



Towards a more inclusive society

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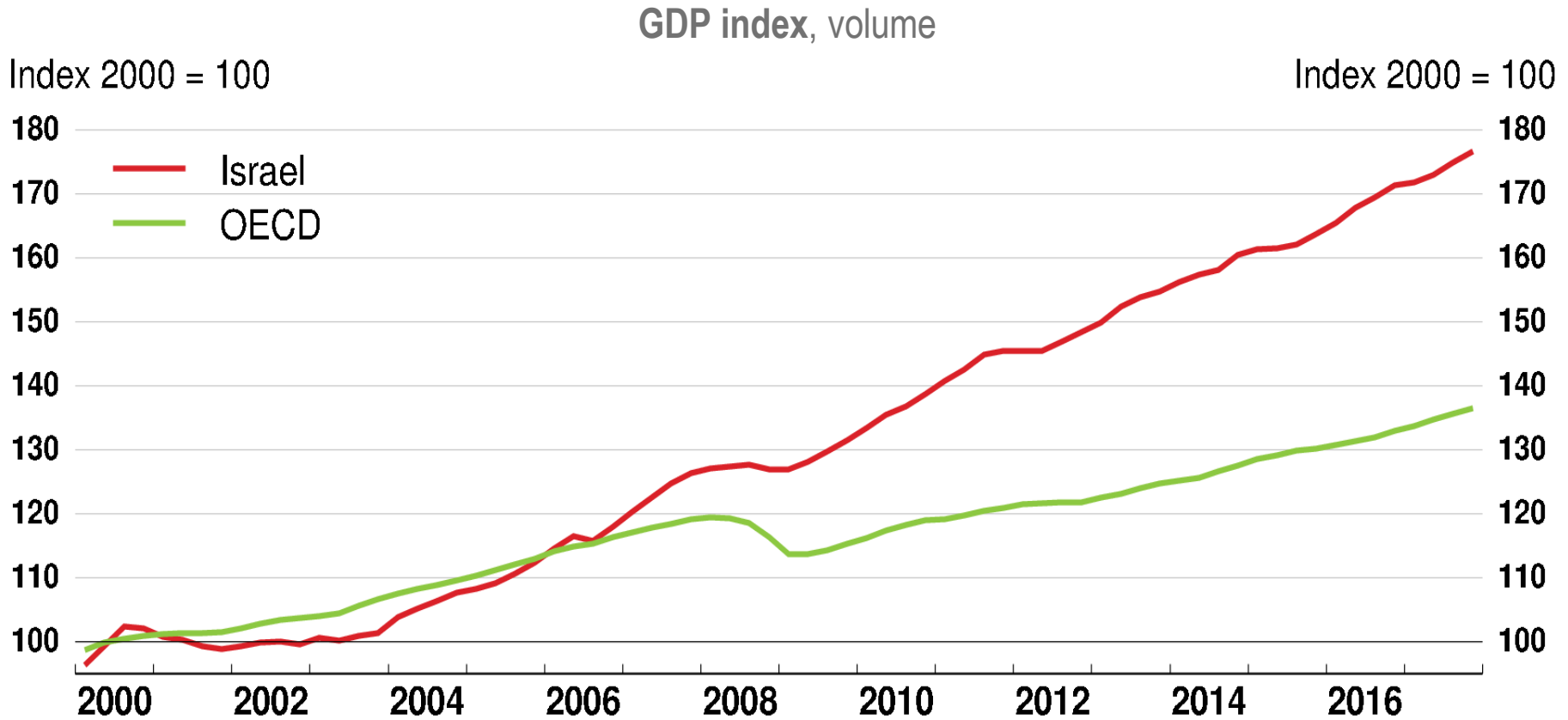
Eli Hurvitz Conference on Economy and Society
Jerusalem, 19 June 2018

