



For strong and Inclusive Growth: The OECD perspective

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Claude Giorno
Senior Economist
Economics Department, OECD



[OECD Economics](#)

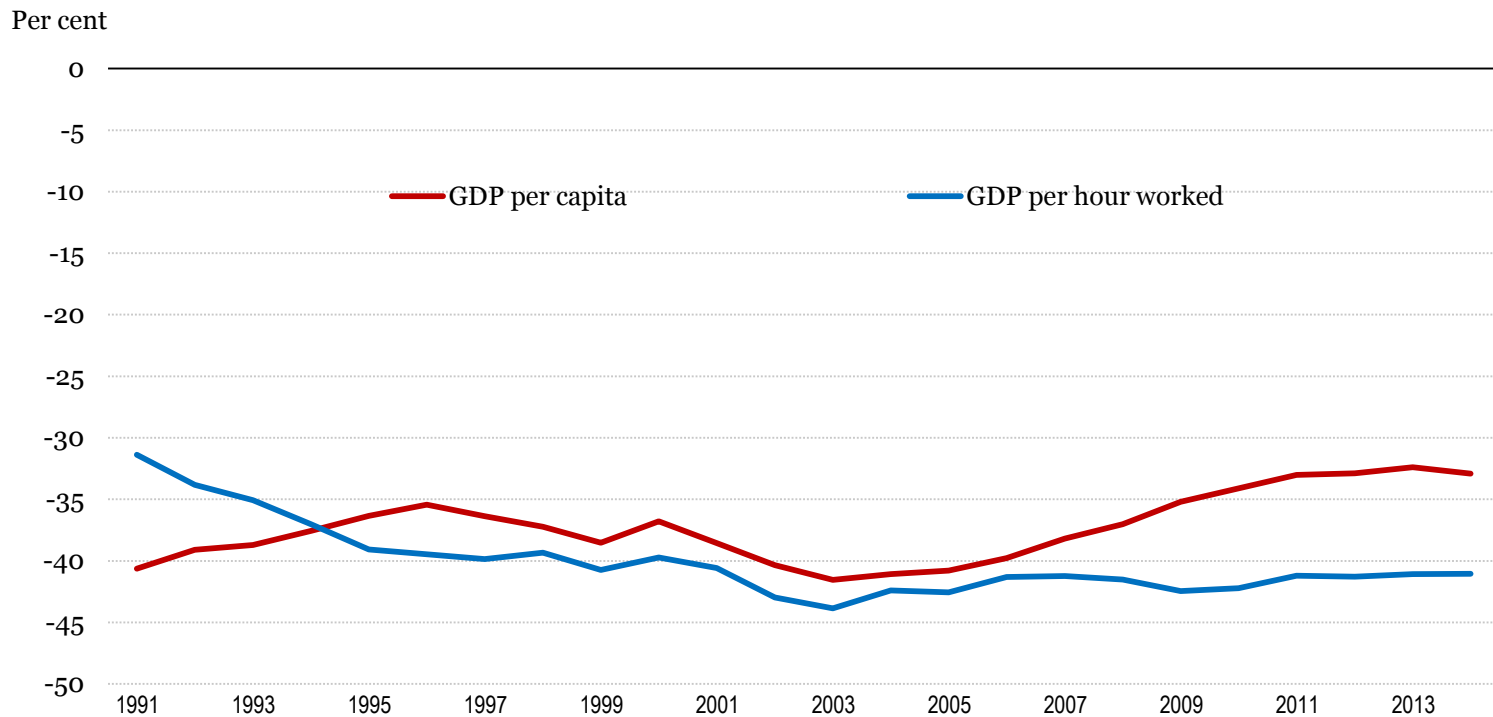
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Despite per capita GDP convergence, the productivity gap with leading OECD countries has not declined

