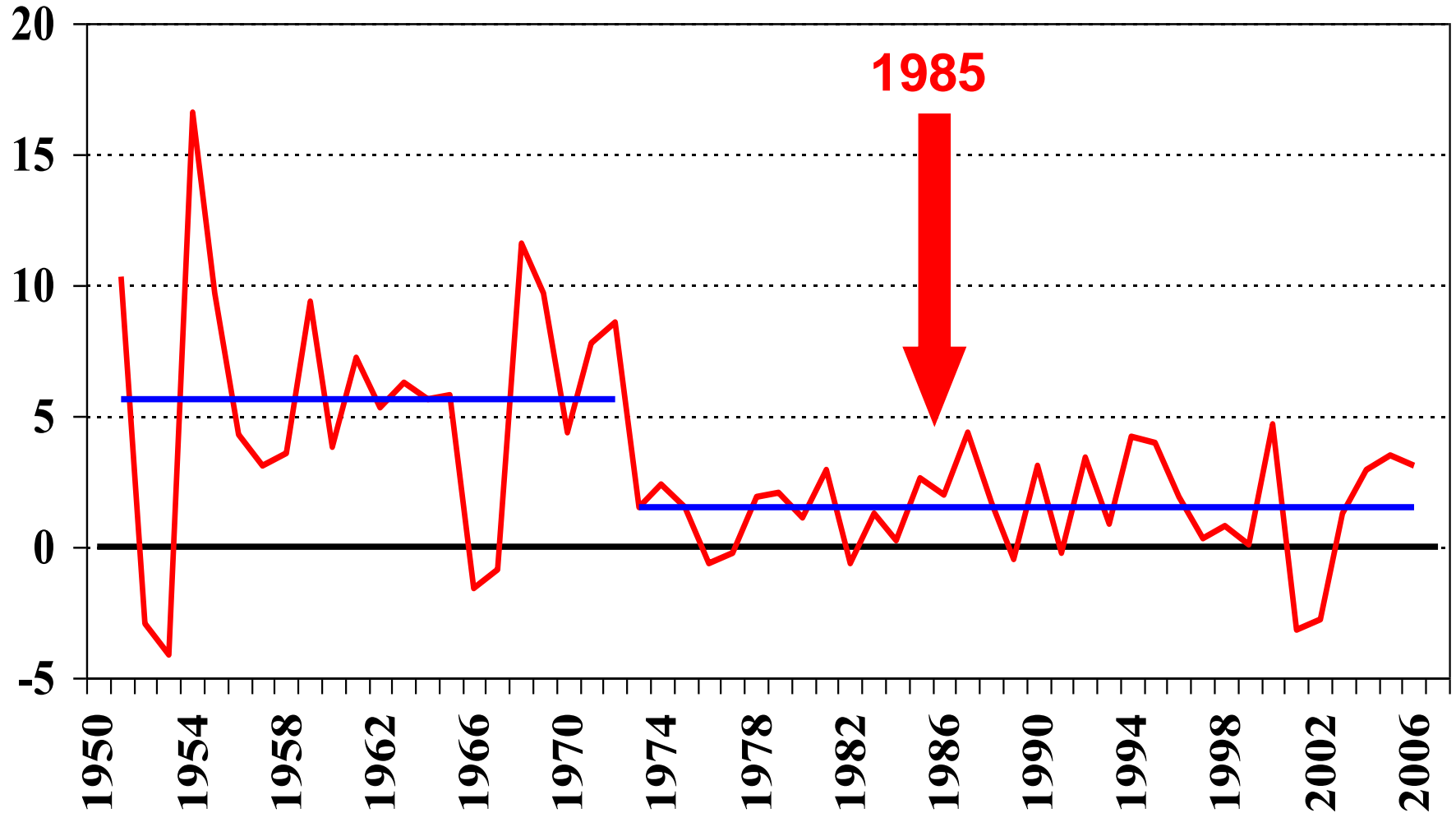


Growth, Poverty and the Productivity Puzzle

**Prof. Rafi Melnick
Herzliya Conference
January 2007**

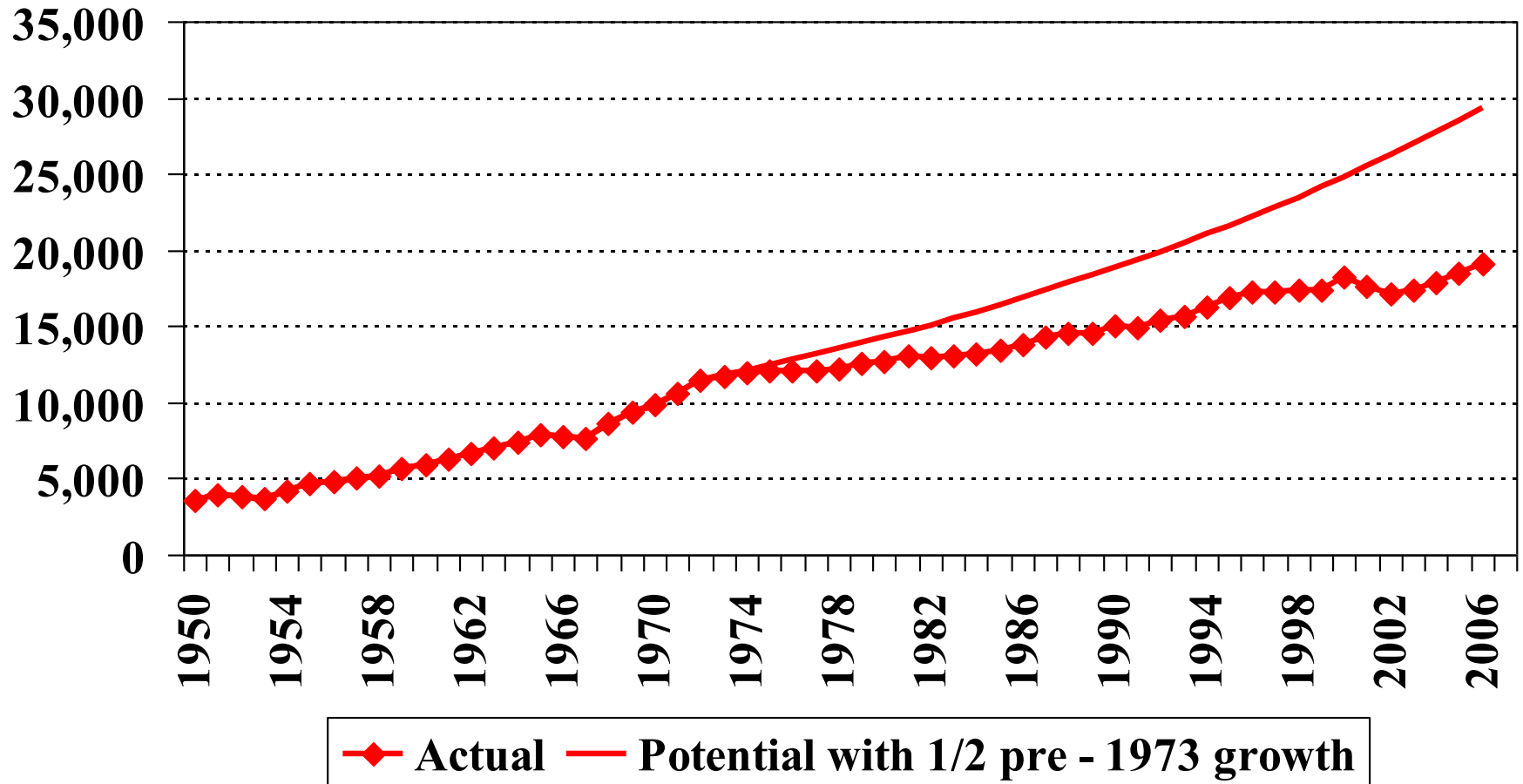
GDP per Capita in Israel

