

Policy Brief

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Israel's primary socioeconomic challenges and policy areas requiring core treatment

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Topics

1. Israel's primary socioeconomic challenges
 - Low productivity
 - High inequality and poverty rates
2. Policy areas requiring core treatment
 - Education
 - Adult training
 - Transportation infrastructure
 - Housing
 - Healthcare
 - Budget transparency and shadow economy
3. Conclusions

1. Israel's primary socioeconomic challenges

- **Low productivity**

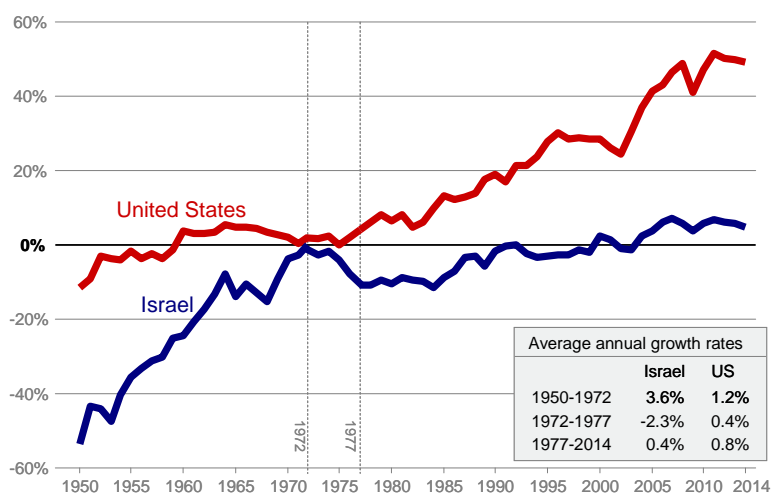
GDP can be increased by augmenting the quantity of production factors. But if output and population grow at the same rate, then GDP per capita – commonly used to indicate a country's average standard of living – will not change. The key to raising living standards is increasing total factor productivity, reflecting improvements in the quality – as opposed to the quantity – of workers and capital, as well as improved production methods. Total factor productivity is the primary determinant of national living standards and their rates of growth.

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Figure 1

Total factor productivity in Israel and US, 1950-2014*

both countries relative to Israel in 1972**, in constant prices



* Total factor productivity (TFP) reflects the part of GDP growth not explained by increases in labor and capital inputs. TFP is considered to be the primary engine underlying the economic growth of nations.

** Percent point difference between all observations and Israel in 1972.

Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: Feenstra, Inklaar and Timmer (PWT 9.0, 2016)

Total factor productivity in Israel and the United States is shown in Figure 1, which begins in 1950, two years after Israel was founded. Until the 1970s, Israel's total factor productivity grew at a faster pace than America's, with Israel almost completely eliminating its gap with the U.S. Israel's national priorities changed in the 1970s, and it moved from closing gaps vis-à-vis the U.S. to a steady backsliding away (in relative terms).

Though GDP per capita represents each person's average share of the output pie, many people do not work. Hence, this average doesn't provide a very accurate indication of each person's productivity contribution. While GDP per employed person is more precise, not all of those employed work the same number of hours per week. Some work full-time while others work part-time. Hence, the use of GDP per hour worked – also referred to as labor productivity – provides the most accurate gauge of workers' average productive capability in a country. This has a major impact on wages since it is not possible to pay high hourly wages when output per hour is low.

Israel's labor productivity picture is very similar to that of its total factor productivity – which is not a coincidence. Figure 2.a shows the development of labor productivity since 1970 for Israel and for the G7, the world's leading economies. Here too, it is possible to see that Israel is falling further and further behind the G7 average since the mid-1970s, with an over threefold increase in the gap between them. This reflects steadily widening disparity between what an employed person living in Israel can attain and what that person could attain in the countries that are pulling away from Israel. It's hard to see how these trajectories can continue to pull apart from one another for several more decades without causing the exodus of educated and skilled people from Israel to reach a magnitude that may become irreversible.

Figure 2

Labor Productivity

GDP per work-hour in PPP-adjusted dollars

Figure 2.a

Labor productivity in Israel and G7, 1970-2015

in 2010 dollars

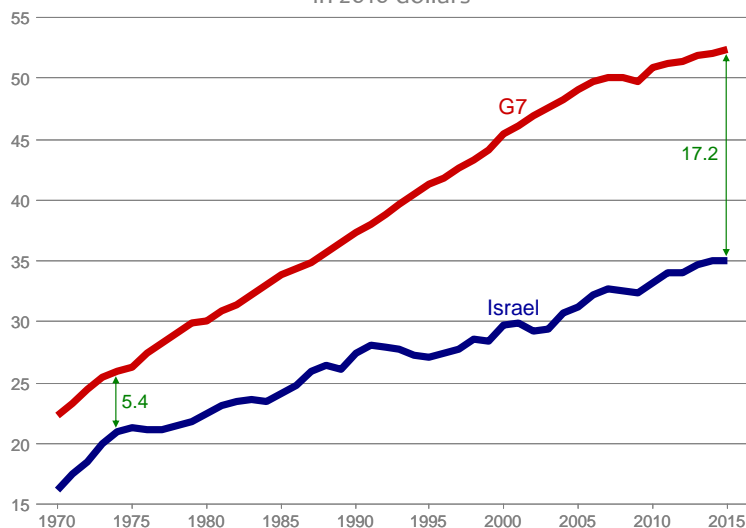
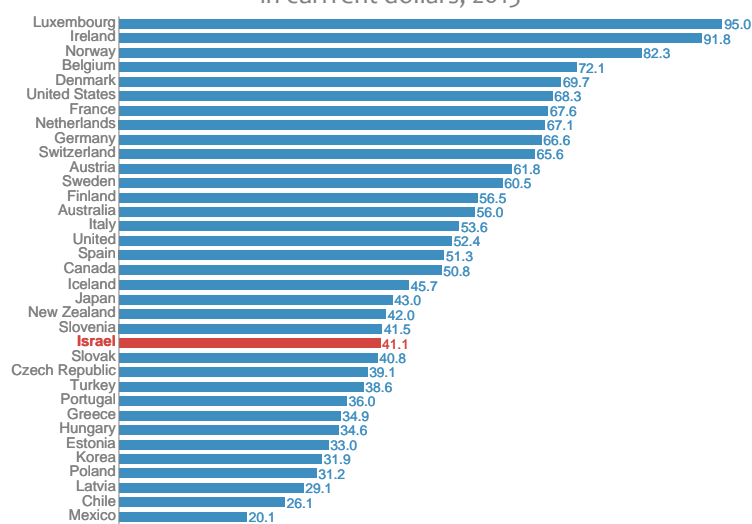


Figure 2.b

Labor Productivity in 35 OECD countries

in current dollars, 2015



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

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

Israel has not only fallen behind the world's leading economies. Its labor productivity is now below that of most OECD countries – and below all of the relevant developed-world nations (Figure 2.b). In 2015, GDP per hour worked in the U.S. reached \$68, two-thirds more than the \$41 in Israel.