<http://www.oecd.org/eco/surveys/economic-survey-israel.htm>





Growth has been strong

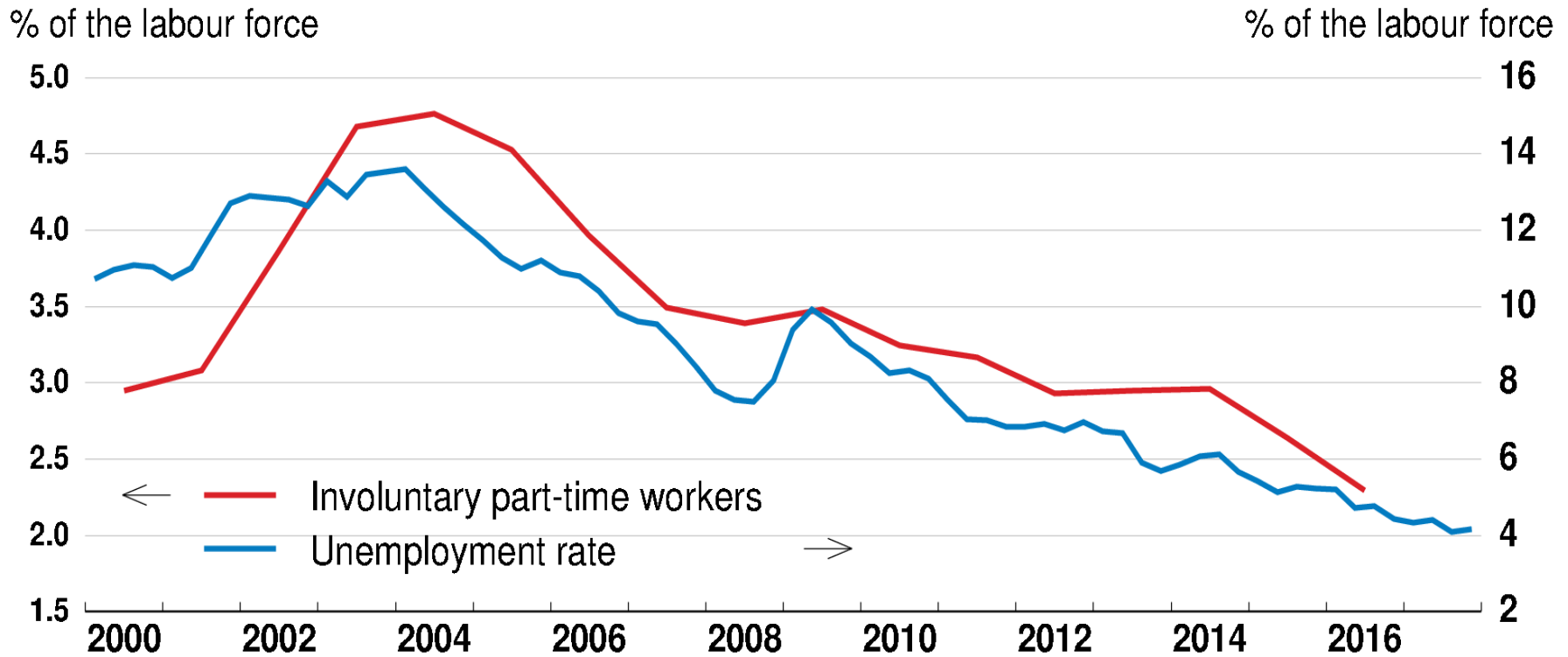


Source: OECD (2018), *Economic Outlook Database*.



Employment is growing

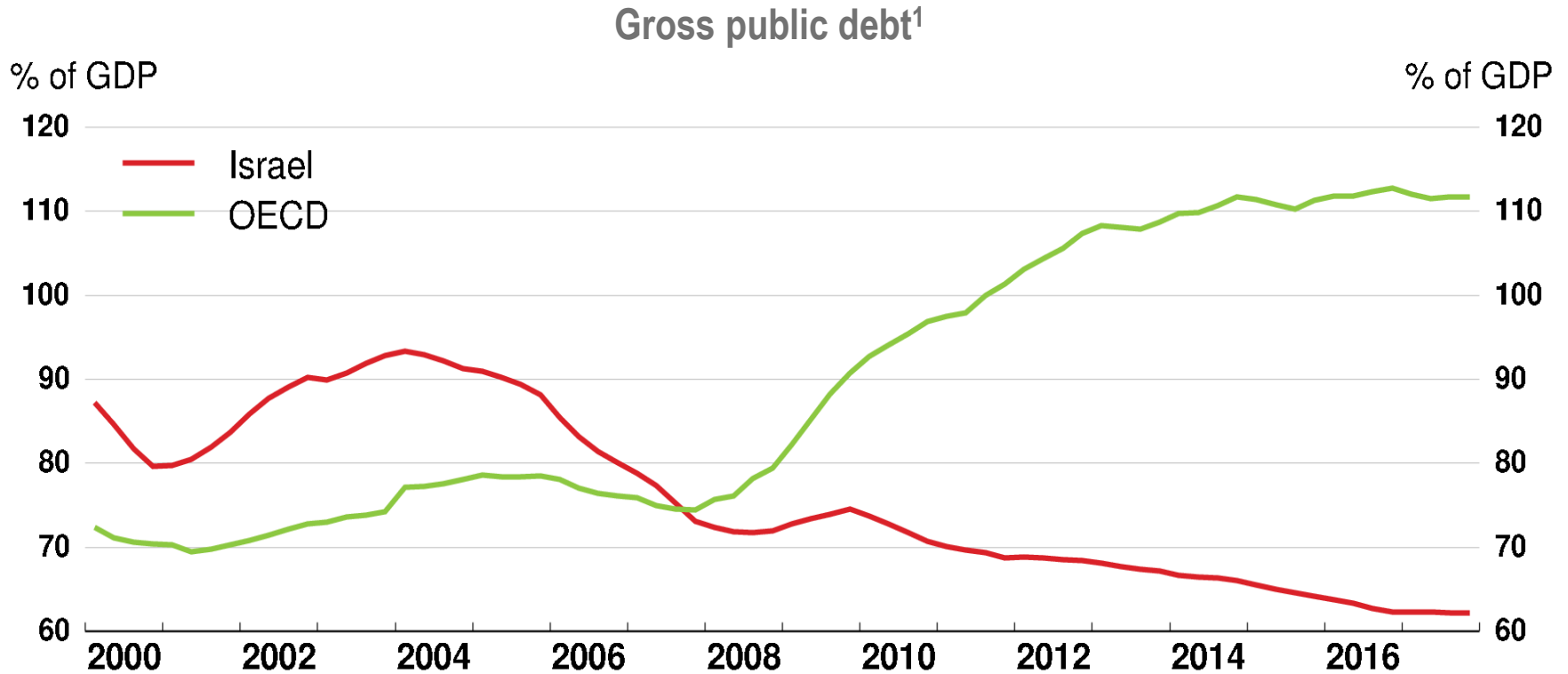
Unemployment has declined, and the labour market is close to or at full employment



Source: OECD (2018), *Economic Outlook and Labour Force Statistics Databases*.