(Rates of Growth, Percent)



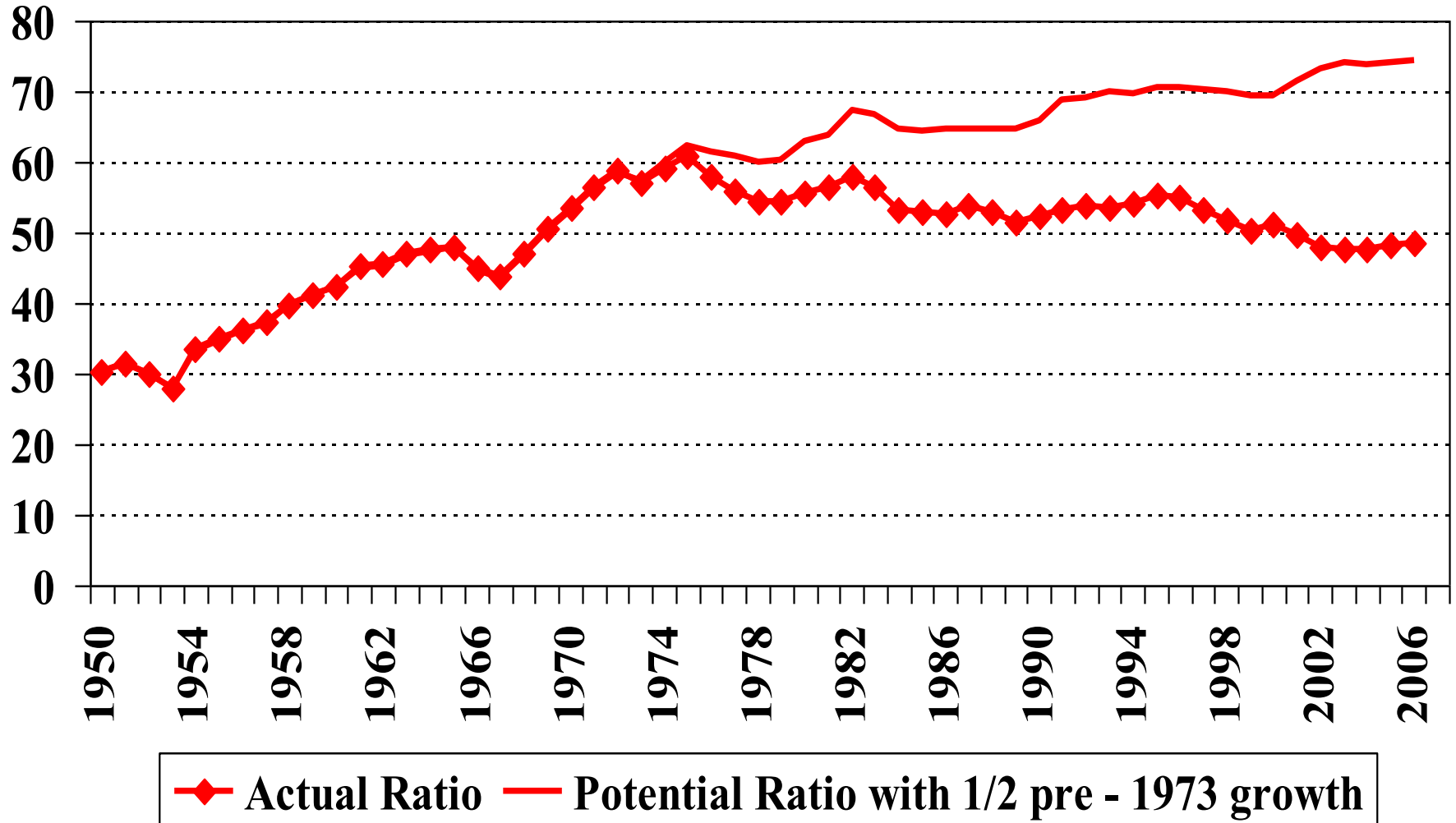
Actual and Potential per Capita GDP in Israel

(U.S. Dollars, Constant 2000 Prices)



Relative per Capita GDP

Israel/U.S.