- **High inequality and poverty rates**

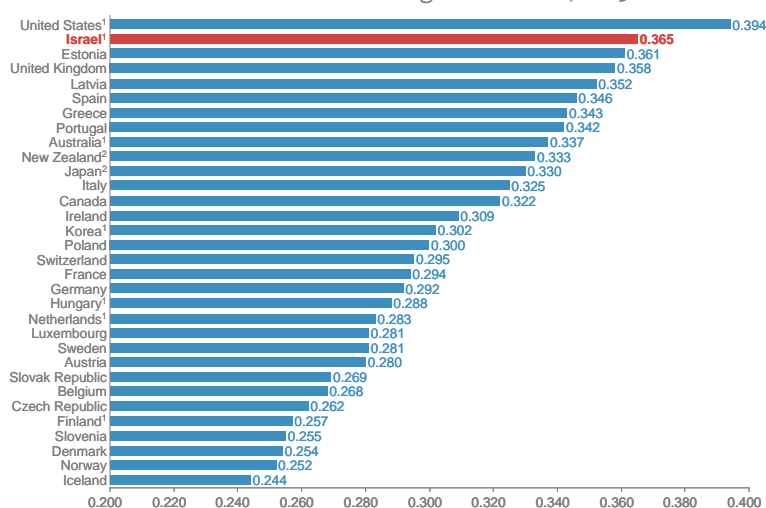
Israel's inequality and poverty rates in disposable incomes (that is, after transfer payments and taxes) are among the highest in the developed world. Compared with the OECD countries in Figure 3, inequality in Israel is second only to the United States. The country's poverty picture is even more serious (Figure 4). Israel's poverty rates are higher than those of all other developed countries – and are nearly double the OECD average.

The conventional wisdom shared by many policy-makers, and much of the general public, is that policies aimed at reducing inequality and

Figure 3

Disposable income inequality in the OECD*

Gini coefficient among households, 2013



* Income after taxes and transfers. All OECD countries except Mexico, Chile and Turkey

¹ 2014, ² 2012

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

Data: OECD

poverty come at the expense of economic growth. According to this perspective, heightened efforts to assist the poor come in the form of welfare benefits that require higher taxes which, in turn, reduce the desire to work and invest, and negatively impact economic growth. However, an approach based on increasing benefits addresses symptoms rather than underlying problems.

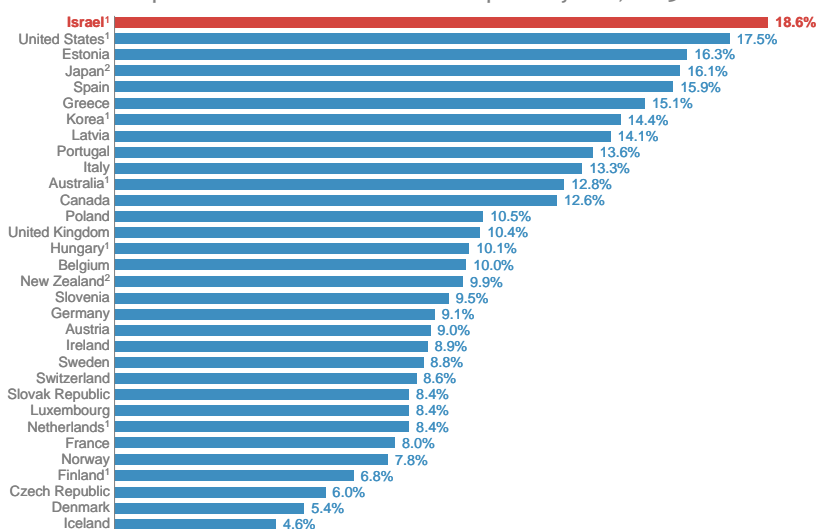
A core treatment of Israel's low productivity and high poverty and inequality requires a focus on the country's core problems: a deficient human capital infrastructure (education) and an inadequate physical capital infrastructure (particularly transportation). The more Israelis attain the skills and conditions necessary to contend in a modern economy, the better their personal situation will be (less poverty) and the greater the number of existing cylinders that will be utilized in the country's economic engine. The latter enhances the nation's ability to assimilate, utilize and develop knowledge – thereby increasing its productivity, raising its standard of living and increasing its rate of economic growth.

It is important to note that Israel's market income (i.e., before transfer payments and taxes) inequality is not unique in the OECD while it's market income poverty rates are actually below those of most OECD countries. The fact that Israel has very high inequality and poverty in disposable incomes under such conditions makes these high rates all the more exceptional. Lowering Israel's disposable income inequality and poverty rates to Western levels is possible via a substantial increase in welfare payments. A more viable and long-lasting solution would be to provide a greater number of Israeli citizens with better tools and conditions so that their labor incomes will rise.

Figure 4

Poverty in disposable incomes in the OECD*

percent of households below poverty line, 2013



* Income after taxes and transfers. Poverty line is 50% of median income. All OECD countries except Mexico, Chile and Turkey

¹ 2014, ² 2012

Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: OECD

2. Policy areas requiring core treatment

- **Education: substantially improve overall level and greatly reduce gaps**

Although the average number of years of schooling in Israel is high compared with other countries, the qualitative level of education is very low – and this is the main determinant of personal wages and of national output and economic growth. The quality of a year of schooling in Israel is below the quality of a year of schooling in nearly all developed countries. The achievements of Israeli children in basic subjects