Public debt is declining



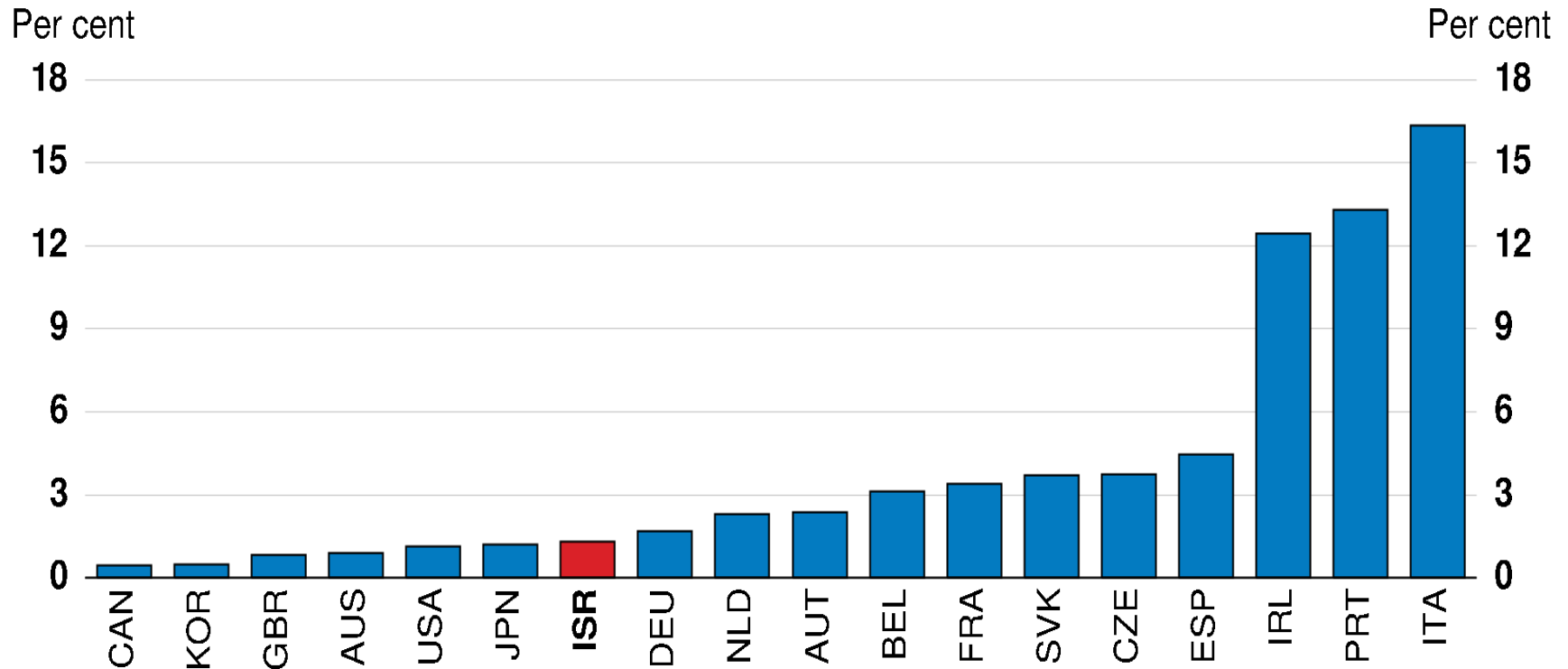
1. Estimate for 2017.

Source: OECD (2018), *Economic Outlook Database*.



The financial sector is sound

Non-Performing Loans (NPLs)
Share of NPLs in total gross loans, Q4 2017 or latest



Source: IMF, Financial Soundness Indicators Database.

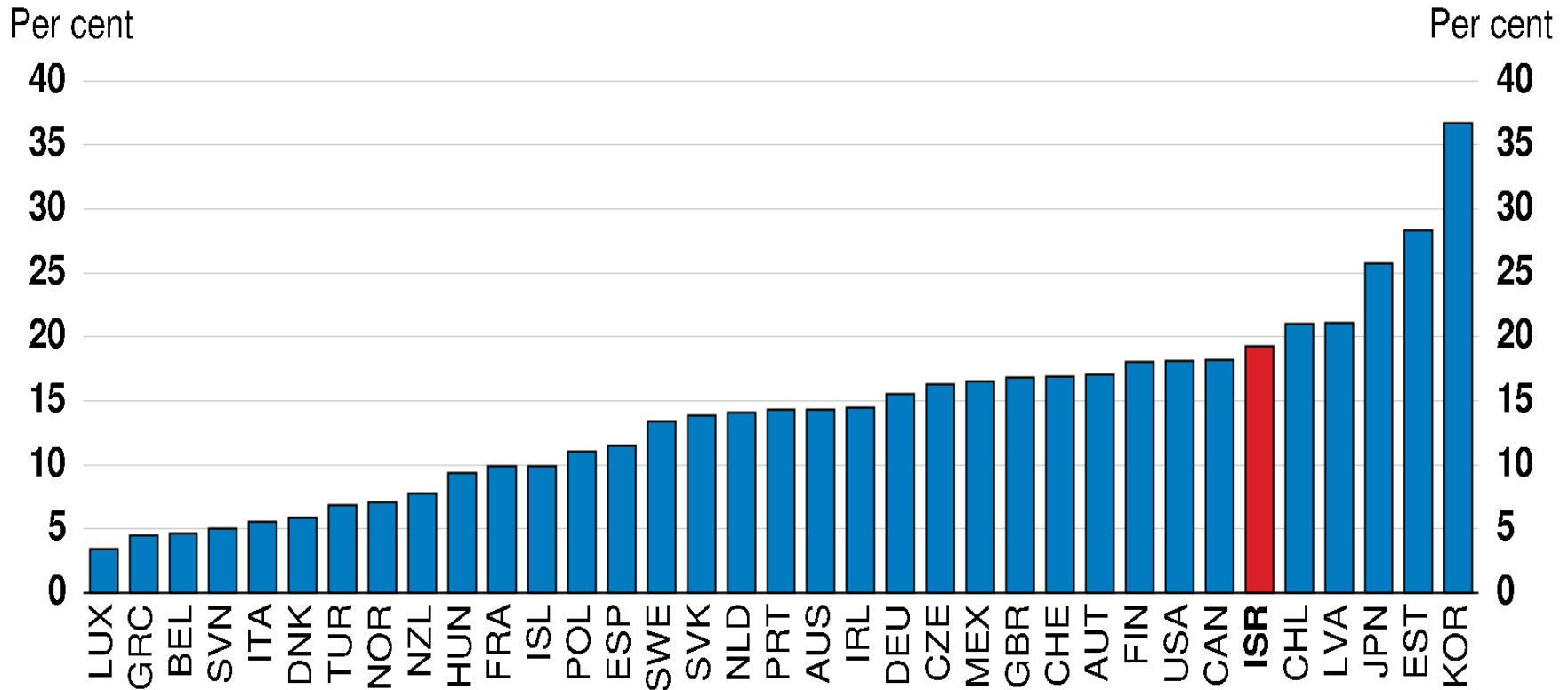


But the gaps in efficiency and social cohesion remain substantial



One large gap is in wages¹ by gender

2016 or latest available year



1. Defined as the difference between median wages of men and women relative to the median wages of men.

Source: OECD, *Labour - Earnings Database*.