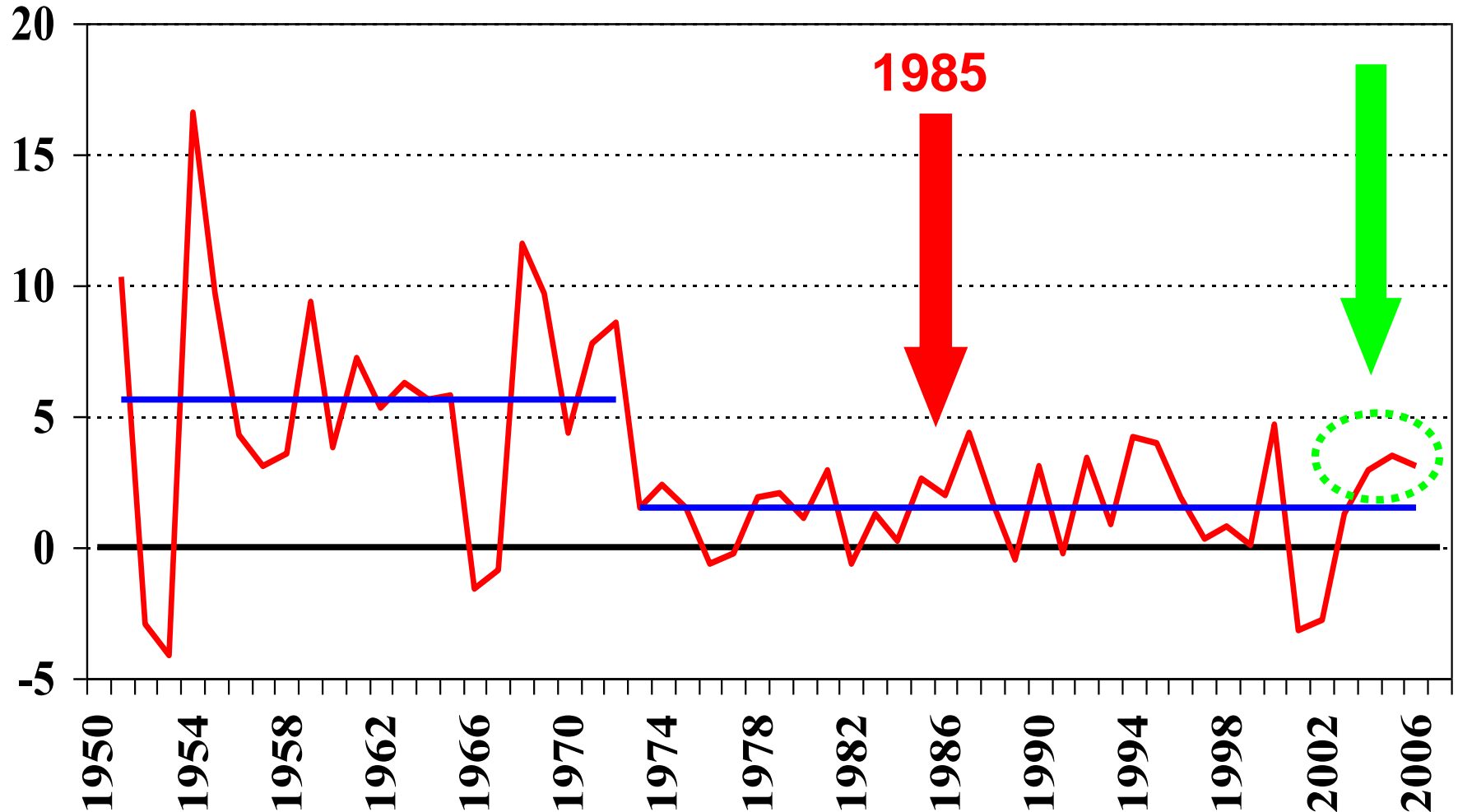


Two Conclusions

- I. Sustained economic growth is necessary (but perhaps not sufficient) to reduce poverty.
- II. Policies that slow economic growth worsen the problem of poverty.

GDP per Capita in Israel

(Rates of Growth, Percent)



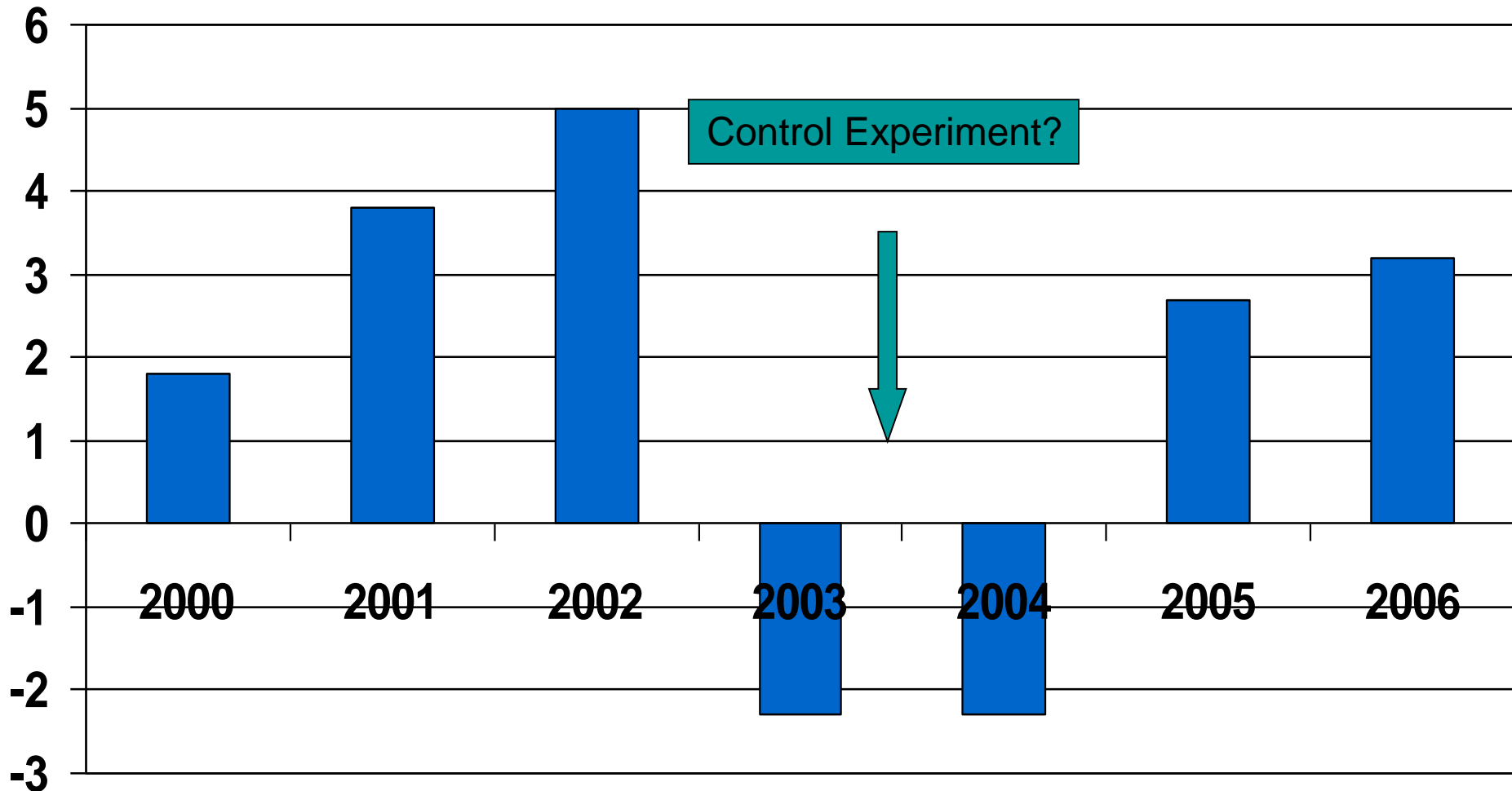
Testing Two Hypotheses: The Main Issues Discussed during the Last Economic Crisis in Israel (2001-2003)