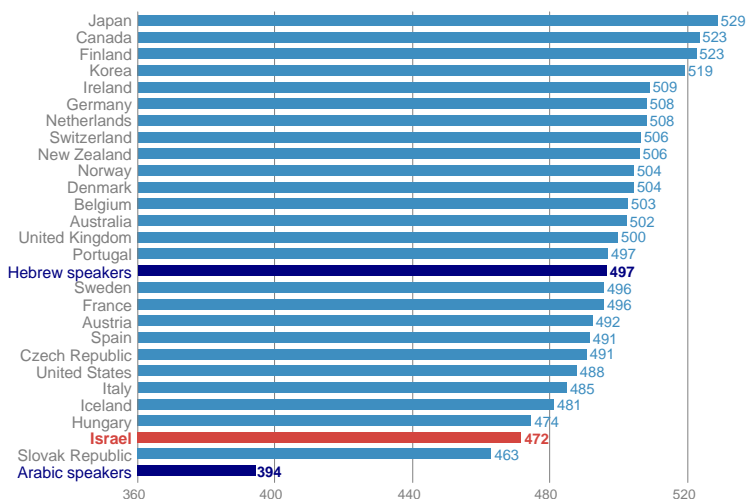
Figure 5

State of education in developed world

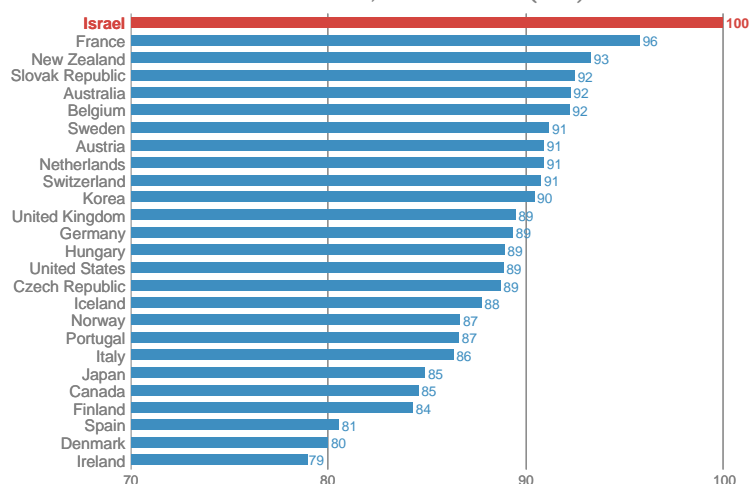
Average achievement levels in 25 OECD countries and in Israel, PISA 2015 exams

 Figure 5.a
 Education levels

mean scores


 Figure 5.b
 Education gaps

standard deviations, Israel = base (100)



* National average in math, science and reading exams. Israel results not including ultra-orthodox Jewish boys.

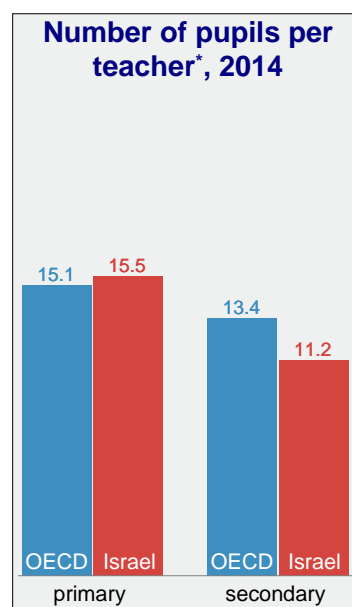
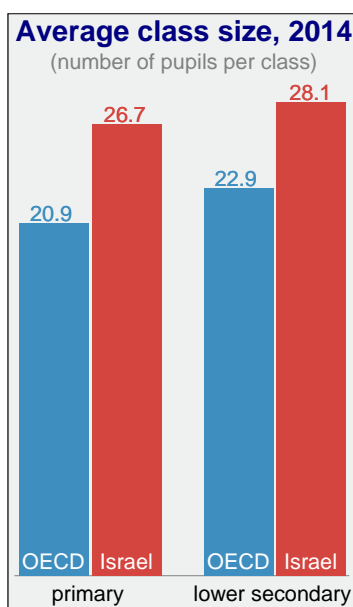
Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: OECD

(mathematics, science and reading) on international exams are among the lowest in the developed world (Figure 5.a). This problematic outcome was attained even without Haredi (ultra-Orthodox) boys, who do not study the relevant material and do not take the exams. Alongside the low achievements, the educational inequality among Israeli children in the basic subjects is the highest in the developed world (Figure 5.b), which will impact future income gaps. The education system is in need of a major structural reform. Given the long term consequences for the nation's future, one cannot overstate the importance of such a reform.

- The problem is not the quantity of resources but rather their quality and utilization
Israel's overcrowded classrooms are not the result of a teacher shortage (Figure 6). On the one hand, the number of Israeli children per class is indeed high compared with the OECD average. On the other hand, the number of Israeli pupils per teacher (in full-time equivalents) is nearly identical to the OECD

Figure 6



* according to full-time equivalents

Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: OECD

average in primary schools, and even below the OECD in secondary schools. Not only is there no shortage of teachers in the system, Israel also does not lack instruction hours in the basic subjects. The number of instruction hours provided in most of the OECD countries is less than the number in Israel, but the achievements in nearly all of these nations are higher than those of Israel (Figure 7). The education system's emphasis must therefore switch from quantity to quality: what is taught and who is teaching.

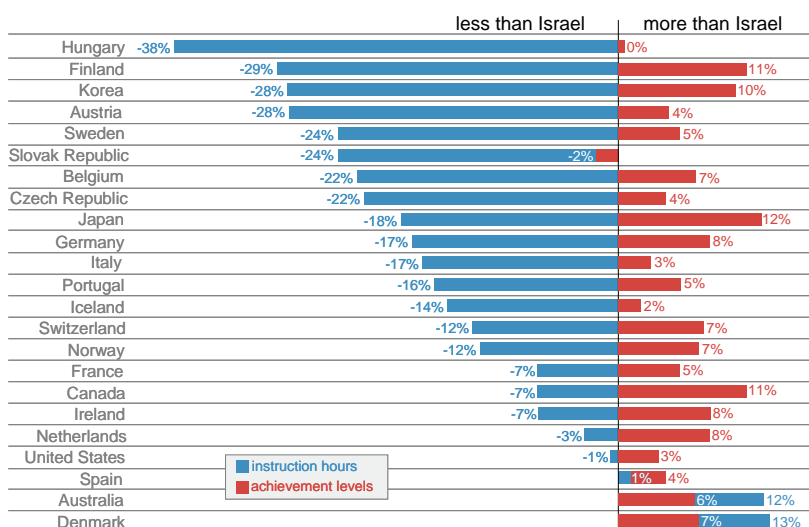
- A uniform and higher-quality core curriculum in the basic subjects is needed in all of Israel's schools.

The current situation allows Israel's various educational streams to live in separate bubbles with emphases that do not always relate to life in a competitive, modern world. Pupils need to receive a core curriculum that will provide them with the basics and the flexibility befitting future careers that will include, for many, switching workplaces every two or three years. Such a core curriculum should also prepare pupils for life as citizens with a basic understanding of democracy, human rights and civil rights.

- Haredi children are entitled to receive the same basic education as all others

While every person has the right to choose his or her lifestyle, there is only one economic market. The skills needed to succeed in a competitive and open marketplace are the same for all, regardless of one's lifestyle preferences. This is why modern nations determine a core curricula encompassing subjects necessary for future labor market participation. The right to be receive these skills is a basic right of every child. In no modern country, other than Israel, are parents allowed to deprive their children of this basic right. Haredi children in the U.S. (for example) receive primary and post-primary education at a level that enables them to earn academic degrees at double the rate of Israeli Haredim (Figure 8). Since Haredim constitute a large population group that is growing at twice the rate of all other

Figure 7
Instruction Hours and Achievement
 23 OECD countries relative to Israel

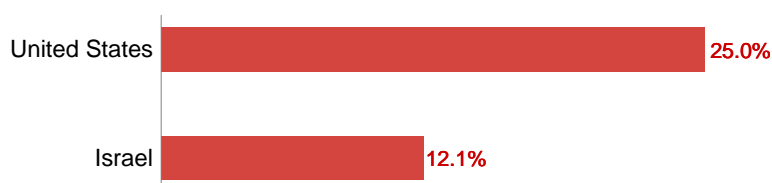


* Cumulative number of compulsory instruction hours in primary and lower secondary schools. and average achievement levels in math, science and reading in PISA 2015.