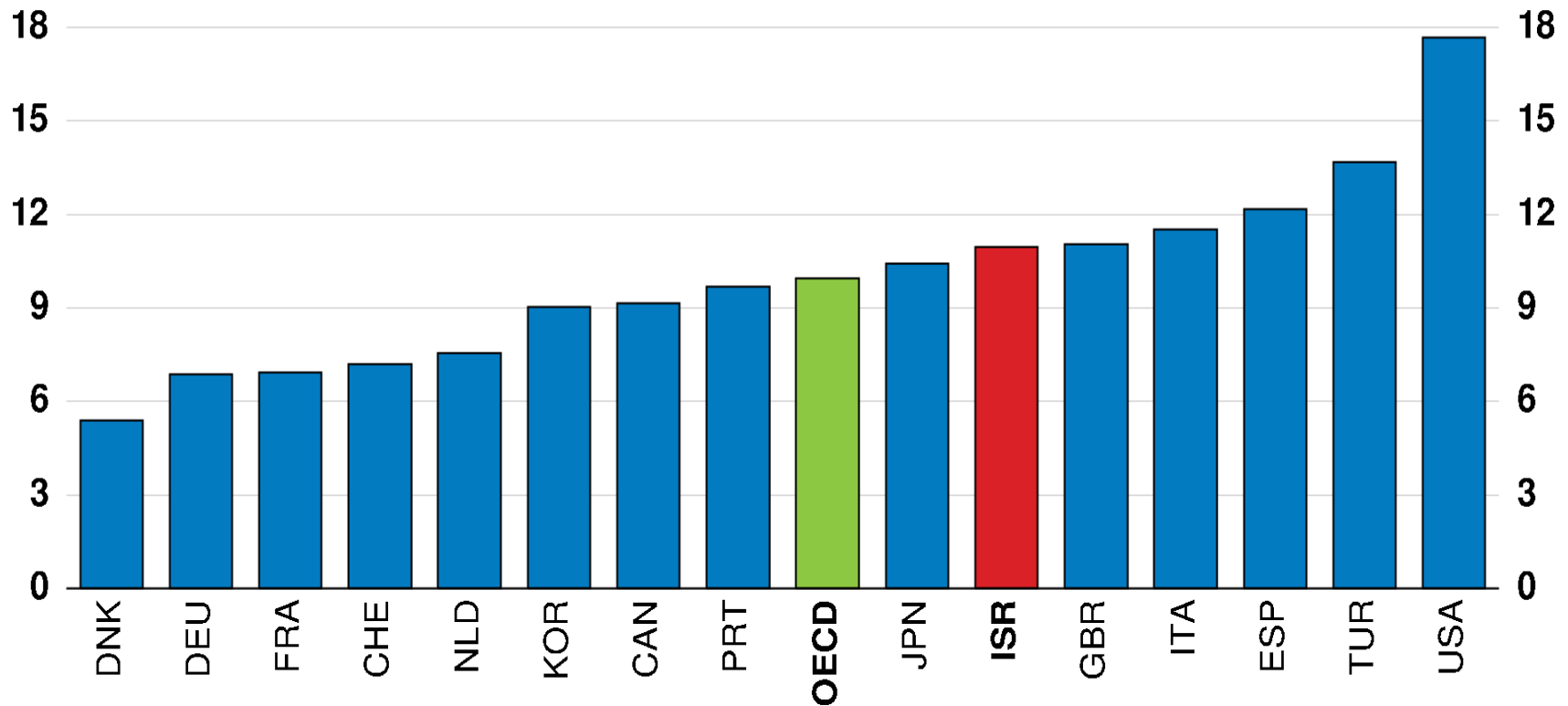
Disparities in Israeli society

	Israeli-Arabs	Haredim	Others
Share of the population - 2016 (%)	21	11	68
Share of the population - 2059 (%)	20	29	51
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



