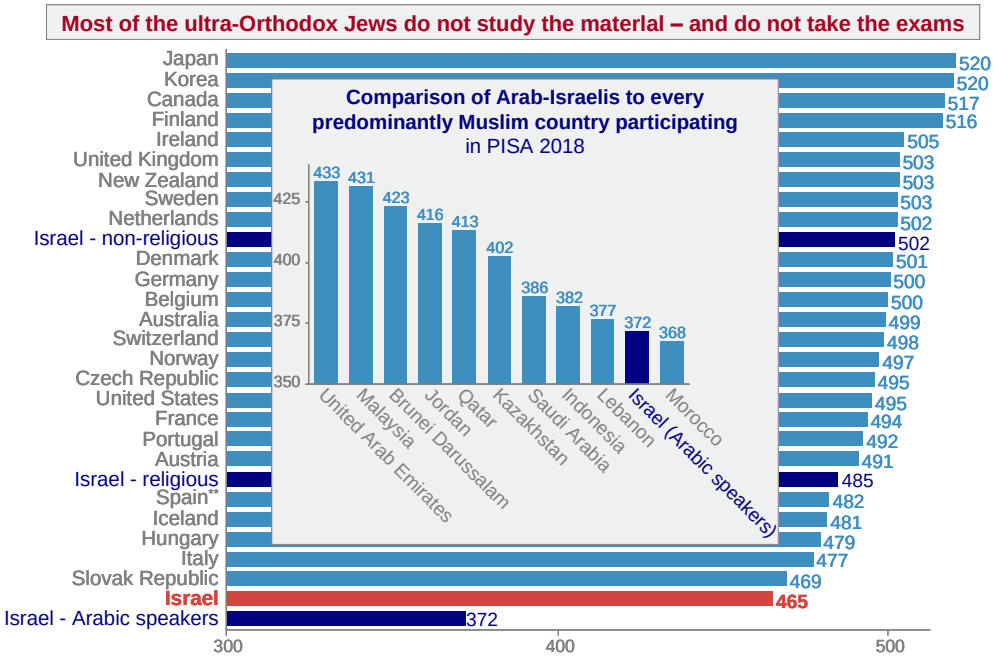
the bottom of the developed world (Figure 4) – and this does not take into account Haredi pupils who do not study the required material and do not participate in the international exams. Figure 4 shows how each of the countries is preparing its children for future competition with one another in the global economy, a future to which the children of Israel will arrive the least prepared.

Pupils from the secular education stream exhibit slightly above average achievements while the pupils from the religious (non-Haredi) stream are below a large majority of developed world countries. The education that Arabic-speaking pupils receive in Israel seemingly belongs to the third world. In fact, their achievements are below nine of the ten predominantly Muslim countries that participated in the most recent PISA exam.

Figure 4

Average level of education in developed world

Average achievement levels in 25 OECD countries and in Israel, PISA 2018 exams*




* National average in math, science and reading exams.

** Spain participated only in math and science exams.

Source: Dan Ben-David, Shoresh Institution and Tel Aviv University

Data: PISA and Israel's National Authority for Educational Measurement and Evaluation

Why is the level of education in Israel so low? There are plenty of excuses, but with limited transparency to examine them. Israeli classrooms are quite congested in comparison with the OECD. But an examination of the number of Israeli children per teacher (full-time equivalents) yields relatively similar ratios to the OECD average in primary schools and even a lower ratio in secondary schools in Israel than in the OECD. If that is the case, then why are there so many pupils in Israel's classes? Furthermore, it also turns out that Israeli pupils receive many more instruction hours than the OECD average – so why then, is their knowledge level so low? As noted, this is a system that does not assess itself methodically and is not open to comprehensive external examination.