- I. The policy needed to restore growth is increasing government expenditure and increasing the fiscal deficit.

- II. The Israeli economy cannot grow without a political horizon.

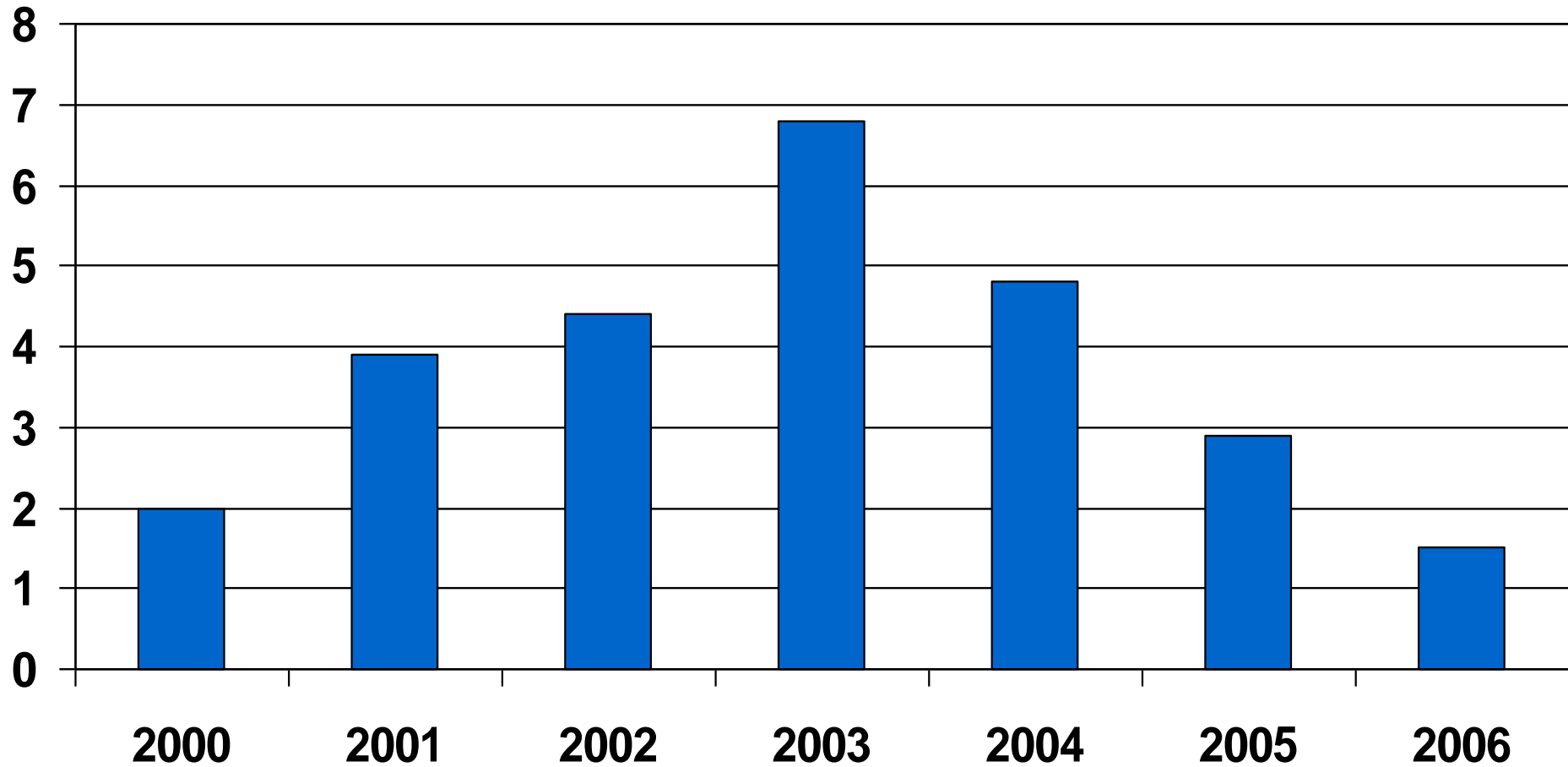
Government Consumption 2000-2006

(Rates of Growth, Percent)