Income inequality remains high

S90/S10 disposable income share
2016 or latest year available

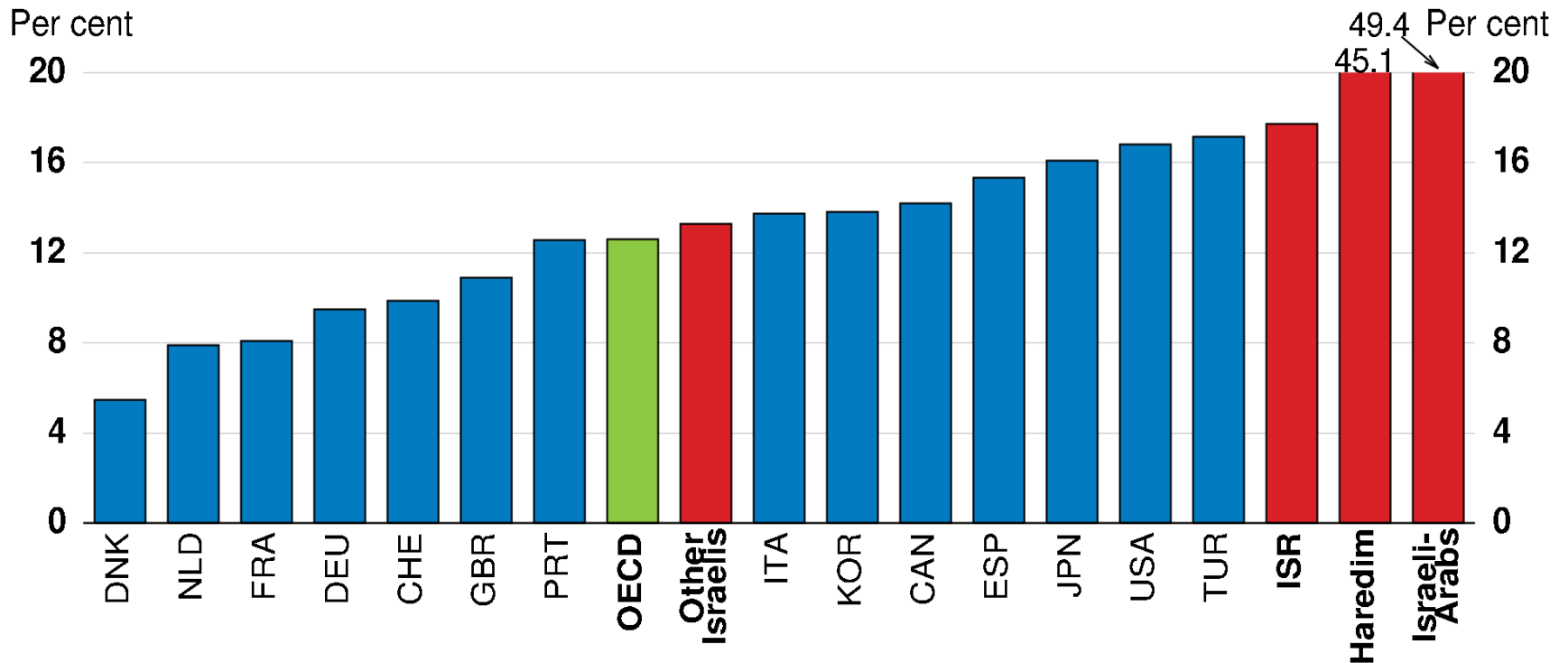


Source: OECD (2017), *Income Distribution Database*, <http://www.oecd.org/els/soc/income-distribution-database.htm>.



Poverty is high, particularly among Israeli-Arabs and Haredim

Relative poverty rate
2016 or latest available year



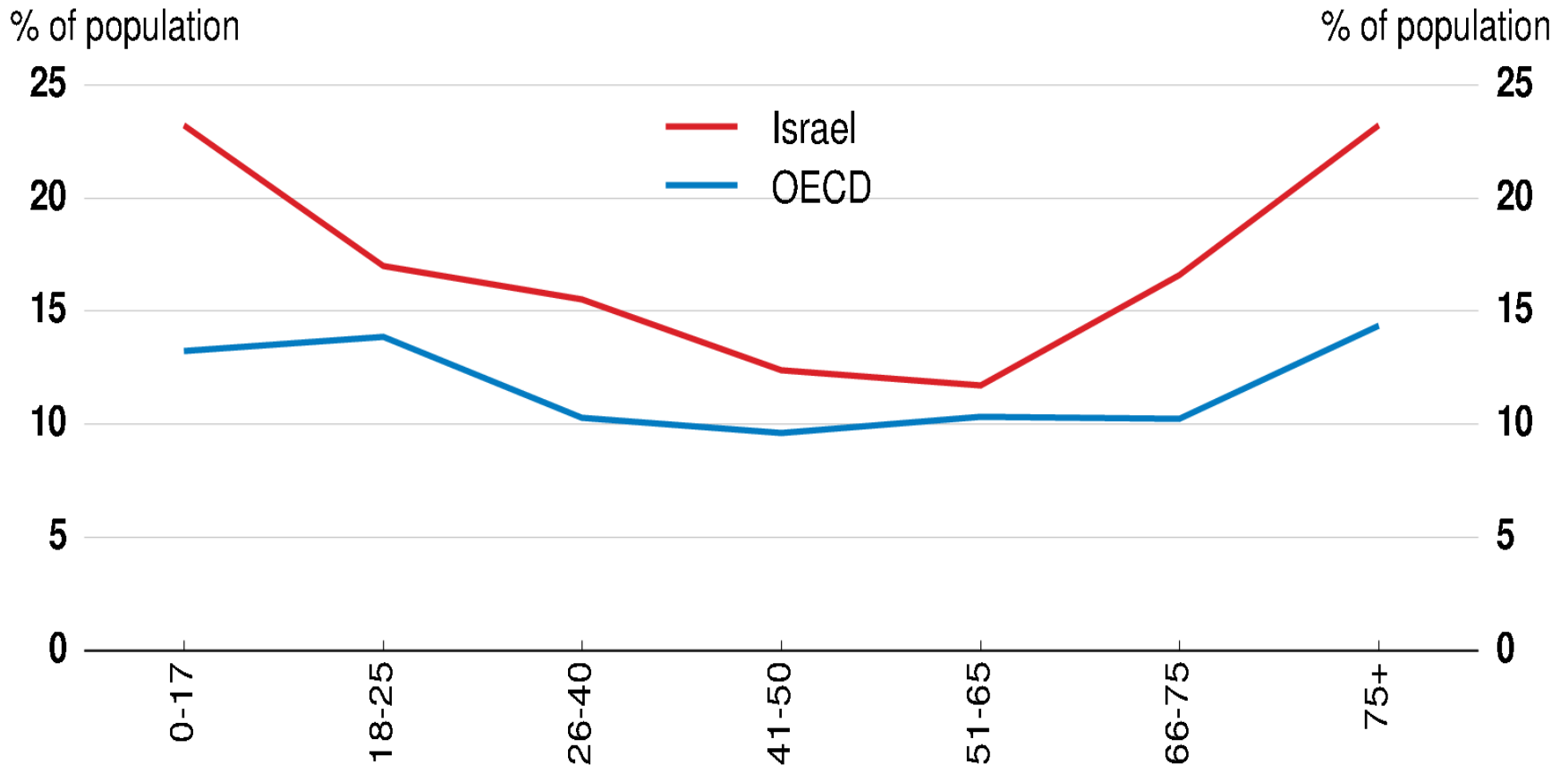
The relative poverty rate measures the share of households whose income is below the threshold of 50% of median disposable income.

Source: OECD (2017), *Income Distribution Database* and National Insurance Institute (2017), *Poverty and Social Gaps Report, 2016*.