Source: Dan Ben-David, Shores Institution and Tel Aviv University
 Data: OECD

Figure 8

Share of Haredim with an academic degree, 2013



* Adults 18 and up in the US and 20 and up in Israel.

Source: Dan Ben-David, Shores Institution and Tel Aviv University
 Data: Central Bureau of Statistics and Pew Research Center

population groups in the country, their receipt of a quality education in basic subjects is vital not just for the children themselves; it is also becoming more and more necessary for the State of Israel.

- The way teachers are trained, compensated and employed needs to be changed
 94% of education students study at non-research colleges (the rest are at universities), most of them at teaching colleges where the students' average psychometric exam score (similar to American SATs) is below 61% of all exam scores. The rest attend general non-research colleges where education students' mean psychometric score is less than 76% of all Israelis' exam scores (Figure 9). There are, without a doubt, highly gifted individuals who choose the teaching profession out of a sense of mission, but this is not the general picture regarding Israeli teachers.

Good teachers must, first and foremost, have a high level of understanding of the material that they teach. To attain such quality at the numbers needed, the emphasis in hiring should shift from persons with teaching degrees, who have only secondary knowledge of specific disciplines, to persons with academic degrees in the various disciplines who receive teaching certificates only after completion of their studies.

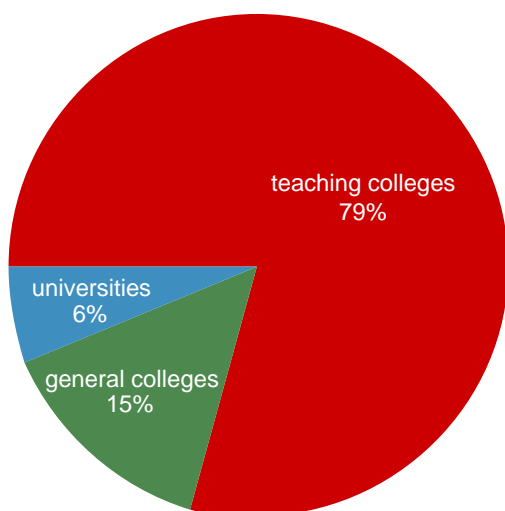
Such a switch in hiring priorities will help resolve a number of issues. For example, graduates with BAs in mathematics will have several labor market options and will not be compelled to become teachers. If the country wants them as teachers, it will have to pay wages that are competitive with their labor market alternatives. But when the competition is the private market, the effect will not be

Figure 9

Education students – distribution and general level

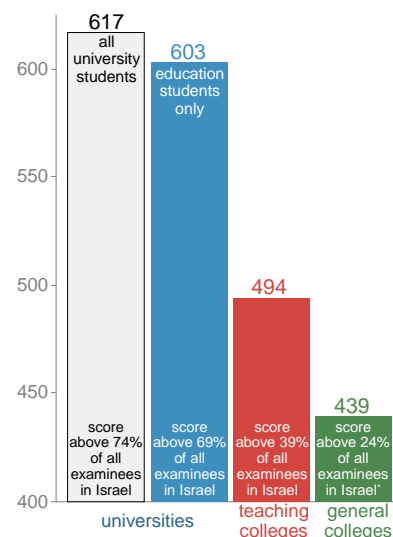
Distribution of education students

by type of institution, first year
undergraduate students, 2014-2015



Average psychometric score

by type of institution, all first year
education students, 2014-2015



* The average psychometric score of all 1st year students in the general colleges was 529 (above 48% of all examinees in Israel).

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

limited just to higher wages. The number of hours worked per day and the number of days worked per year will have to rise as well – making it possible to employ fewer teachers at higher wages.

• Adult training

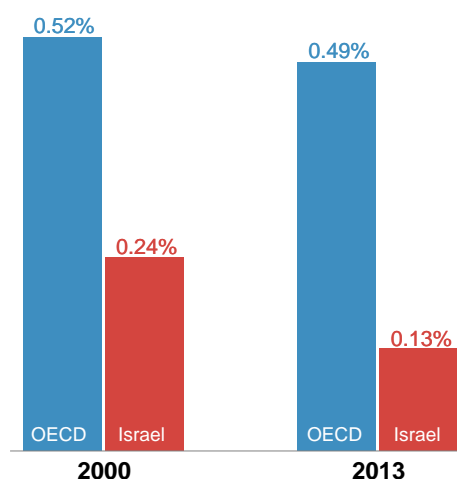
In a natural continuation from the previous section, significant reductions in welfare benefits a decade and a half ago forced many people to enter the labor force. Since many were not provided with adequate skills and conditions, their productivity was low, which precluded the possibility of higher wages. As a result, the working poor phenomenon has grown in Israel.

- Opportunities need to be provided to those adults who wish to upgrade their education and/or skill levels. However, budgets to fund active labor market policies in Israel are small in comparison with most developed countries (Figure 10). That said, budgets alone are insufficient. These need to be accompanied by a serious measurement and evaluation methods that would both aid in the provision of better skills and increase the budgets' effectiveness.
- The provision of personal skills is not always sufficient for potential workers to enter the labor market. It is also important to provide a supportive environment. To enable parents to work, the school day should be extended to at least 3 in the afternoon, with hot, nutritious lunches served in adequately equipped school cafeterias. This can be financed, for instance, by diverting resources away from the billions of shekels currently spent on child allowances. In poorer neighborhoods and towns, subsidized enrichment programs should be operated during the afternoon hours. Additionally, connecting towns in Israel's geographic periphery to a transportation infrastructure that is rapid, readily-available and inexpensive will enable many people to reach workplaces that are currently inaccessible to them (more on this in the next section).

• Significantly upgrading Israel's transportation infrastructure

- Israel's congested roads reduce productivity, increase inequality and raise the country's poverty rates. Traffic congestion that requires a firm to double the number of its drivers and trucks reduces their productivity – a phenomenon that affects all of Israel's business sectors. A lack of access to workplaces located in the country's bigger cities substantially diminishes employment options for those with low education and skill levels living in the periphery, impacting poverty and inequality.