Gap relative to the upper half of OECD countries

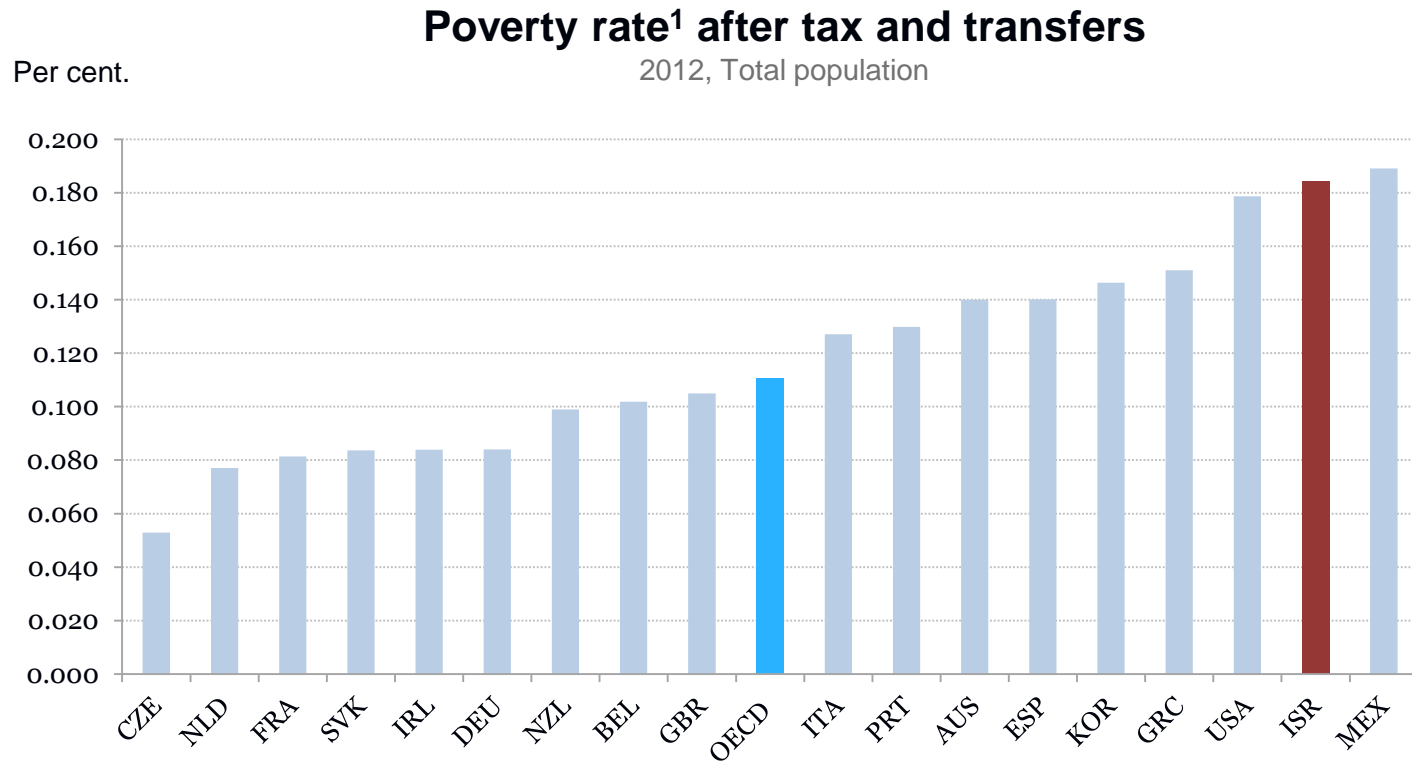


Source: OECD, *National Accounts and Productivity databases*.

- **For every hour worked in Israel, output is less than 60% of that achieved in the top half of the OECD, a figure that has hardly budged in two decade.**



Inequality and poverty are higher in Israel than in most other OECD countries



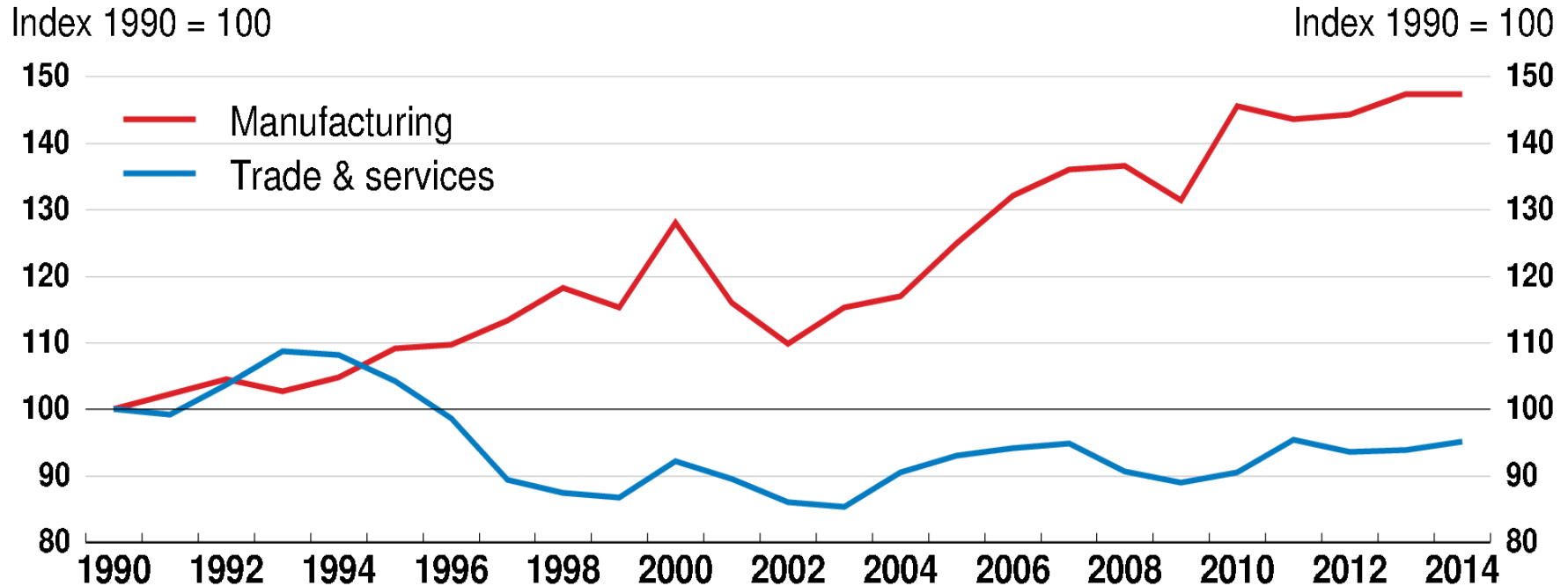
1. Relative to 50% of median disposable income.

