

United we stand divided we fall: the need for greater inclusiveness in Israel

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The Israeli economy is strong. The country is enjoying its 15th consecutive year of growth, with GDP increasing on average by 4.0% annually since 2003, i.e. faster than nearly any other OECD country. Unemployment is at historically low level, and the average standard of living is improving steadily. Rapid population growth, the rise in people with jobs, strong economic fundamentals, good economic policy settings and a dynamic high-tech sector are underpinning these impressive outcomes, which are expected to continue in the short term, according to the *2018 OECD Survey on Israel*.

Today's excellent outlook offers Israel a unique opportunity to prepare for the challenges of the future which require stronger social cohesion. Israeli society is indeed marked by large inequalities. Almost 18% of the population live in relative poverty (i.e. with a disposable income below 50% of the median), higher than the OECD average (12.5%) and any other advanced economy. This reflects large disparities between different communities. Around half of Israeli-Arabs and Haredim are poor and live separately from the rest of the population. They have different school systems, live mostly in different cities and do not serve in the army. This leads to poor education results followed by worse labour market outcomes, notably in terms of earnings (Table 1). Haredi men have a cultural preference to engage in full-time religious studies, rather than participate in the labour market, and avoid core subjects in their school careers. Furthermore, Haredi women can work only part-time because of their large

families. The majority of Israeli-Arab women also do not participate in the labour market due to cultural preferences. The result is that most Haredi and Arab families have only one breadwinner, resulting in significant problems of poverty, notably among children.

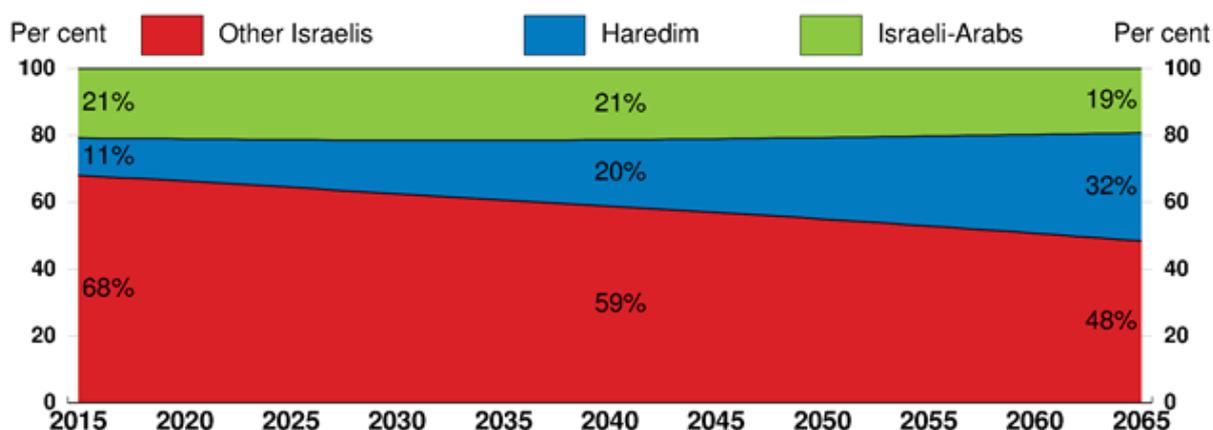
Table 1. Disparities in Israeli society

	Israeli-Arabs	Haredim	Others
Share of the population - 2016 (%)	21	11	68
Fertility rate - 2016	3.1	6.7	2.5
Number of children per household	4	6.5	2
Median hourly wage as a % of the national median hourly wage - 2015	70	87	109
Median wage as a % of the national median wage - 2015	74	68	111
Participation rate - 2016 (%)	58	66	81
PISA mean mathematics scores - 2015	391	-	495
Relative poverty rates – 2015 (%)	53.3	48.7	13.5

Source: National Insurance Institute (2016), *Poverty and Social Gaps Report, 2015*; OECD, *PISA database*; Central Bureau of Statistics.