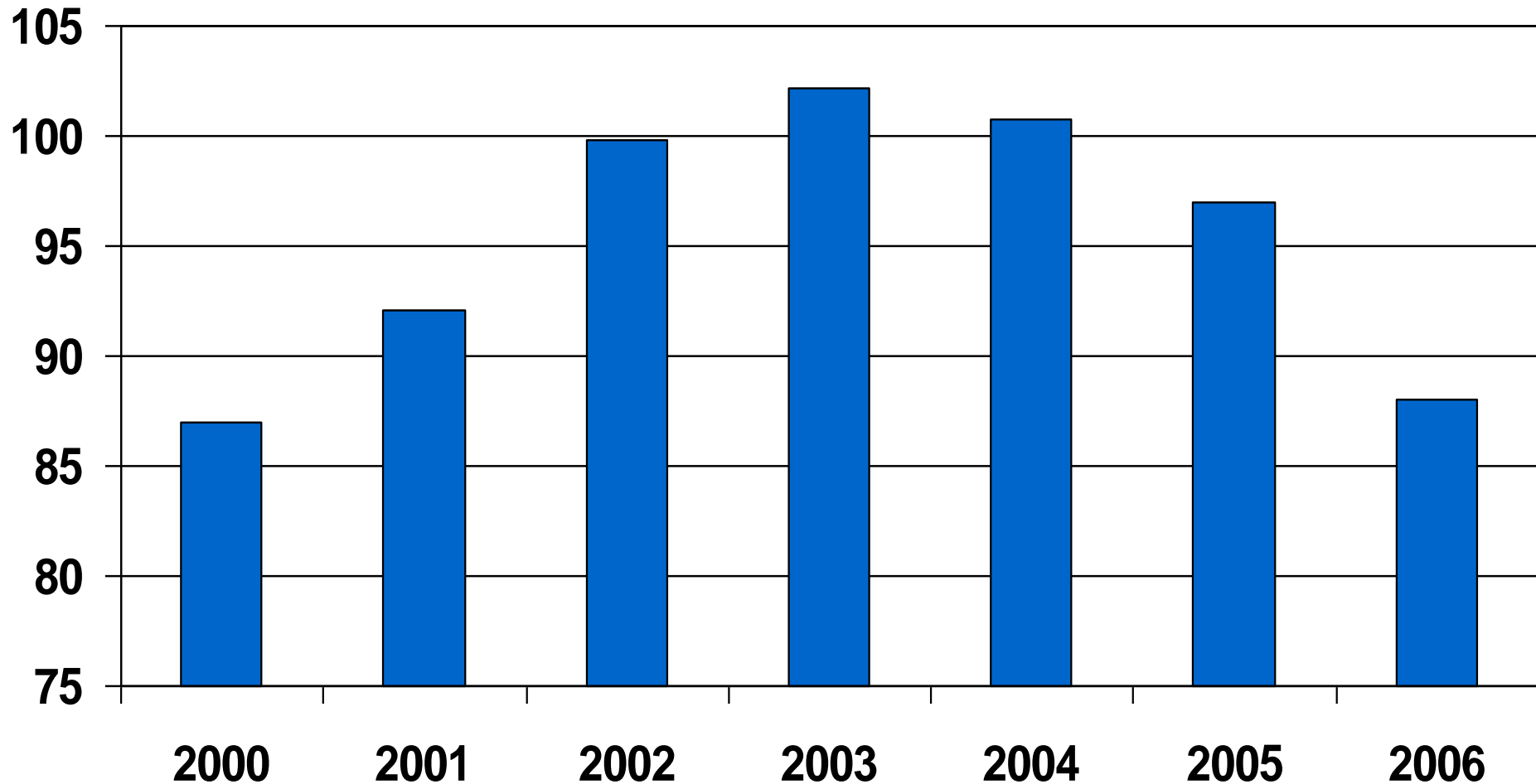
General Government Deficit 2000-2006

(Percent of GDP)



Public Debt 2000-2006

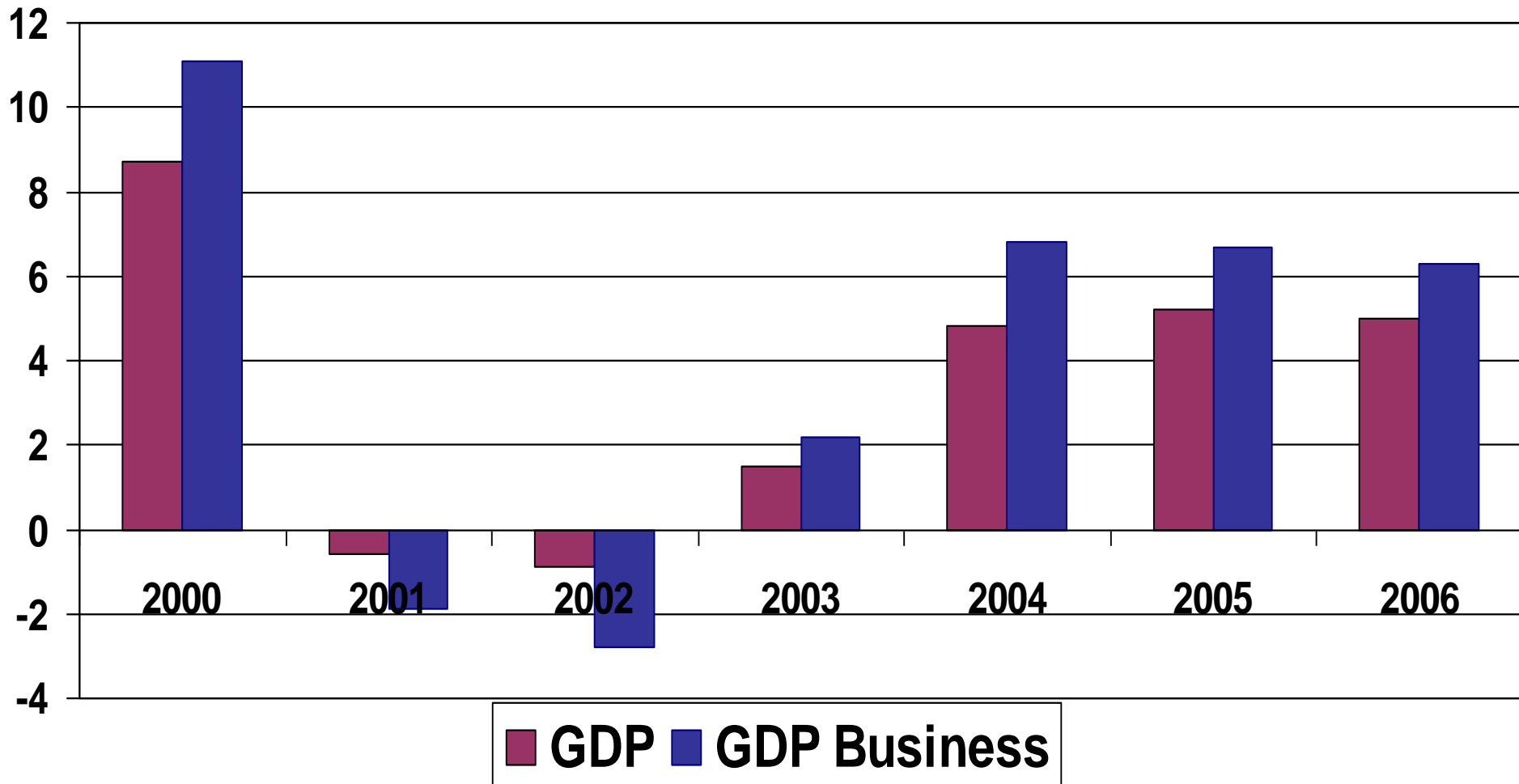
(Percent of GDP, Gross Debt)