Source: OECD, *Income Distribution Database*.



Inefficient sheltered sectors are dragging down overall productivity performance

Total factor productivity in manufacturing and trade and services



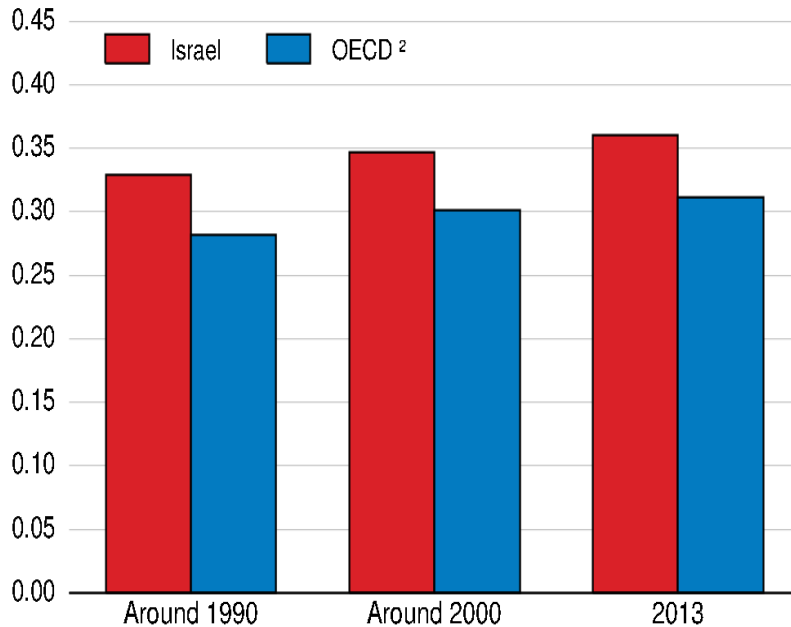
Source: G. Brand (2015), "The Evolvement of the College Wage Premium in the Israeli Labor Market Supply and Demand Factors" (in Hebrew), Milken Institute.

➤ **A key challenge is to boost competition and efficiency in the sheltered sectors**

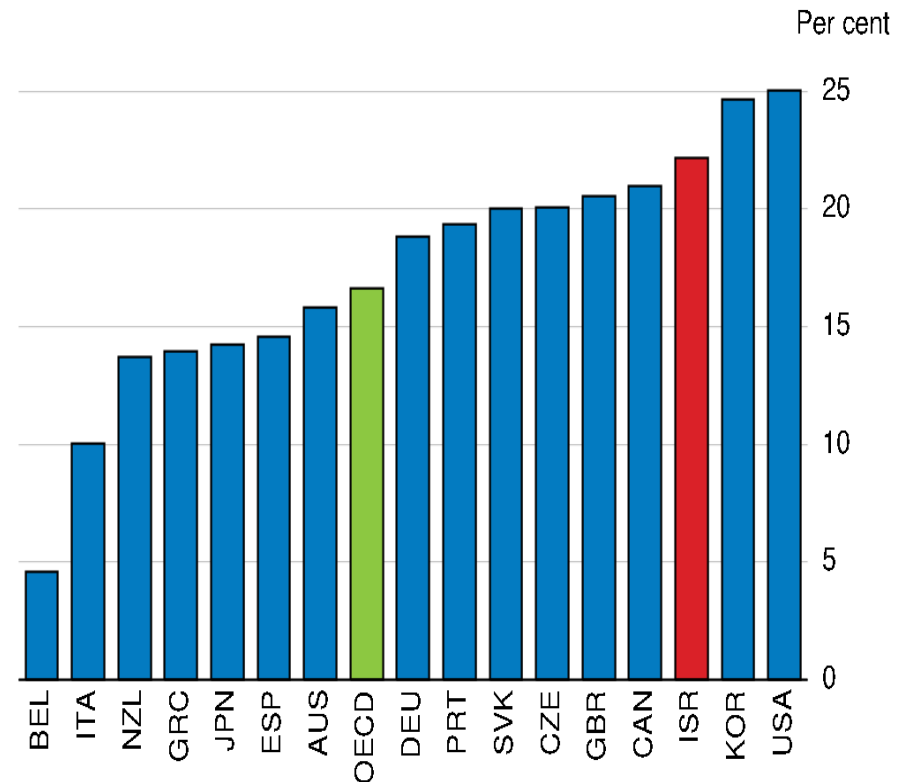


Disposable income inequality has widened since 1990 and the share of low-paid workers is higher than the OECD average