Figure 10
Active labour market programs in OECD and Israel
 public expenditure as percent of GDP in 2000 and 2013

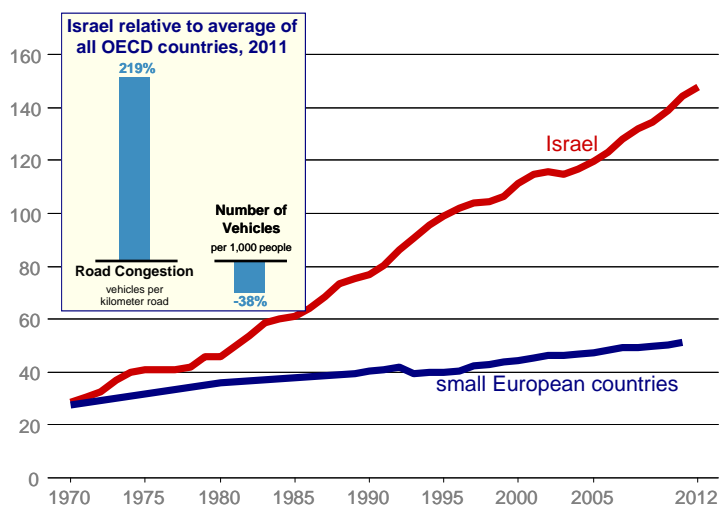


Source: Dan Ben-David, Shores Institution and Tel Aviv University
 Data: OECD

Figure 11

Congestion on roads, 1970-2012

number of vehicles per kilometer of road in
Israel and small European countries*



* Belgium, Denmark, Netherlands and Switzerland

Source: Dan Ben-David, Shores Institute and Tel Aviv University

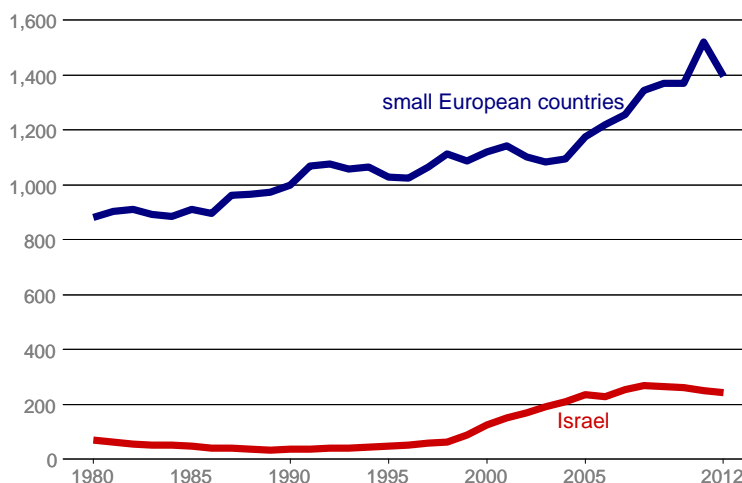
Data: Israel's Central Bureau of Statistics, World Bank and Ingram and Liu (1999)

- On the face of it, this issue appears to have been understood and addressed in recent years. But road construction in Israel is not keeping pace with the natural increase in annual kilometers traveled, and gaps with developed nations are continuing to grow. The number of vehicles per surface area of roadway in Israel has been rising steadily from year to year (there has been a 20% increase since 2005 alone). In 1970, congestion on Israel's roads, as measured by the number of vehicles per kilometer of road, was identical to the average for Europe's smaller countries. Today congestion in Israel is over three times that of Europe's smaller countries (Figure 11). This is despite the fact that the number of vehicles per capita in Israel is very low compared to the OECD average.
- The Israeli railroad picture is even more problematic (Figure 12). Here too, there has been an improvement in recent years. But this improvement is dwarfed by the upgrades implemented during the same period in the smaller European countries, where the situation was much better to begin with.

Figure 12

Railway passengers

passengers-kilometers relative to population size in Israel and small European countries*



* Belgium, Denmark, Netherlands and Switzerland

Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: World Bank

• Housing

Falling interest rates in Israel and abroad, since the U.S. subprime crisis in 2007, caused much capital to move from financial assets toward real estate investments in Israel, especially to the purchase of investment apartments. This interest rate effect was intensified by tax policies favoring rental income over income from financial investments. The slow pace of housing construction – due to bureaucratic and other obstacles – coupled with growing demand resulting from the rising number of investors, caused housing prices to climb. In many instances, especially in the larger cities, this resulted in home ownership moving out of reach for large numbers of families, forcing them to rent apartments. This, in turn, caused rents to rise and make investment in rental apartments even more attractive.

- Governmental programs intended to help first-time homebuyers, such as *Mechir Lamishtaken*, often provide public funding for investment apartment purchases via eligible proxies.
- Demand-side measures: taxing rental income like all other capital income, would lower the return on investment apartments and reduce the number of investment purchases. While such a measure would bring down the supply of rental apartments, the demand for such apartments would also decline since dwindling investor demand will enable more renters to buy apartments.
- Supply-side measures entail concentrating the authorization and budgeting for planning and construction. In the current setup, for example, local authorities find it more advantageous to approve industrial and commercial areas that pay relatively high property and municipal taxes than to authorize residential construction that requires them to invest in infrastructures and public services for families and children.
- Long-term solutions to underlying housing problems will be a natural outcome of the substantially upgraded education and transportation infrastructures needed to address the core productivity, inequality and poverty issues referred to above. A structural reform upgrading the level of education throughout the country, especially in the peripheries, transforming current peripheries into future suburbs (thus bringing most of Israel's population to within a half an hour range of a major city) will enable young families to move out of expensive cities and purchase more spacious dwellings at lower prices, without sacrificing quality education for their children or access to their jobs.

A concomitant outcome is that the children already living in the periphery will benefit from enhanced education – with its resultant impact on their future – while their parents' access to jobs will improve and their incomes will rise. Similarly, the above conditions will provide a greater incentive for firms to relocate to these less expensive areas (enabling the government to reduce, or even eliminate, subsidies that it currently give firms as an enticement to relocate to the periphery), which will also help increase productivity and reduce inequality and poverty.

• Healthcare

- Significantly reduce hospital occupancy rates

The number of hospital beds per capita in Israel has been falling ever since a major policy shift in the late 1970s. It is now near the bottom of the OECD (Figure 13). In lieu of alternatives, Israel's hospital occupancy rate is the OECD's highest (Figure 14). Many patients are placed in corridors and dining areas, with no privacy and in conditions that do not meet sanitary requirements.

- Double the number of nurses

The average number of nurses per capita in the OECD is high, and has been rising over the years. Israel has one of the lowest numbers of nurses per capita in the Western world – a number has been declining over time (Figure 15). The future is not promising so long as the share of nursing graduates in Israel's population remains near the bottom of the OECD (Figure 16). Not only must hospital patients contend with problematic physical conditions, they are also forced to rely on medically unqualified family and friends to minimize the harm to their health during periods of hospitalization.