A quarter of Israel's first graders are Arabic speakers with achievements below those of many third world countries. About one-fifth of the country's first graders are Haredim, most of whom do not learn the material at all, and study in their own ecosystem, completely isolated and without external oversight. In addition to these two groups, many pupils from Israel's geographical and social periphery also receive a very low level of education. In all, about half of the children in Israel today receive a third world education – and they belong to the fastest growing parts of the population.

Children receiving a third world education will be only able to support a third world economy as adults. But a third world economy cannot sustain a first world army – which is a necessary condition for Israel's continued physical existence in the world's most violent region.

So how did Israel reach this point, with universities that are still among the world's best alongside an education system that is the developed world's worst; with a cutting-edge high-tech sector that, along with the U.S., receives far more venture capital investments (relative to GDP) than any other country, while the nation as a whole is falling further and further behind the leading countries for almost half a century?

## The pivot in Israel's underlying infrastructures

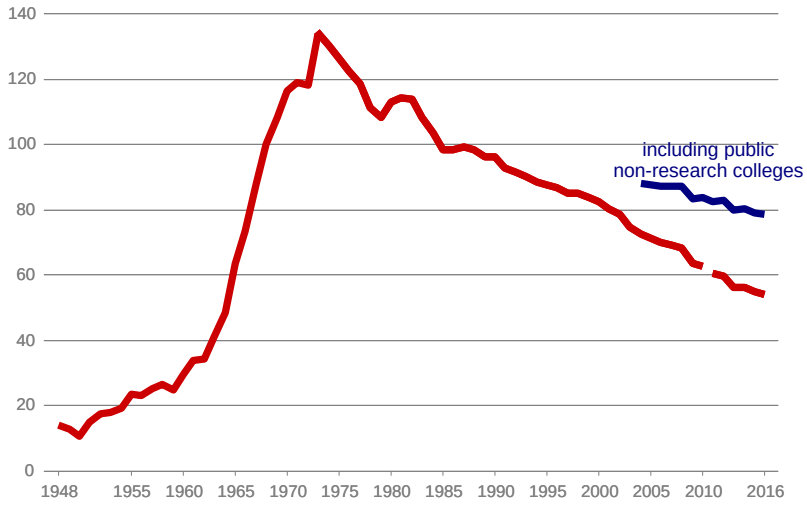
Underlying Israel's long-term trajectory are a number of key infrastructures. The major pivots experienced by these over the years were facilitated by the government's lack of transparency, from the lack of clarification in budgetary priorities that prevented the public from knowing where its taxes are earmarked to be spent, through government ministries operating like black boxes eschewing systemic and accurate measurement and evaluation. When it is not possible to track the actual distribution of funds, then the only remaining option is to examine the picture at the two ends that are visible – the final outcomes and total public expenditure.

Figure 5 shows the turnaround in national priorities with regard to the country's research universities, the top echelon of higher education in Israel. In its early years, it was a country flooded with immigrants with only their clothes on their backs, having to ration food during austerity and undergoing wars of existence. And yet, this country somehow found the wherewithal to also build research universities. By the eve of the 1973 Yom Kippur War, the number of Israel's senior university staff per capita approached American levels. Since then, the number of faculty members in Israeli research universities has fallen by two-thirds. Even the addition of

Figure 5

Senior research faculty in universities*

Senior research faculty per 100,000 people, 1948-2016




* Senior research faculty includes full professors, associate professors, senior lecturers and lecturers. Basis of data changed in 2011.

Source: Dan Ben-David, Shoresh Institution and Tel Aviv University
Data: Central Bureau of Statistics and the Council for Higher Education

senior academic staff at the country's non-research public colleges does not substantially change the picture.