Gini coefficient¹ at disposable income
After taxes and transfers



Share of low-paid workers,³ 2013



1. The Gini coefficient takes values between 0 for maximum equity (all households receive the same income) to 1 for maximum inequality (one household receives all income).
2. Unweighted average of the 12 OECD countries with available data by 1990: Canada, Denmark, Finland, Germany, Israel, Italy, Hungary, Netherlands, New Zealand, Sweden, United Kingdom and United States.
3. Defined as workers earning less than two-thirds of median earnings.

Source: OECD (2016), Income Distribution and Earnings database.

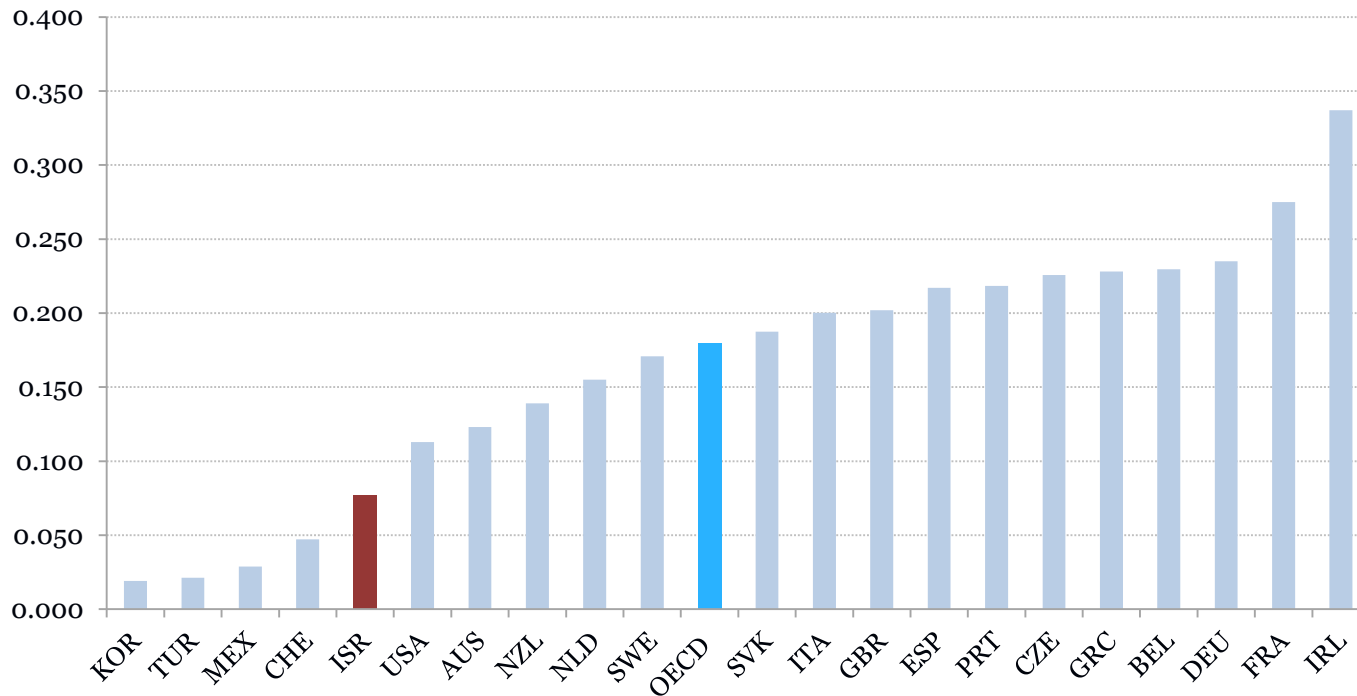


The State plays a limited role in redistributing incomes towards the poor

Difference between poverty rate before and after taxes and transfers

2012, Total population

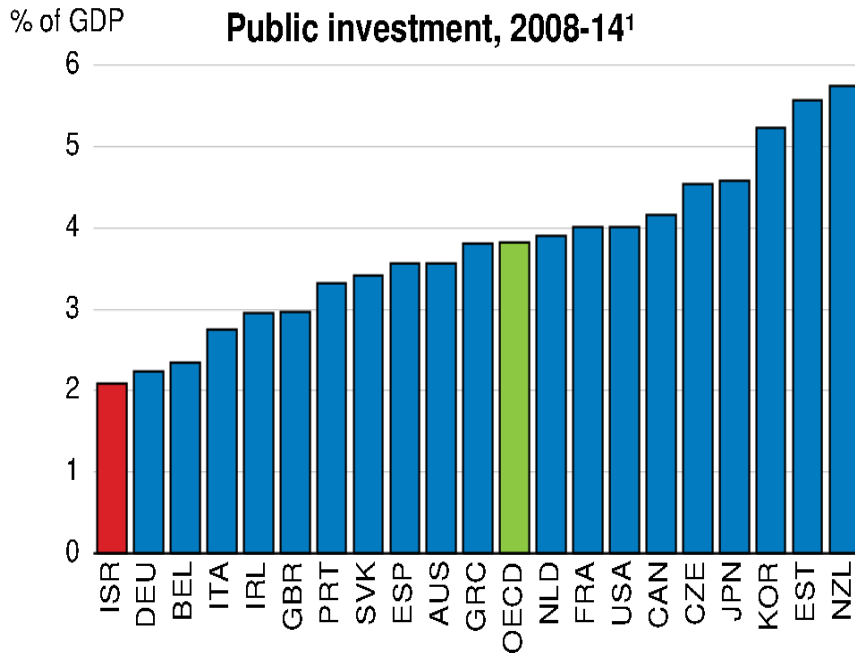
Percentage point



Source: OECD, *Income Distribution Database*.

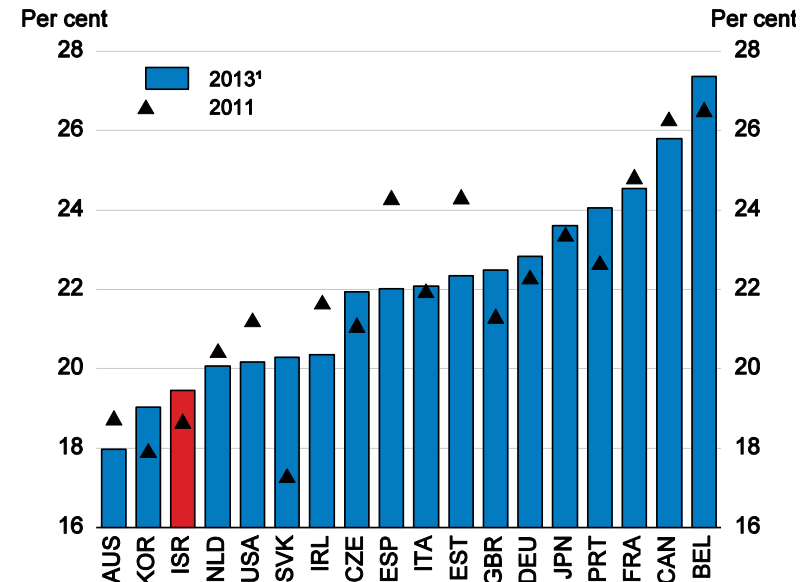


Public investment and spending in education are low



Expenditure on educational institutions

Per student, relative to GDP per capita



1. Or latest year available.

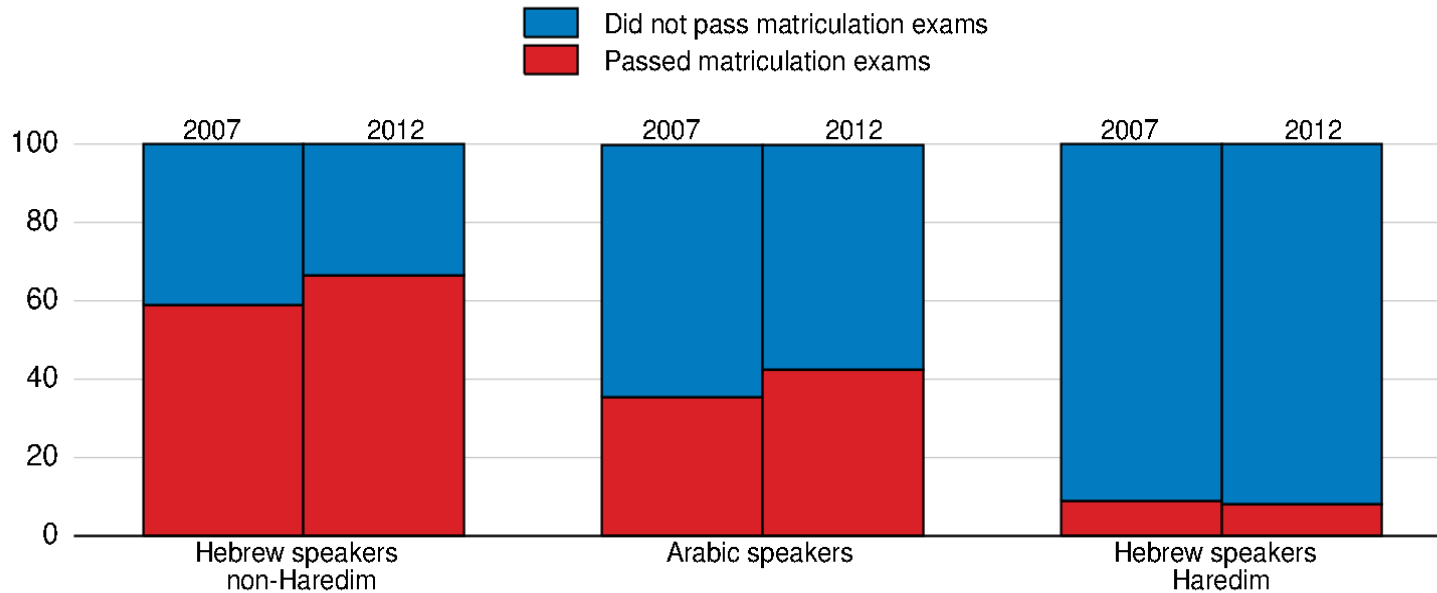
Source: OECD, Economic Outlook database.; OECD (2015), Education at a Glance 2015.