It is highest for children and the elderly

Poverty rates by age group, 2016¹

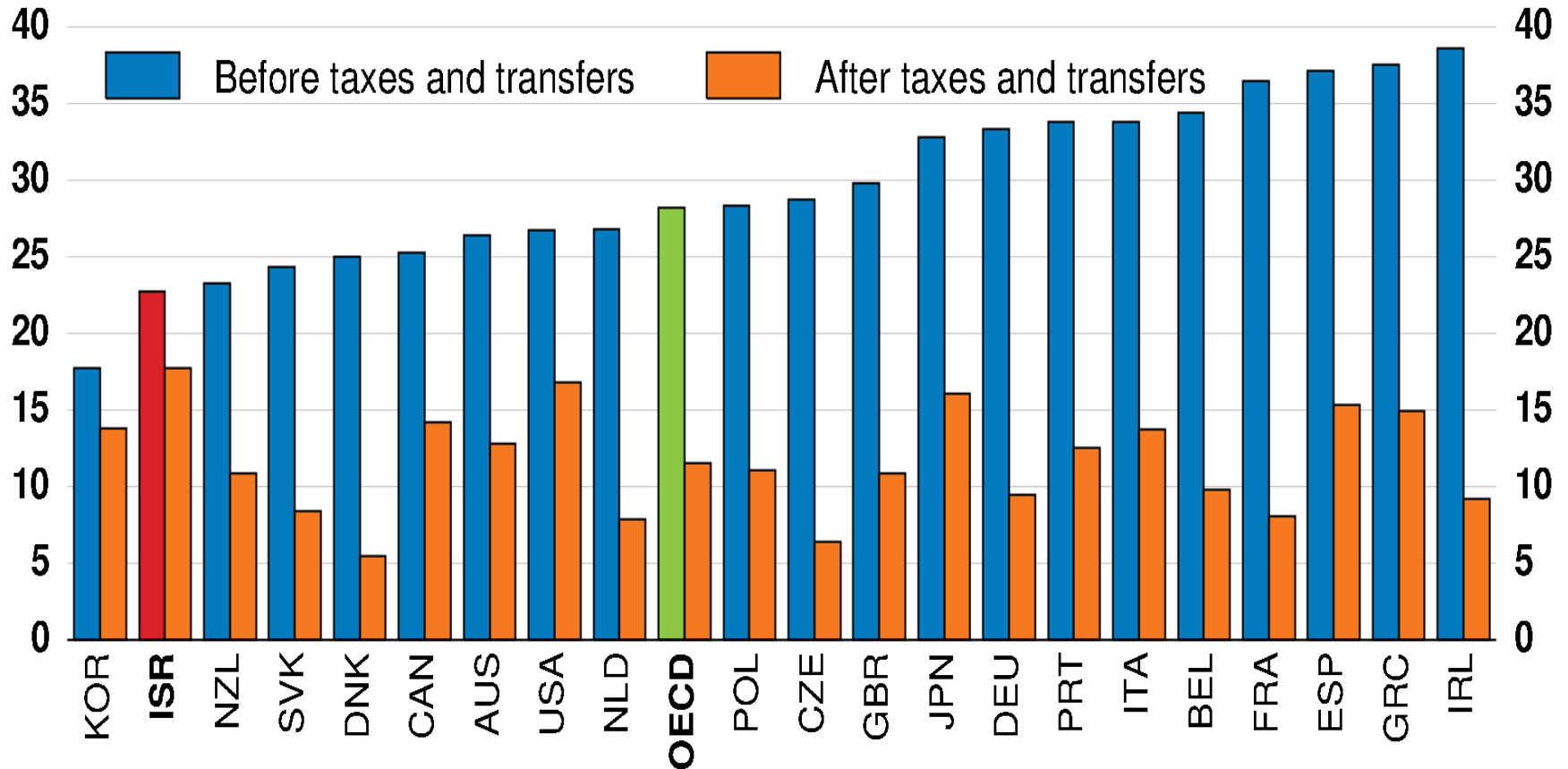


1. The poverty threshold is 50% of median household income, after taxes and transfers. For the OECD, 2015 or most recent data.
Source: OECD, *Income Distribution Database*, www.oecd.org/social/income-distribution-database.htm.