Economic Outcome

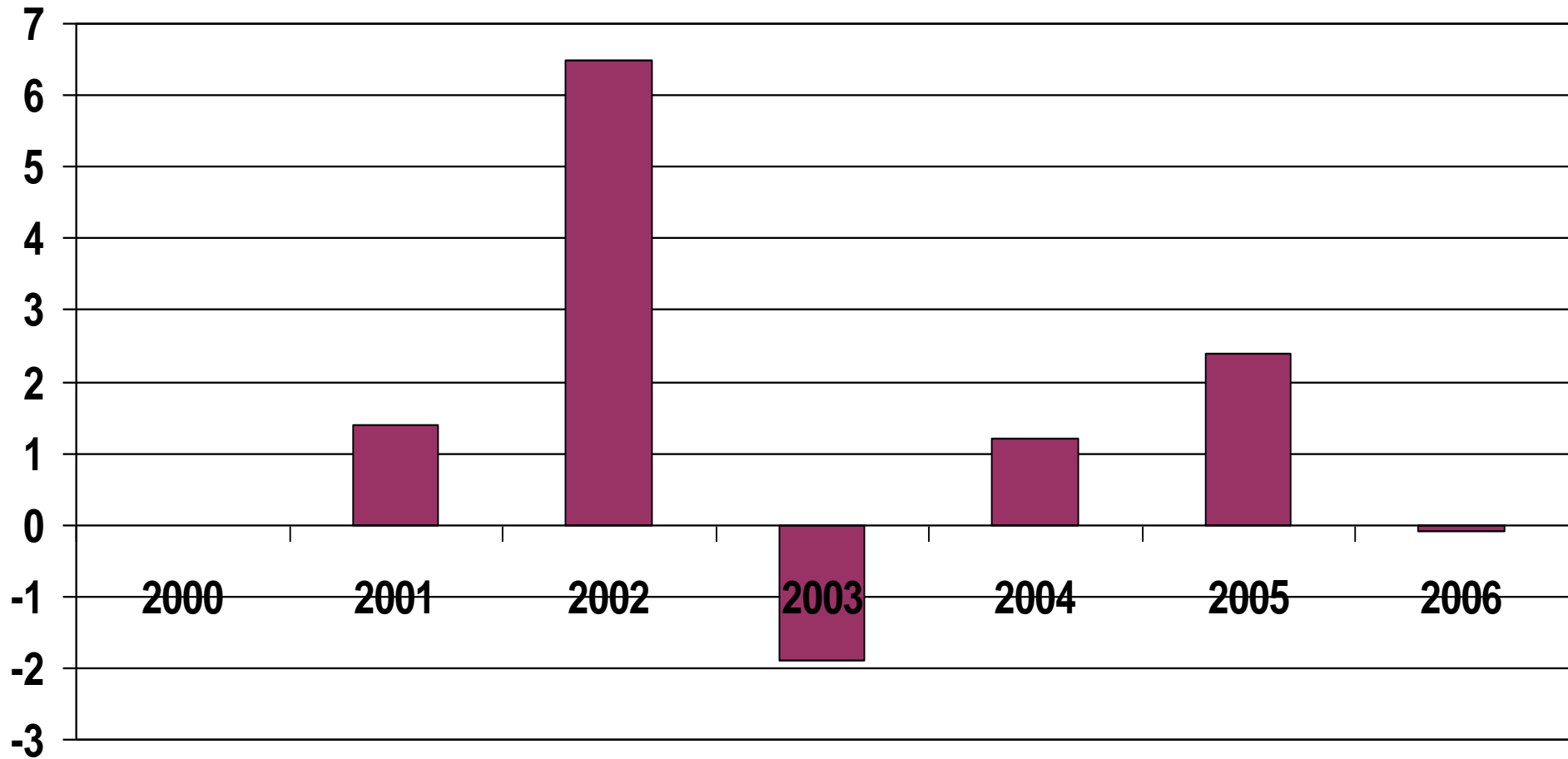
GDP and Business GDP 2000-2006

(Rates of Growth, Percent)