- **Boosting investment in infrastructure and education, promoting skills, especially of the disadvantaged groups is achievable without sacrificing prudent fiscal policy by making further savings on military outlays and debt service, and by raising revenues (e.g. by removing inefficient tax breaks).**



Haredi and Israeli-Arab students suffer from poor educational outcomes

Student performance by community¹



1. Distribution of 12th-grade students by population group and matriculation status.

Source: N. Blass (2014), "Trends in the Development of the Education System", in *State of the Nation Report 2014*, Taub Center for Social Policy Studies in Israel.

- **Ensure that Haredi schools teach mathematics, science and foreign languages.**
- **Further increase education funding for disadvantaged groups.**
- **Develop vocational education and training.**



Estimated quantification of potential gains of a set of reforms

- **Moving to the OECD average regulation would raise per capita GDP by about 3¾% after 5 years and 5¾% after 10 years.**
- **Gradually increasing the share of good-quality public investment in GDP to its level in the top half OECD countries could increase household incomes by about 15% in the long term.**
- **Increasing the share of high school graduates able to pursue higher education from 48% to 58% would raise per capita GDP by 3% in the long term.**

Source:

- OECD (2016), OECD Economic Surveys: Israel, OECD Publishing, Paris.
- Bank of Israel (2015), “The Connection between the Quality of Education and Growth: Israel Compared to the World”, Recent Economic Developments, No. 139, June.
- OECD (2016), OECD Economic Outlook, Volume 2016 Issue 1: Preliminary version, “*Promoting Productivity and Equality: A Twin Challenge*”, OECD Publishing, Paris.



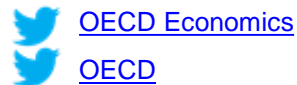
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תודה-Thank you

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Additional slides



Contributions to Growth

Average annual growth rates (%)		2003-08	2008-14
GDP per capita		3.0	1.4
Labour utilisation		1.1	1.1
<i>of which:</i>	<i>Labour force participation rate</i>	0.0	0.8
	<i>Employment rate</i>	1.2	0.3
	<i>Employment coefficient¹</i>	-0.2	0.0
Labour productivity		1.5	0.5
<i>of which:</i>	<i>Capital deepening</i>	-0.5	0.4
	<i>Total factor productivity</i>	2.0	0.1
Dependency ratio		0.5	-0.2

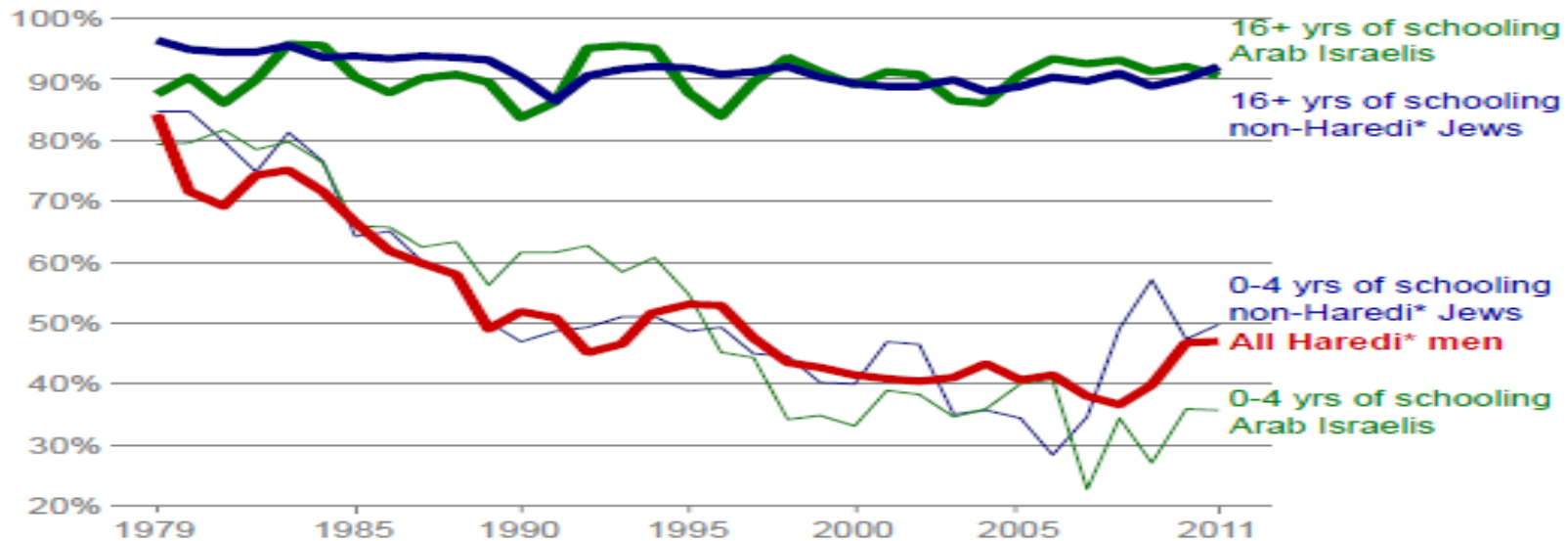
1. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.