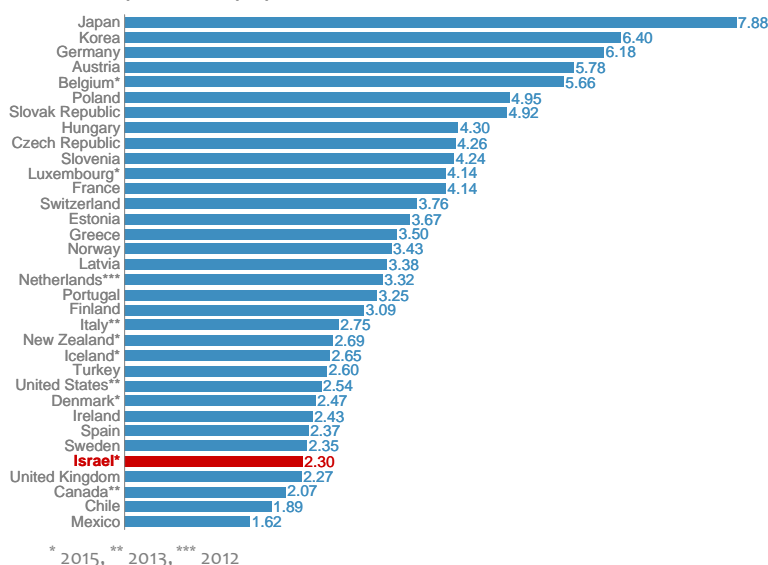
- Reduce deaths from infectious diseases by half

Hospital conditions in Israel do not benefit those of a developed nation. The system's treatment of patients all too often causes frustration and triggers backlashes of anger that sometime even culminate in violence toward healthcare staff. It has also contributed to a doubling of the mortality rate from infectious

Figure 13

Hospital beds¹

per 1,000 population in all 35 OECD countries, 2014



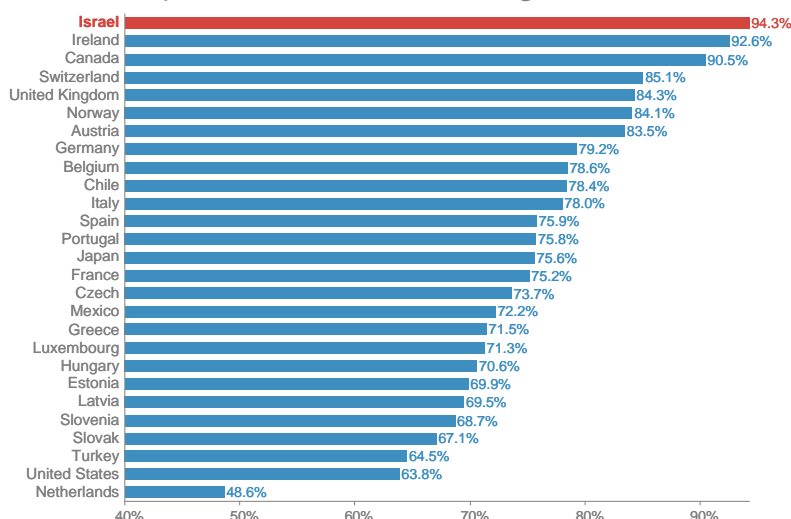
Source: Dan Ben-David, Shores Institution and Tel Aviv University

Data: OECD

Figure 14

Hospital occupancy rates

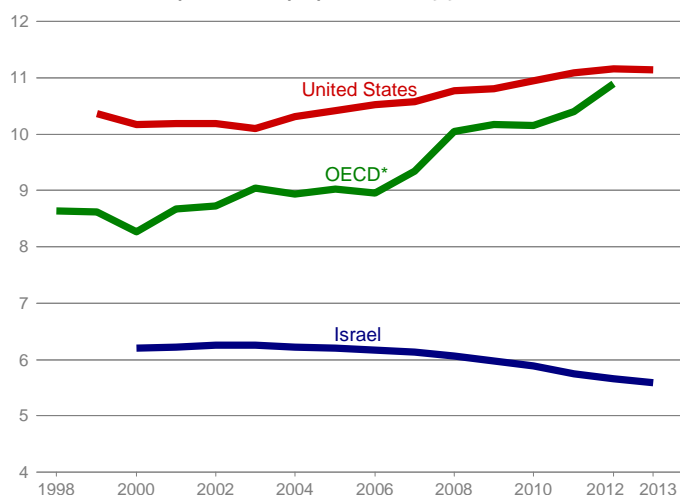
as percent of available beds, average for 2010-2014



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

Data: OECD

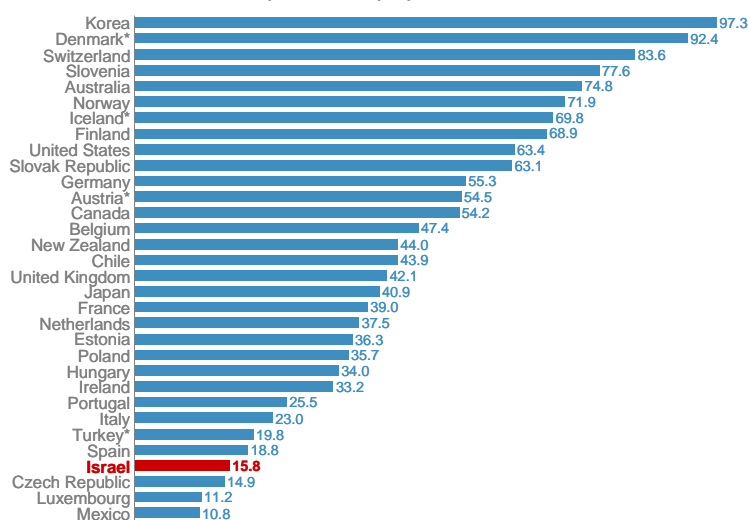
Figure 15
 Professionally active nurses
 per 1,000 population, 1998-2013



* OECD average excludes US and Israel

Source: Dan Ben-David, Shores Institution and Tel Aviv University
 Data: OECD

Figure 16
 Nursing graduates
 per 1,000 population, 2013



* 2012

Source: Dan Ben-David, Shores Institution and Tel Aviv University
 Data: OECD

and parasitic diseases (normalized after adjusting for the relative share of the various age groups in the population and their respective mortality rates) over the past two decades (Figure 17.a). By contrast, the average OECD mortality rate was stable during the same period. This steep increase has brought Israel to the top of the developed world in terms of deaths from infectious and parasitic diseases (Figure 17.b). It's normalized mortality rate is 50% higher than the mortality rate of the second-place country, Mexico.