The tax/transfer system does little in the way of redistribution

Poverty line 50%, 2016 or latest year available

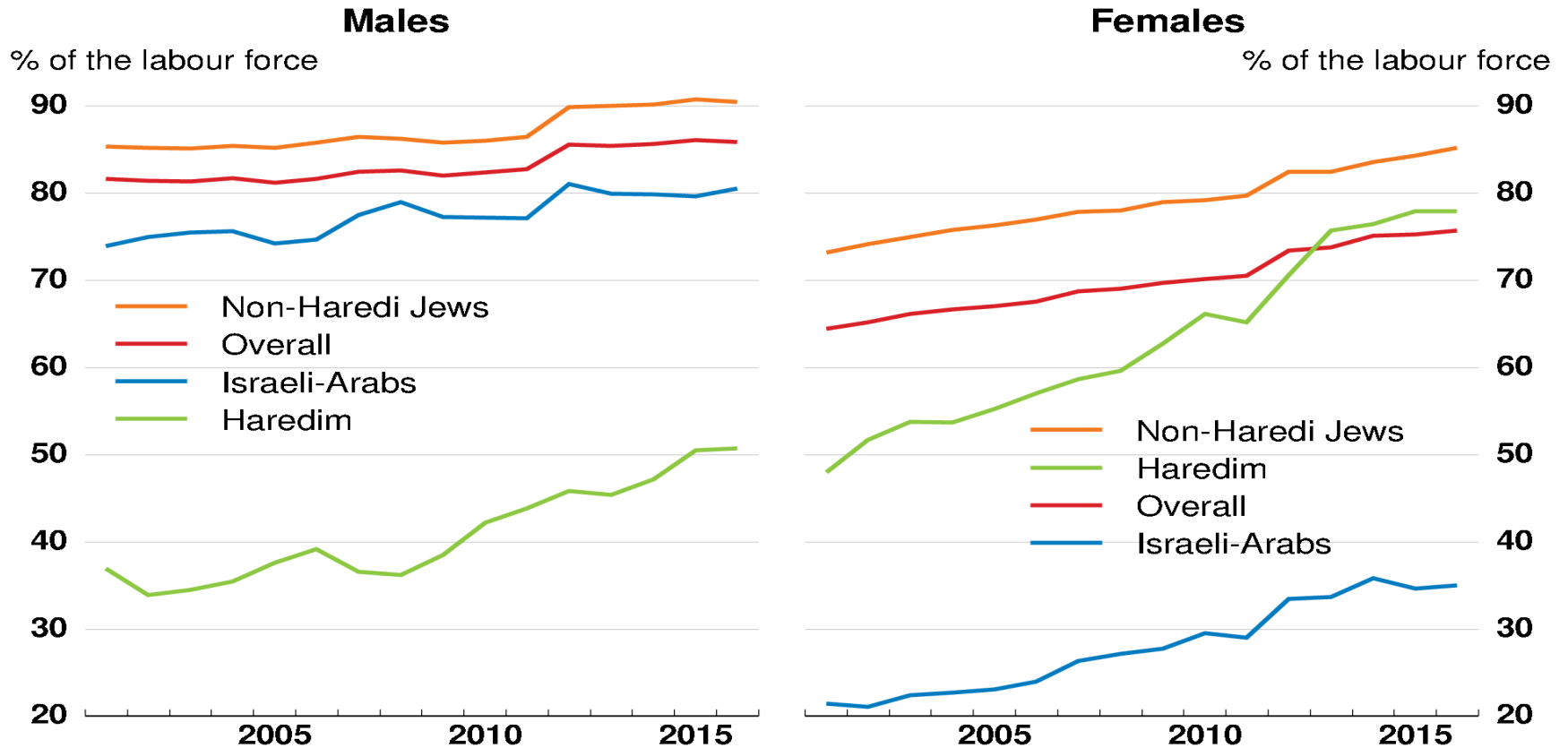


Source: OECD, Income Distribution Database, www.oecd.org/social/income-distribution-database.htm.



Progress has been made in boosting labour market integration of the Haredim and Arabs

Labour force participation rates by gender and population group

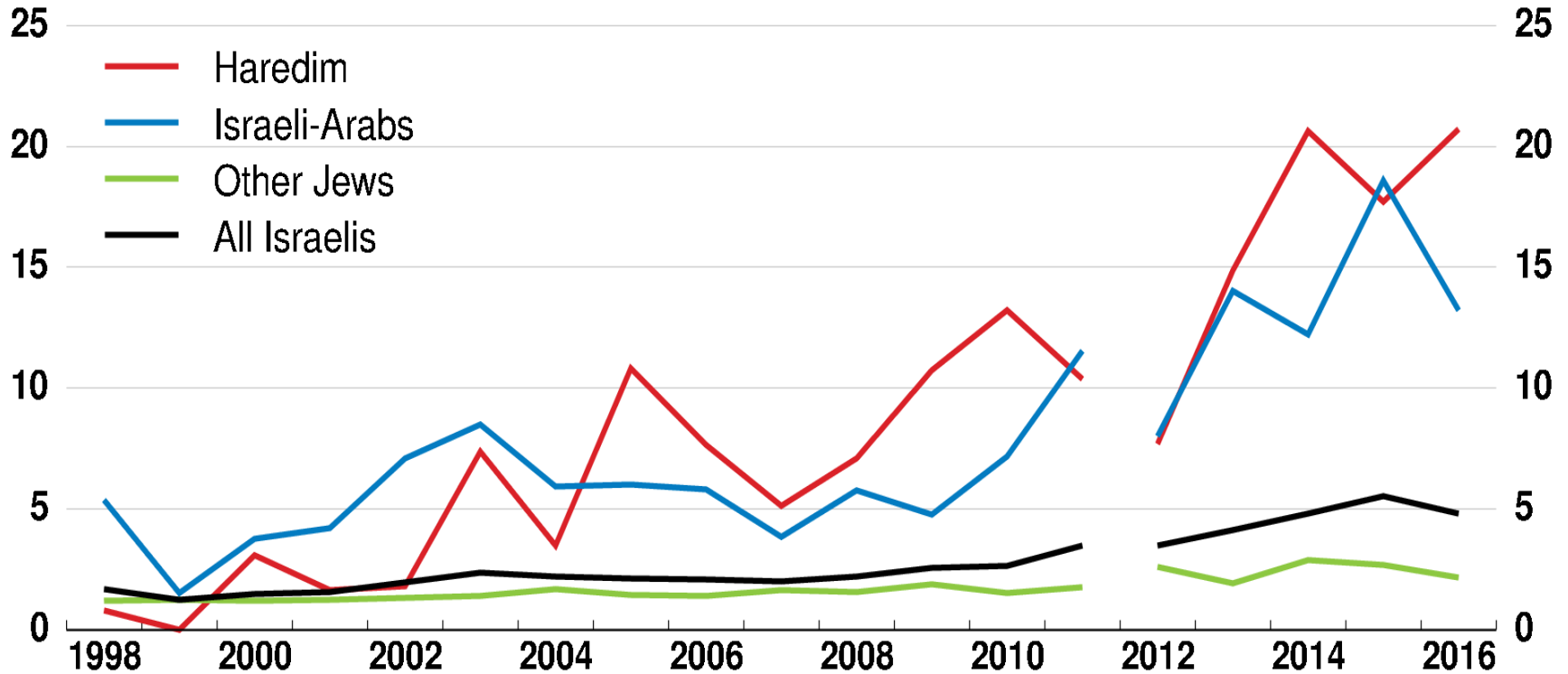


Source: Ministry of Finance.