More effective education system would help better integrate Haredim and Arab-Israelis into the labour market and increase inclusive growth

The employment rate gap between people with a high and a low education level has been rising sharply over more than three decades.

Male employment rates, 1979-2011
ages 35-54



* Haredi are ultra-Orthodox Jews

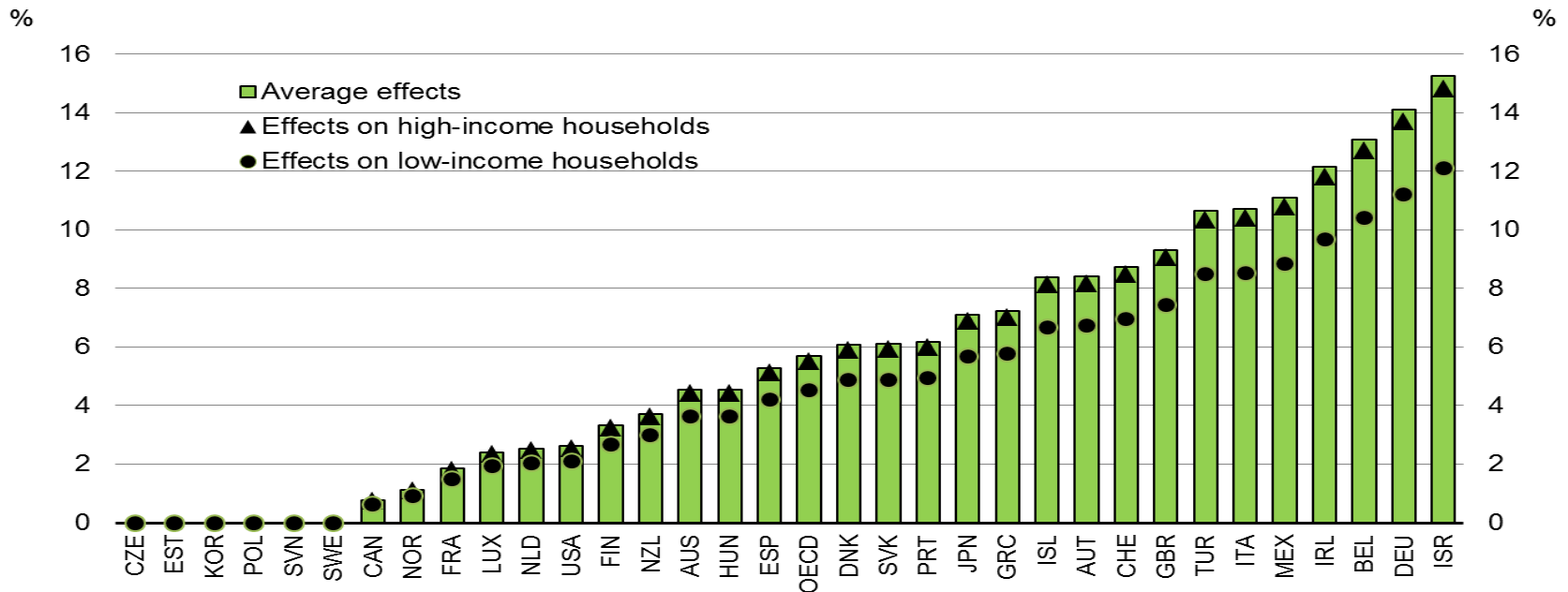
Source: Dan Ben-David and Eitan Regev, Taub Center

Data: Central Bureau of Statistics



Shifting spending to public investment can deliver large income gains

Long-term income gains from raising public investment in low-investment countries to the level in high-investment countries