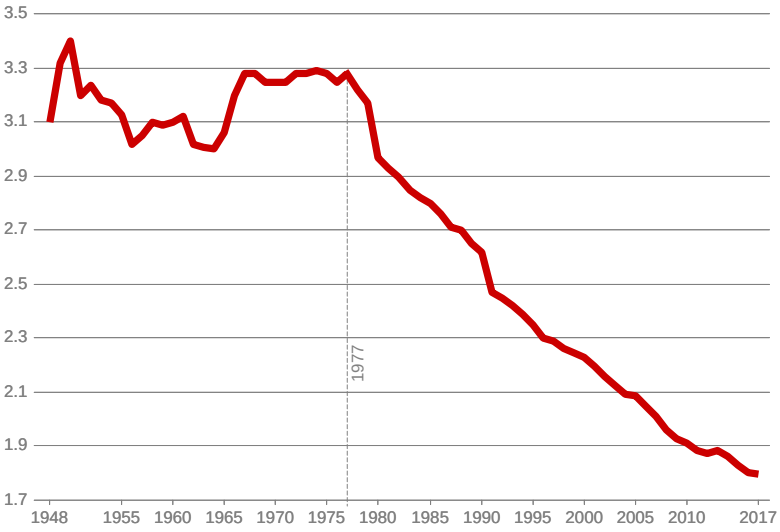
Israel's standard of living has more than doubled since the 1970s, making it much easier for subsequent generations to fund research universities than for the founding generation to build them. However, while Israel's current population is nearly three times its size in the early 1970s, Israel has not built another Technion, Hebrew University or Tel Aviv University. In fact, the total number of faculty members in each of these three institutions is lower by one-fifth than it was in 1973.

The sharp pivot in health care can be clearly seen in Figure 6. The poor country of the 1950s and 1960s managed to build not only towns, roads and research universities, but also hospitals. During the country's early decades, the number of hospital beds skyrocketed at the same phenomenol rate as the population, leaving the per capita share of beds relatively stable during this period. Since 1977, the number of hospital beds per capita has been in free fall. The result, along with a lack of adequate alternatives, drove Israel's hospital occupancy rate to the highest level among OECD countries.

Figure 6

Hospital beds*

per 1,000 population, 1948-2017




* Curative (acute) care hospital beds.

Source: Dan Ben-David, Shoresh Institution and Tel Aviv University
Data: Central Bureau of Statistics

When patients are placed in corridors and dining areas because of the lack of space, and when the per capita size of the hospital staff is among the lowest in the West, the results are not long in coming. Israel's mortality rate from infectious diseases (prior to the Covid-19 pandemic)

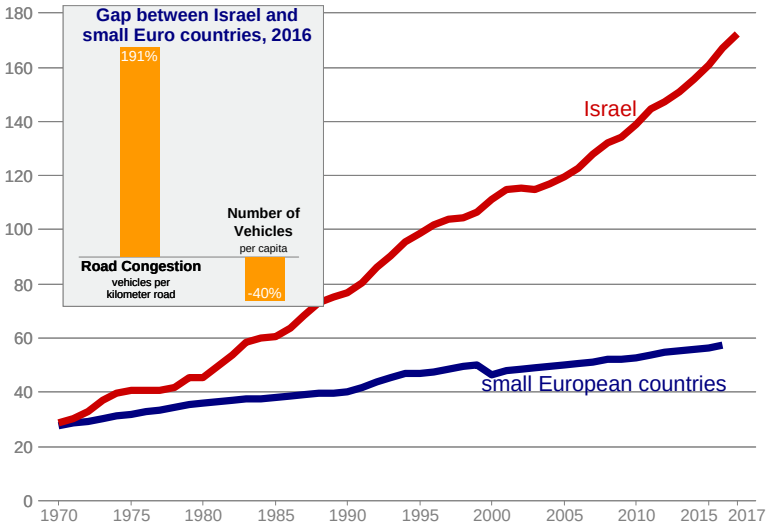
doubled in the last two decades, a phenomenon unparalleled in the OECD. The number of Israeli deaths from infectious diseases, adjusted for the different population age groups, is far above all other OECD countries – it's 72% higher than the second-ranked country, the United States (Ben-David and Kimhi, 2020). According to the State Comptroller Office, 4,000-6,000 Israelis die each year from infectious diseases – roughly 16-17 times the annual number of deaths from traffic accidents.