Figure 17
 Deaths from infectious and parasitic diseases
 per 100,000 population

Figure 17.a

Changes over time, 1975-2013

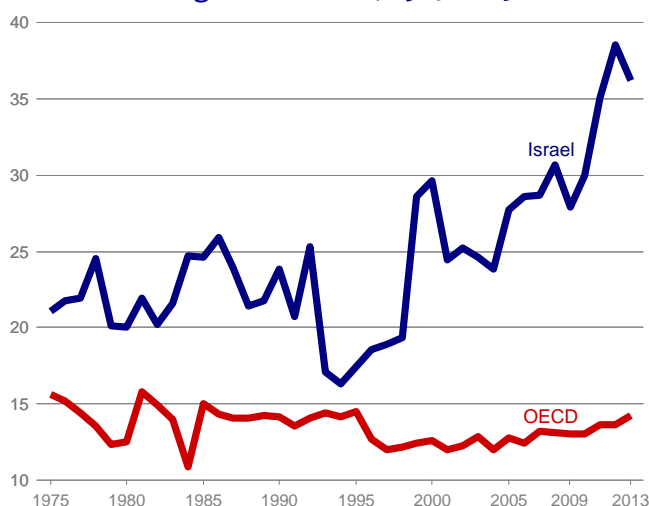
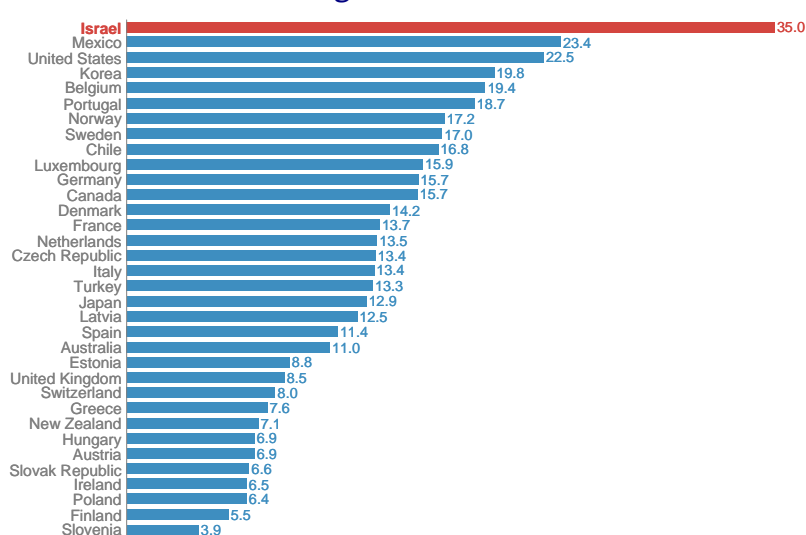


Figure 17.b

Average for 2010-2014



* adjusted by the ratio of standardized population to actual population

Source: Dan Ben-David, Shores Institution and Tel Aviv University
 Data: OECD

To get a perspective of how severe Israel's mortality rate from infectious and parasitic diseases actually is, the annual number of Israelis murdered in terrorist attacks is measured in the tens, the number of those killed in traffic accidents is measured in the hundreds, while the number of those dying each year from infectious and parasitic diseases is measured in the thousands. Clearly not all deaths from infectious and parasitic diseases are due to improper care or hospitalization conditions. But when the number of such fatalities doubles over a twenty-year period and reaches twice the developed-country average, then alarm bells need to go off around the country. Reducing the mortality rate from infectious and parasitic diseases in Israel to Western norms will save over a thousand Israeli lives each year.

- Prepare for the aging of Israeli society

Though Israel's population is among the youngest in the developed world, its rate of aging is one of the highest. Given the lengthy time period needed to train healthcare personnel and to create healthcare infrastructures, strategic planning is urgently needed to determine future needs, and to begin the process of attaining these healthcare objectives.

As in other realms, the problem is not the total amount of money entering the healthcare system, but rather the way in which it is allocated and the degree to which it is used. Israel's national healthcare expenditure (after normalizing the population by age groups with differing mortality rates) as a percent of GDP is above the OECD average. Israeli public spending on health (after normalization) places the country in the middle of the OECD rankings, while private spending is relatively high. This outcome increases disparities in the receipt of healthcare services.

- **Budget transparency and shadow economy**

When it comes to funding government expenditures, the public and professional discourse in Israel tends to focus on what is relatively easy – raising taxes or increasing deficits – rather than on what is required, given Israel's long-term socioeconomic trajectories. Israel needs a change in mindset with regard to government expenditures and income.

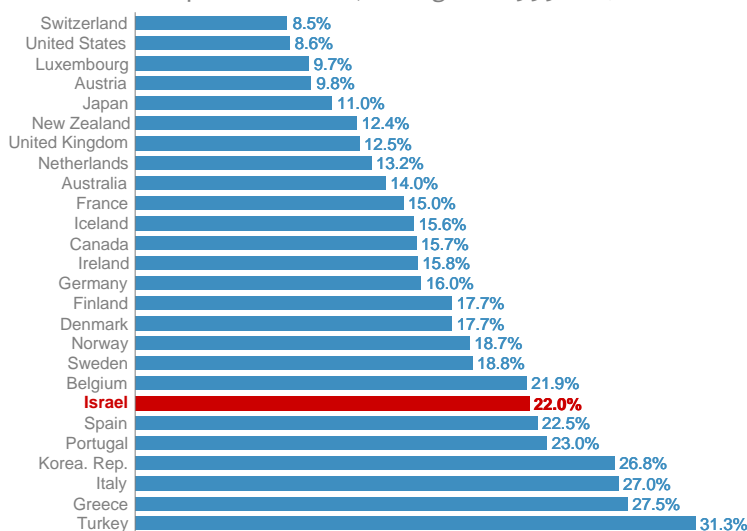
- Government expenditures: increase transparency and change national priorities

The scope of the changes described above requires a fundamental reset of the nation's priorities and a sea change in the focus of its budgetary allocations. This necessitates budgetary transparency that will facilitate a true understanding of where the money is going today, which in turn will enable a discourse based on actual costs to finally begin.

- Government income: reduce the shadow economy by half

Israel's shadow economy is one of the developed world's largest. The country's unreported business activity averaged over one-fifth of GDP during the years 1999-2007 (Figure 18). Assuming that this share has not changed in recent years, Israel's shadow economy reached 253 billion shekels in 2015. This amounts to 78% of all government expenditures that year. Reduction of the shadow economy would contribute to a significant increase in the government's tax income and a more equal sharing of the burden – while also providing a bit of a reduction in expenditures on those found to be working and have incomes.

Figure 18
 Size of shadow economies in OECD*
 as percent of GDP, average for 1999-2007



* excluding E. Europe and S. American countries

Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: Buehn and Schneider, 2012

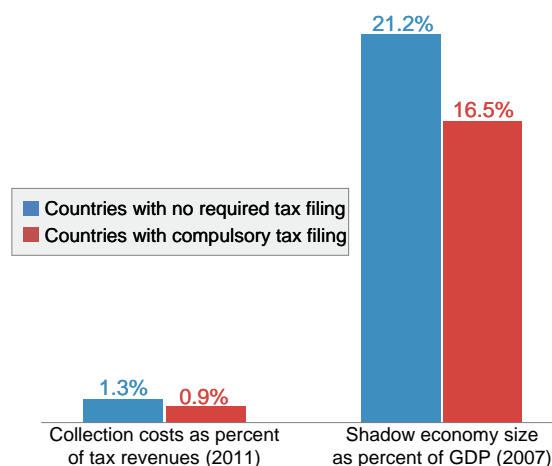
One route towards reducing the shadow economy is the institution of compulsory income tax reporting – alongside heightened law enforcement. In countries that mandate reporting, the shadow economy is, on average, one-fifth smaller than in countries where there is no reporting requirement (Figure 19). Not only do the costs of tax collection account for just a miniscule share of the total tax revenues, countries with mandatory tax reporting also tend to have more efficient tax collection systems.