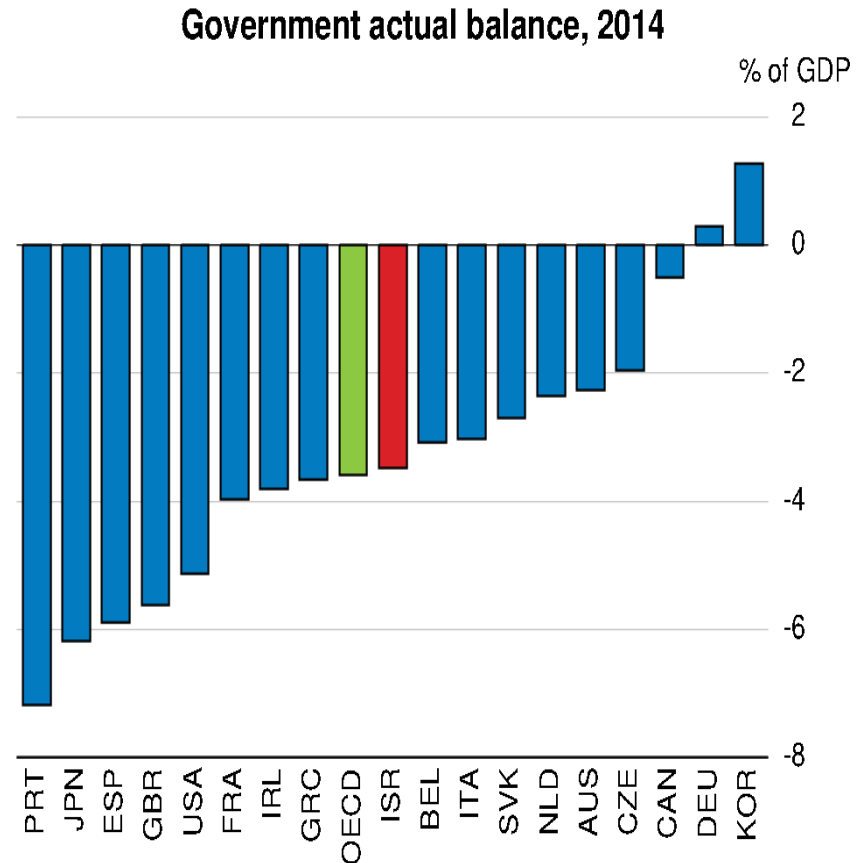
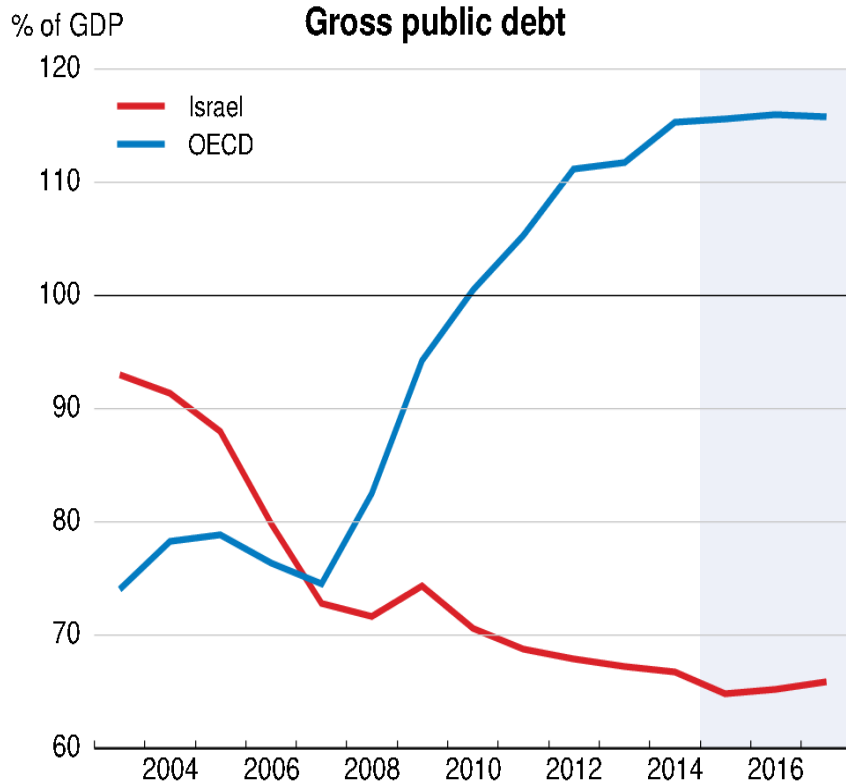


Source: OECD estimations based on Fournier and Johansson (2016), "The Effect of the Size and the Mix of Public Spending on Growth and Inequality", *OECD Economics Department Working papers forthcoming*.

- **More public investment increases household income across the distribution**
- **Further developing urban transports would cut high congestion costs, improve environmental outcomes, make it easier to live in lower-price housing areas and promote labour participation for those living in remote areas**



Public debt has fallen, but the fiscal deficit is high



Source: OECD, Economic Outlook 99 database.



The general government accounts have strengthened