In 1970, the number of vehicles per kilometer road in Israel equaled the small European country average (Figure 7). Since then, although the number of vehicles per capita in Israel is 40% lower than the average for the small European countries, the congestion on Israeli roads is nearly three times higher because Israel's transportation infrastructure has been neglected for decades, with no alternatives for private vehicles being built.

Figure 7

Congestion on roads

number of vehicles per km of road in Israel and small European countries*, 1970-2017




* Belgium, Denmark, Netherlands and Switzerland.

Source: Dan Ben-David, Shoresh Institution and Tel Aviv University
Data: Central Bureau of Statistics, OECD, World Bank and Ingram and Liu (1999)

## The perpetual excuse – not enough money

While Israel's non-transparency precludes knowledge about the exact budget allotted for various purposes, it is nonetheless possible to know the total annual amounts spent by the country over time. Because of Israel's very high defense spending, it is common to accept the habitual excuse that not enough remains for civilian purposes.

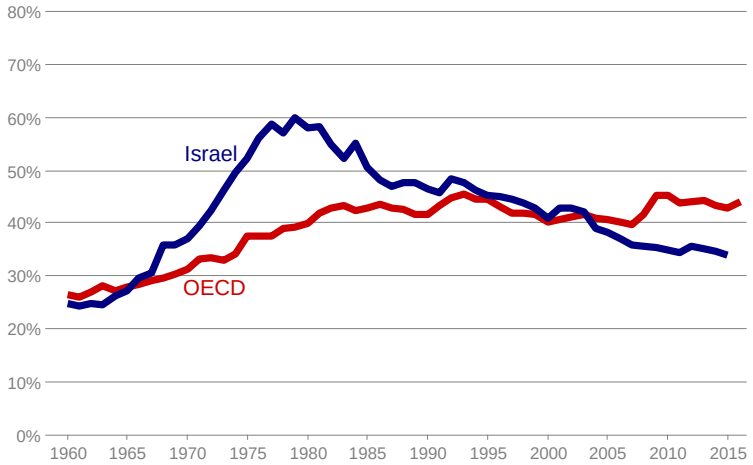
Figure 8 shows how little conventional wisdom is based on reality. Civilian public expenditure is defined as the total public expenditure minus total defense expenditure. While civilian public spending in Israel has been lower than the OECD average in recent years, Figure 8 clearly shows that from the mid-1960s until the early 2000s, Israel's civilian budgets – compared with the OECD – were not lacking.[3] All of Israel's socioeconomic pivots since the 1970s were not due to a lack of resources but to a reluctance to continue past budgeting priorities placing national interests above sectoral and personal ones.

Figure 9 hones in by separating between the numerator (public expenditures) and the denominator (GDP), showing how each of these changed in per capita terms (after deducting inflation) over the years. Civilian spending per capita began to skyrocket in 1967. Its rise was halted towards the end of the 1970s.

Figure 8

**Civilian government expenditures***

in Israel and OECD** as percent of GDP, 1960-2016



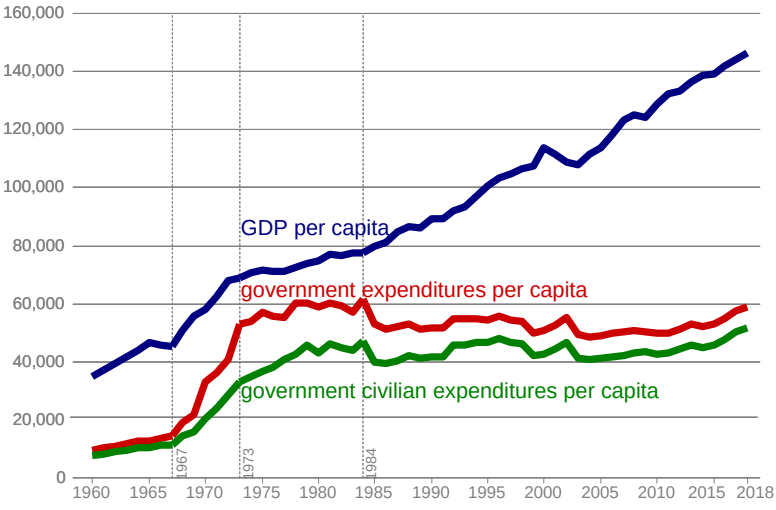

* General government expenditures minus military expenditures.
** Average for 31 OECD countries.