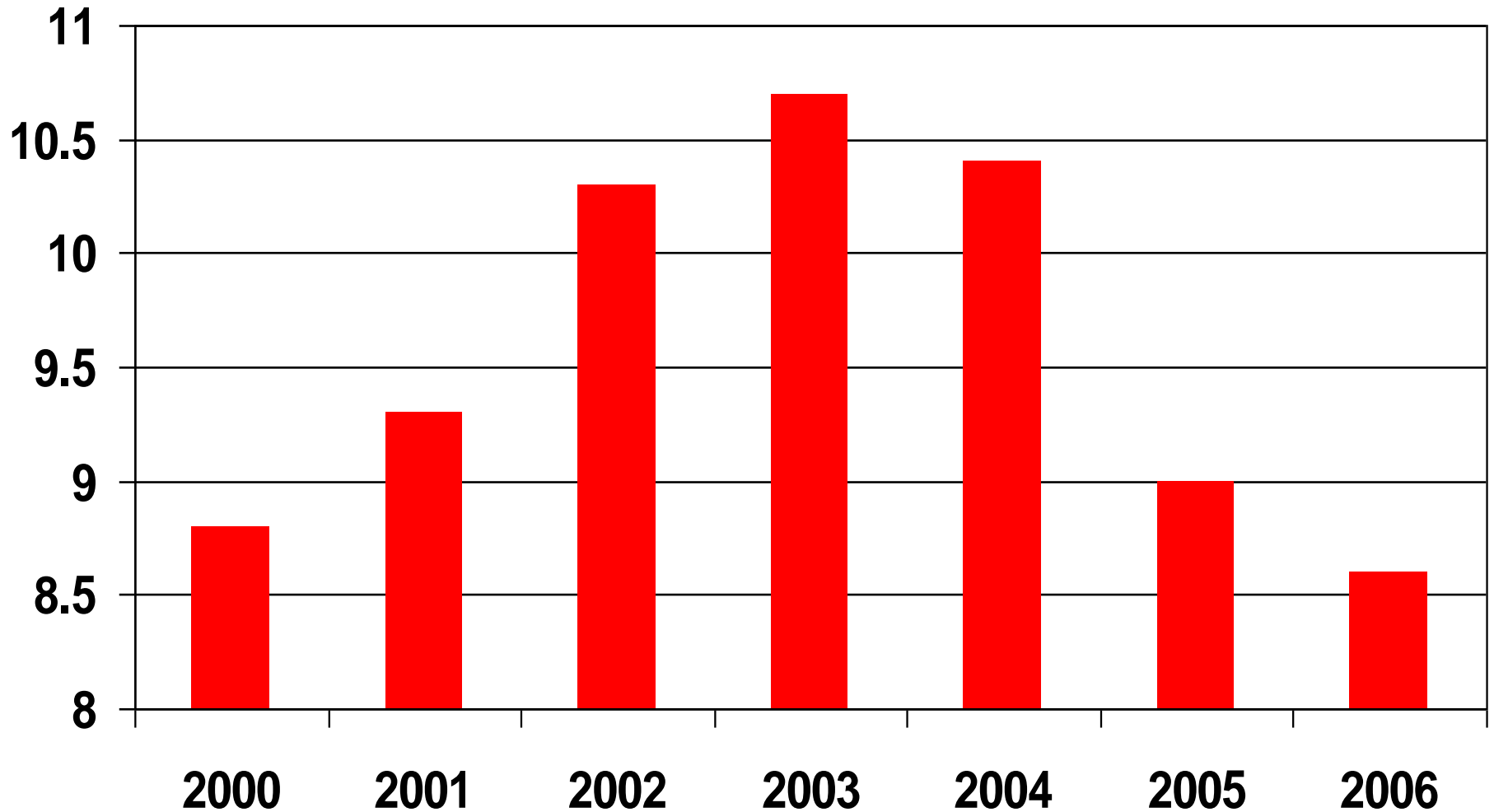
Rate of Inflation 2000-2006

(CPI, Percent)



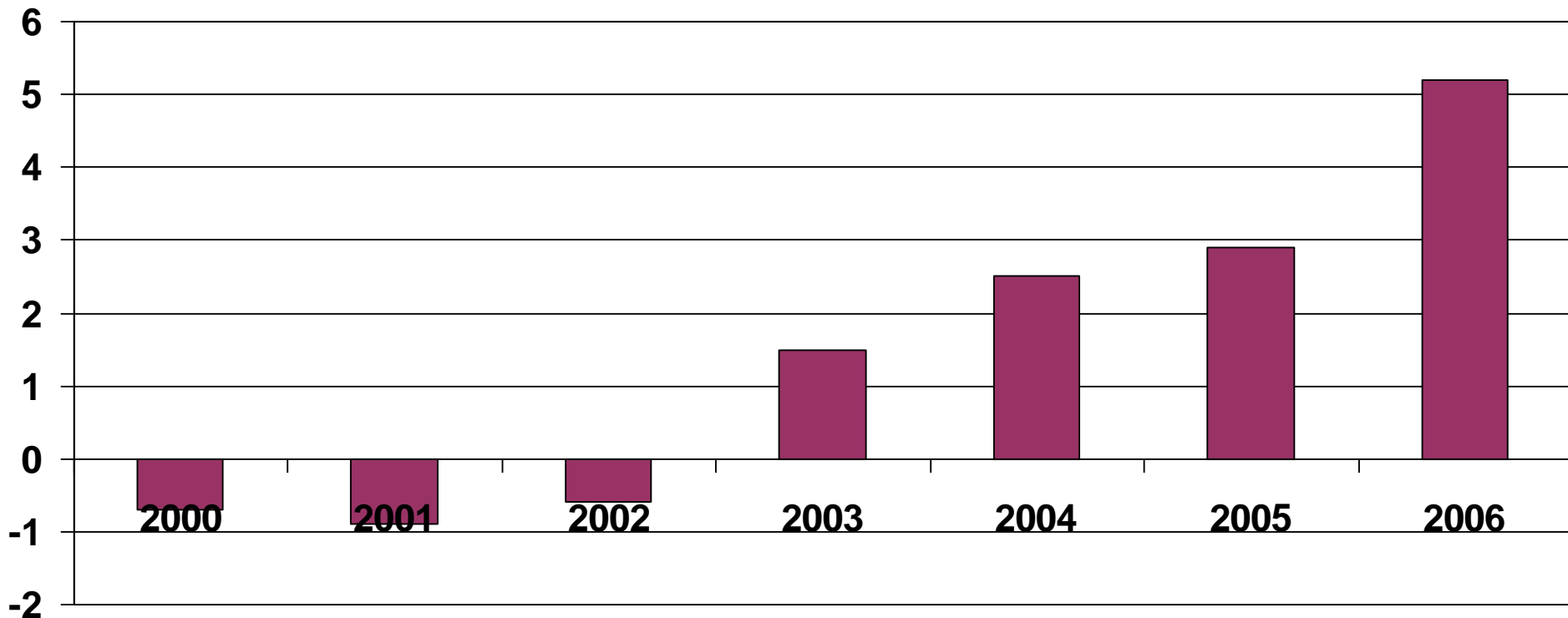
Unemployment 2000-2006

(Percent)