Given the high fertility of Haredi women, the share of that community in the total population is predicted to triple in the next 45 to 50 years, with the total share of Israeli-Arabs and Haredim rising from one-third to one-half over this period (**Figure 1**). This will have a substantial impact on Israeli economic performance, given the poor labour market outcomes and low productivity of these disadvantaged groups.

Figure 1. Demographic trend by community group

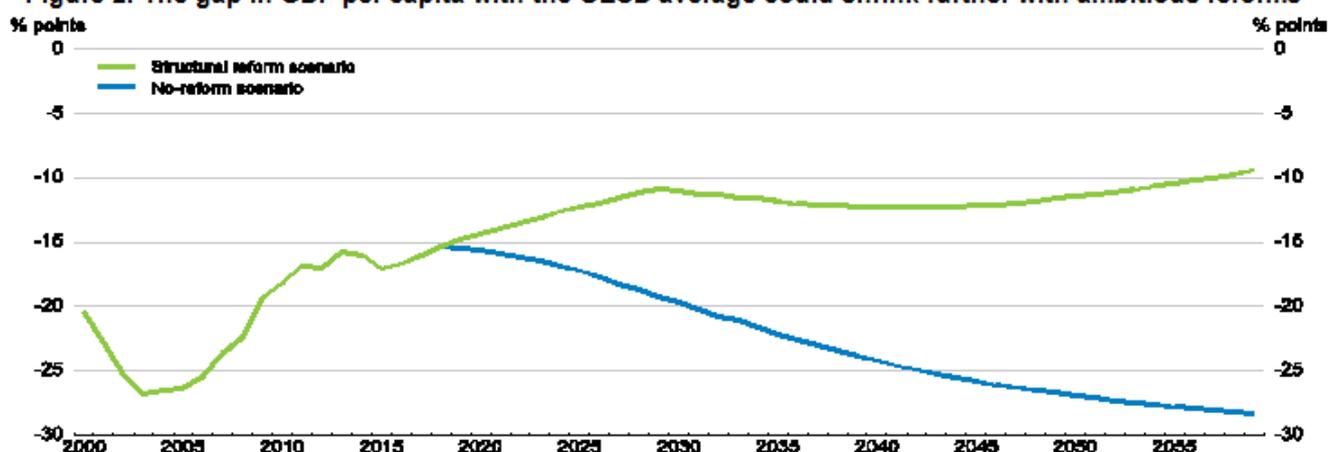


Source: Central Bureau of Statistics, http://www.cbs.gov.il/reader/newhodaot/tables_template_eng.html?hodaa=201701138

In the absence of further progress in social cohesion and any further convergence of productivity and labour market outcomes of Haredim and Israeli-Arabs with the rest of the population,

average Israeli incomes would fall to nearly 30% below the OECD average, almost double the current gap according to OECD estimates (**Figure 2**). However, if ambitious structural reforms are launched to further improve the Haredi and Israeli-Arabs' (youth in particular) integration into society through better education and training, improved work incentives and more business-friendly environment, the gap in Israeli living standards with the OECD average could shrink below 10%.

Figure 2. The gap in GDP per capita with the OECD average could shrink further with ambitious reforms¹



1. The no-reform scenario extrapolates OECD short term projections using Geva (2015) and assuming no convergence of Haredim and Israeli-Arabs productivity and labour market outcomes with the rest of the population. By contrast, the structural reform scenario assumes gains from reforms in product market and education with enhanced incentives to join the labour market. In this scenario, the productivity of Haredim and Israeli-Arabs compared to non-Haredi Jews is assumed to increase from 60% currently to 80% and their employment rate to be close to the level of non-Haredi Jews in 2059.

Source: OECD (2017), *Economic Outlook 102 database*; A. Geva (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*. For more details see OECD (2018), *OECD Economic Surveys: Israel 2018*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

References:

OECD (2018), *OECD Economic Surveys: Israel 2018*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

Geva A. (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*, http://www.mof.gov.il/ChiefEcon/EconomyAndResearch/ArticlesSet/Article_20150518.pdf