Source: Dan Ben-David, Shoresh Institution and Tel Aviv University
Data: OECD, World Bank and Bank of Israel

Figure 9

**Government expenditures* and GDP per capita**

1960-2018, in 2015 prices




* General government.

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

[3] Even when interest payments on the national debt are deducted from the civilian expenditures, this picture does not change by much (Ben-David, 2019).

After the Six Day War in 1967, Israel grew physically in a major way and the country invested considerable civilian resources in the new areas. During these years, it appears that this new spending was in addition to the earlier expenditures (as noted, the exact amounts allotted to the various priorities are unknown), which is why there does not appear to be a change prior to the 1970s in the socioeconomic trajectories described above.

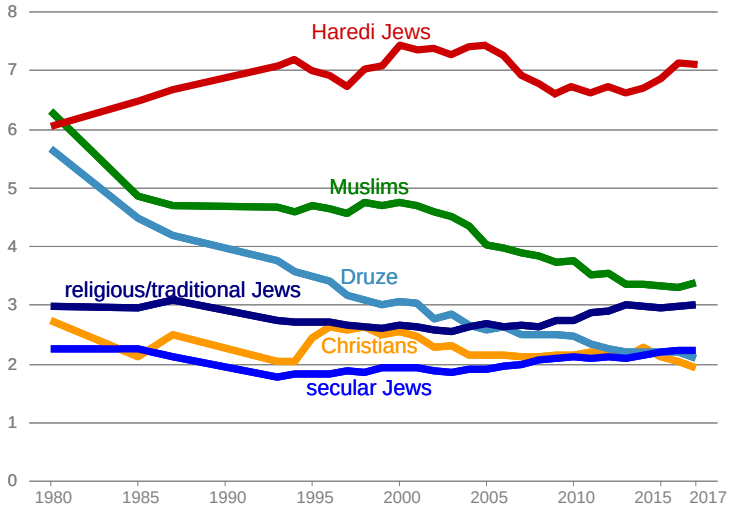
The Haredim joined the coalition for the first time after the 1977 political turnaround. Apparently, significant public resources – some clearly marked and others obscured in the budget – began flowing in their direction. While the lack of transparency makes it impossible to know the magnitude of the total amounts going to the Haredim, the resultant impact has been fairly obvious.

While fertility rates among all other population groups in Israel have declined or remained relatively stable over the decades (Figure 10), the average Haredi family added an entire child in the 1980s alone, with an additional half a child in the 1990s. Following the substantial across-the-board cut in government spending as a result of the Intifada in the early 2000s, Haredi fertility rates declined. Since then, after government budgets were increased and the flow of public funds in their direction resumed (at a still non-transparent scale), there was a clear turnaround in the number of births per woman, with Haredi fertility rates once again rising and crossing the seven children mark.

Figure 10

Fertility rates in Israel

average number of children per woman, 1980-2017




Source: Dan Ben-David, Shoresh Institution and Tel Aviv University
Data: Central Bureau of Statistics and Hleihel (2018)

The impact of the known and unknown budgetary allocations on the Haredim is also reflected in their male employment rates. Contrary to popular belief, Haredi men in Israel once

worked at normal levels. In 1979, the employment rate among prime working age (35-54) Haredi men exceeded 80%. As the flow of funds in their direction rose, male Haredi employment rates sank like a rock to under 40% over the next couple of decades. When the money flow to them slowed during the Intifada, employment rates of Haredi men began to rise. In recent years, as the expenditures reaching them increased once again, the rise in their employment petered out.