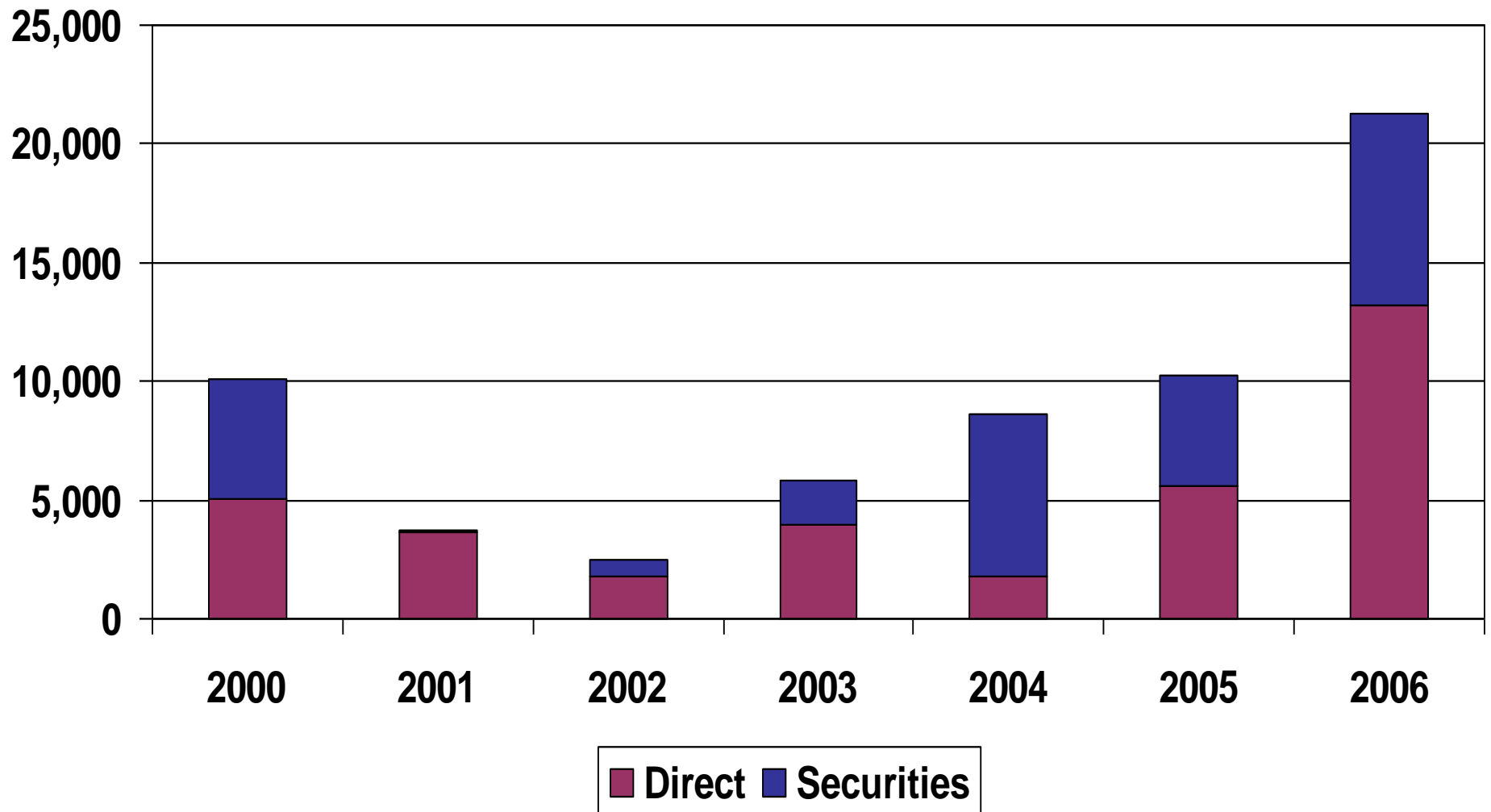
Current Account 2000-2006

(Percent of GDP)



Foreign Investment 2000-2006

(Million U.S. dollars)

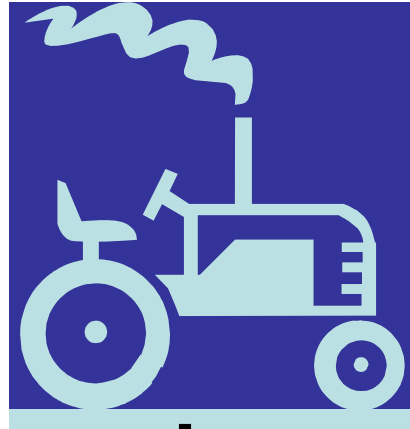
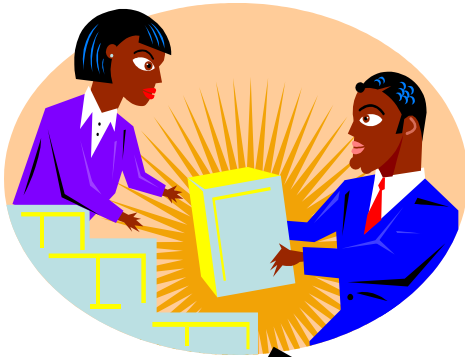


Production Function Decomposition

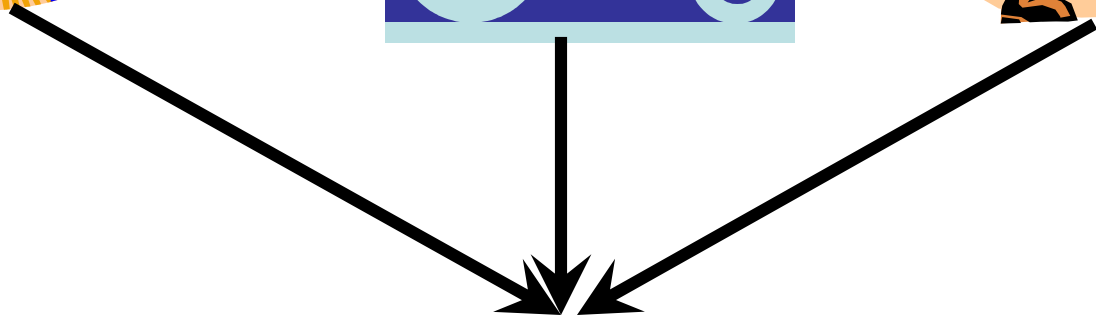
Total Factor
Productivity

Capital

Labor



Business GDP



Output and Total Factor Productivity 1961-2006

(Average Rates of Growth, Business Sector GDP, Percent)

Period	Output	Labor Contribution	Capital Contribution	TFP
1961-2006	5.7	1.9	1.9	1.9
1961-1972	9.2	2.2	2.8	4.2
1973-2006	4.5	1.8	1.6	1.1
1986-2006	5.2	2.5	1.7	1.0
2003-2006	5.2	1.1	1.0	3.0

Necessary Conditions for Growth and the Reduction of Poverty

➤ **Fiscal Retrain**

- ✓ A prudent rise in government expenditure serving as the anchor for fiscal policy
- ✓ Low fiscal deficits
- ✓ Fiscal consolidation

➤ **Financial Stability**

- ✓ Achievement of the inflation targets
- ✓ Credibility, transparency and effective regulation

➤ **Structural Reforms**