Israel has the ability to implement significant changes of direction. This ability has been demonstrated in the past, in times of clear and great pressures – and dangers – when both the society and its leaders understood the need to focus on the greater good rather than on narrow, sector-specific interests.

3. Conclusions

Israel has reached a critical juncture. Decisions that it makes today will literally determine the existence of the country in a few decades. Already today, half of the nation's children receive a third-world education (Figure 20), and these are children belonging to Israel's fastest-growing population groups. Children who receive third-world educations will only be capable of sustaining a third-world economy. But a third-world economy will not be able to maintain the

Figure 19
 Shadow economies versus
 collection costs in the OECD



Source: Noam Gruber, Shores Institute (from Taub Center's State of the Nation Report 2014)

Data: World Bank, Buehn and Schneider, 2012

first-world army that Israel needs in order to survive in the most dangerous region on the face of the earth.

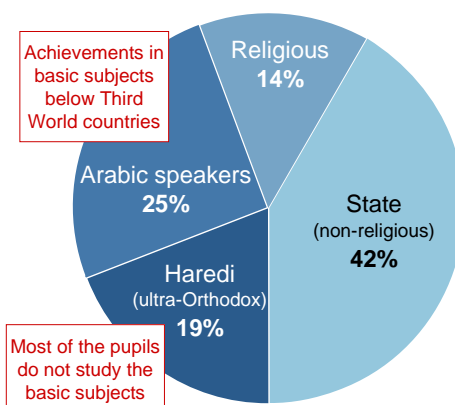
Israel has not yet passed the point of no return. The fact that it is a young country with a large number of children is a tremendous advantage – if these children will be prepared for the future while there is still time to do so. Israel has world-class universities, a knowledge base and an entrepreneurial spirit that attract large amounts of foreign investment. When it comes to venture capital investments to fund new ideas – a basic engine of technological innovation – Israel is in a completely different league from all other developed countries (Figure 21).

In light of the rapid pace of current demographic changes, there is just a small window of opportunity remaining for making decisions that are already very difficult to reach today. There is a demographic-democratic point of no return, after which it will be impossible to obtain a majority in the Knesset to implement the fundamental change needed in Israel's national priorities.

As if this were not enough, Israel faces a critically low tax base in the future, unless there will be a change in the capabilities of its population. The country relies more on indirect taxes than do most developed nations. Since such taxes are regressive and pose a greater burden on weaker segments of the population, countries strive to shift a greater portion of their income toward direct-taxation. In today's Israel, half the population pays no income tax because it does not reach the lowest income tax bracket, while 90% of all income tax revenue comes from just 20% of the population (Figure 22).

This is skewed even by American standards, where 20% of the population account for 82% of total income tax revenue – roughly where Israel was in 1999 (83%). The amount of income tax paid by the top two deciles, as a share of GDP, provides an indication of the relative burden placed upon them. The current income tax burden on the top two deciles in Israel is over 50% greater than it is in the United States.

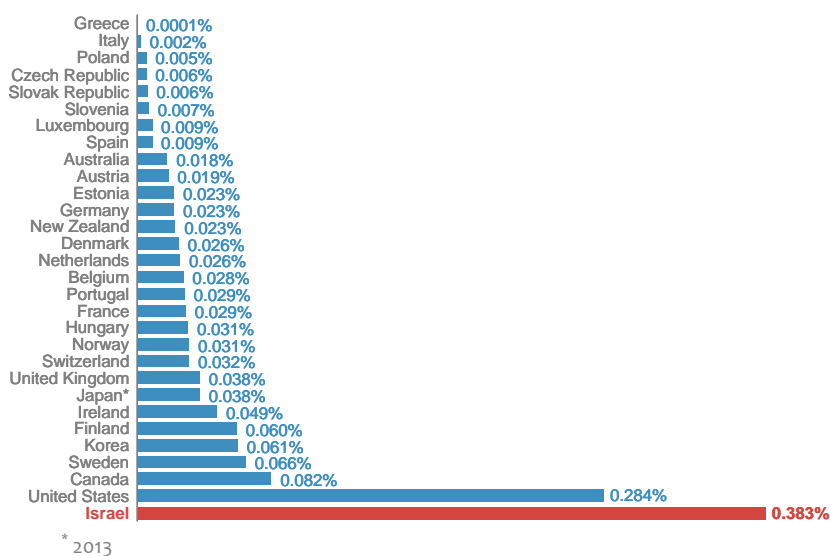
Figure 20
Distribution of pupils in 1st grade, 2014



Source: Dan Ben-David, Shores Institute and Tel Aviv University

Data: Ministry of Education

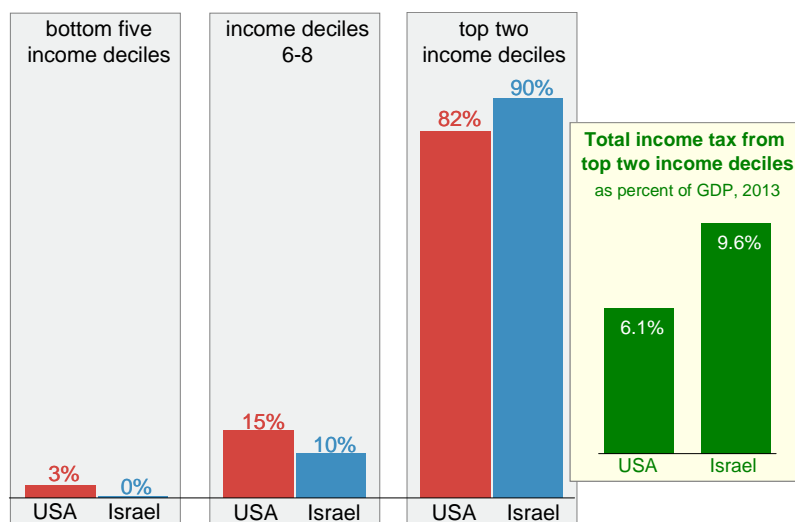
Figure 21
Venture Capital Investments, 2013
29 OECD countries, as percent of GDP



Source: OECD

As the population lacking skills and conditions for competing in a modern economy grows, the greater the need for welfare assistance – and the smaller the future tax base will be. The options that young, well-educated people have are not confined to Israel's borders. The greater the number among them who lose hope that a long-term national perspective will prevail over short-term sector-specific interests, the greater the number of personal conclusions that will be drawn. It is important to emphasize that such conclusions are not yet being reached on a major scale. But the writing is on the wall. One nation-shaking crisis – emanating from the security and/or economic spheres – could spark a process from which there will be no turning back.

Figure 22
Share of total income tax revenue paid by income deciles *



* Israel in 2015, USA in 2013

Source: Dan Ben-David, Shores Institution and Tel-Aviv University
 Data: Israel's Finance Ministry and Center for Federal Tax Policy

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