## Summary

In light of the significant non-transparency in Israel's national budgets, one can only speculate about what has transpired in the country over the years. Below is a conjecture about these processes.

Until the Six-Day War, Israel's budgetary priorities were guided by a national perspective that focused on building the new country. In the intervening decade between the 1967 Six-Day War and the political turnaround in 1977, Israel did not abandon its previous priorities, but instead supplemented them by spending additional civilian resources beyond the Green Line.

To cover the significant increase in civilian spending, that was also accompanied by huge military expenditures resulting from the wars, the country began printing enormous amounts of money – and inflation rates began to rise. Since 1977, public expenditures included the apparently swelling amounts allocated to the Haredim.

When the price increases began to approach hyperinflation rates, it became clear that it was no longer possible to continue the unfettered printing of money and the government began to cut back. Instead of cutting back on the new budgetary allocations, these were left intact – and even increased. The budget cuts came at the expense of yesteryear's national priorities.

The bottom line is that the impact of the shift in national priorities since the 1970s extends far beyond neglect of Israel's basic socioeconomic infrastructures. The pivot gave rise

to two new – deliberately opaque – processes, while one government coalition after another has serially avoided any consideration of their long term implications (the discussion below will not go into the political and moral aspects):

- The Haredim deprive their children of what is considered a basic right in every developed country except Israel: a core of education that would provide them with the ability to support themselves as adults with no need for assistance from others. While only 9% of adults today in Israel are Haredim, 20% of the children are Haredim as a result of the extraordinary increase in their fertility rates. According to the Central Bureau of Statistics' forecast, in just two generations, the grandchildren of today's Haredi children will comprise 49% of Israel's children in 2065. If they are not taught what they need, who will be the doctors, the engineers – and in general, the taxpayers – in the country when that future that is being created today turns into reality?
- If Israel invests large budgets beyond the Green Line, what exactly is the plan for the people already living there? Is the goal to add to Israel's population several million persons with low levels of education and skills who will need more support and assistance than the country is currently able to provide to those who are already its citizens today? Given the state of education presently being provided to about half of the Israelis, who will likely need to also receive aid in the future, where will the money come from? And if the goal is to annex the territories without granting full citizenship to all who live there, do the policy-makers think that Israel has the ability to withstand the kind of boycotts and embargos imposed by the developed world that toppled countries like South Africa and Rhodesia who adopted this model and later collapsed?

If the existential implications for Israel of these two processes were not enough, their funding has also come at the expense of key socioeconomic foundations built in the past and neglected since. In the final analysis, the lack of transparency deprives Israelis of the ability to

understand and internalize the full existential implications of the direction that the country has been led over the past several decades. Had the veil concealing where Israel is headed been lifted, it's unclear that a people repeatedly demonstrating a willingness to sacrifice their lives for the sake of their country would have agreed to the terminal direction that it has been led toward for so many years.

## *References*

### *English*

Ben-David, Dan (2019), "Two Wars and Demography – A Long Run View of Israel's Recent Elections," Shoresh Institution for Socioeconomic Research, Policy Brief.

Ben-David, Dan and Ayal Kimhi (2020), "Anarchy at the helm with Covid-19 on deck: Israel's lethal and horizon-less mix at the half year mark," Shoresh Institution for Socioeconomic Research, Policy Brief.

Ingram, Gregory and Zhi Liu (1999), "Vehicles, Roads, and Road Use: Alternative Empirical Specifications," working paper.

OECD (2019), *PISA 2018 Results: What Students Know and Can Do* (Volume I), PISA, OECD Publishing, Paris.

### *Hebrew*

Hleihel, Ahmad (2018), "Fertility among Jewish Women in Israel, by Level of Religiosity, 1979-2014," Central Bureau of Statistics working paper number 101.