Even among families with two breadwinners

Incidence of poverty in families with two breadwinners¹



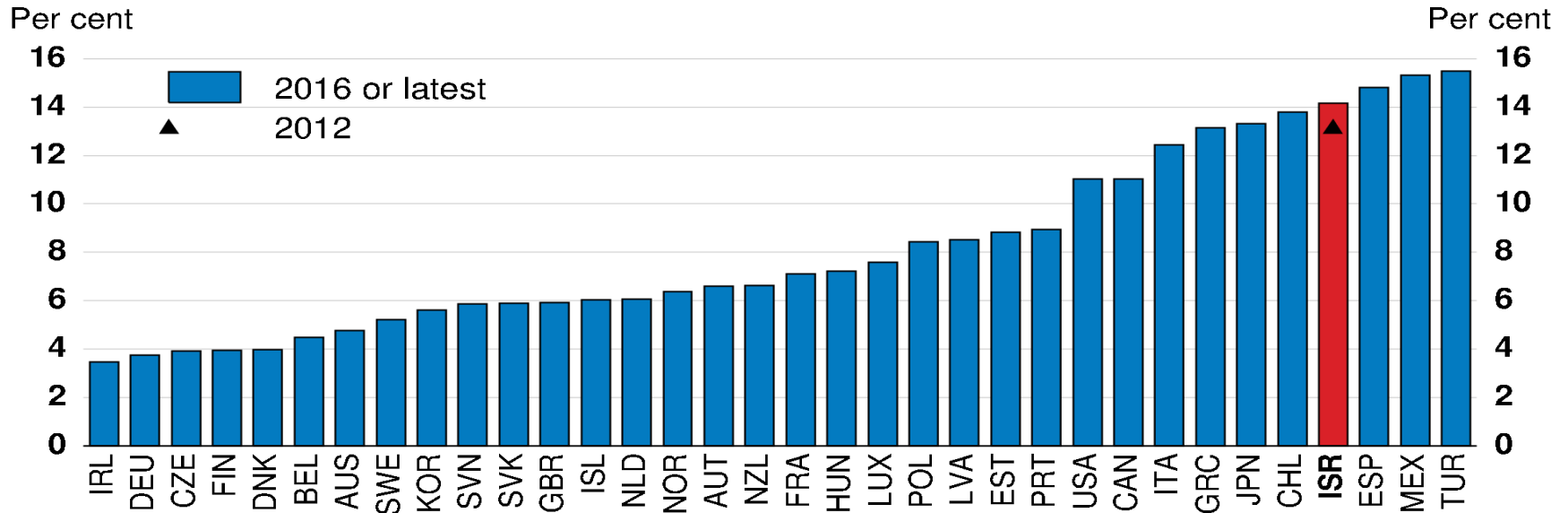
1. Break in the time series in 2012.

Source: National Insurance Institute.



The share of working poor is high and rising

Share of the working poor¹



1. Those with income below the poverty line, living in households with a working-age head and at least one worker.

Source: OECD (2017), *Income Distribution Database*, www.oecd.org/social/income-distribution-database.htm.

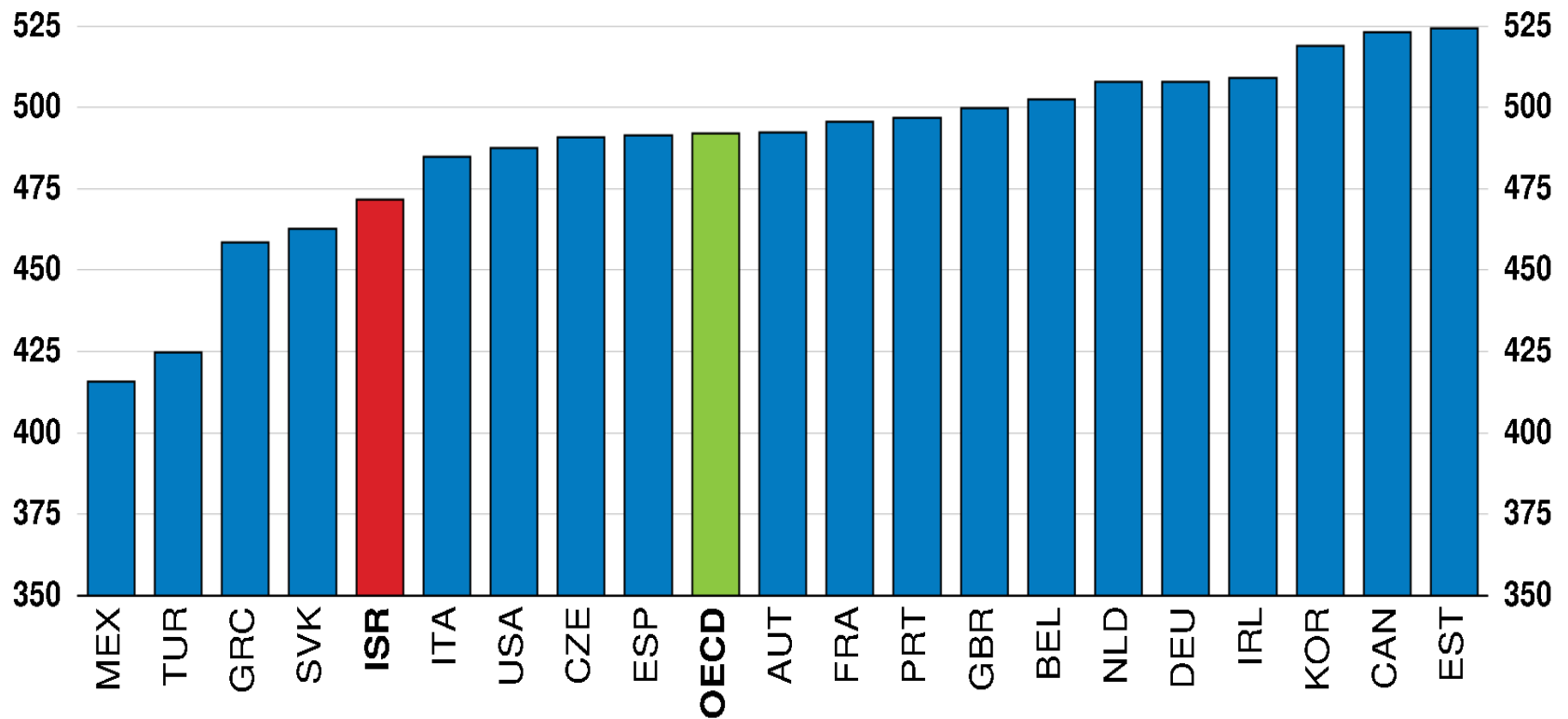
- ✓ *Further expand the role of in-work benefits by providing higher transfers to large families where both parents are in low-paid jobs*



Education outcomes can be improved

Average PISA scores are weak

PISA scores in mathematics, science and reading, 2015

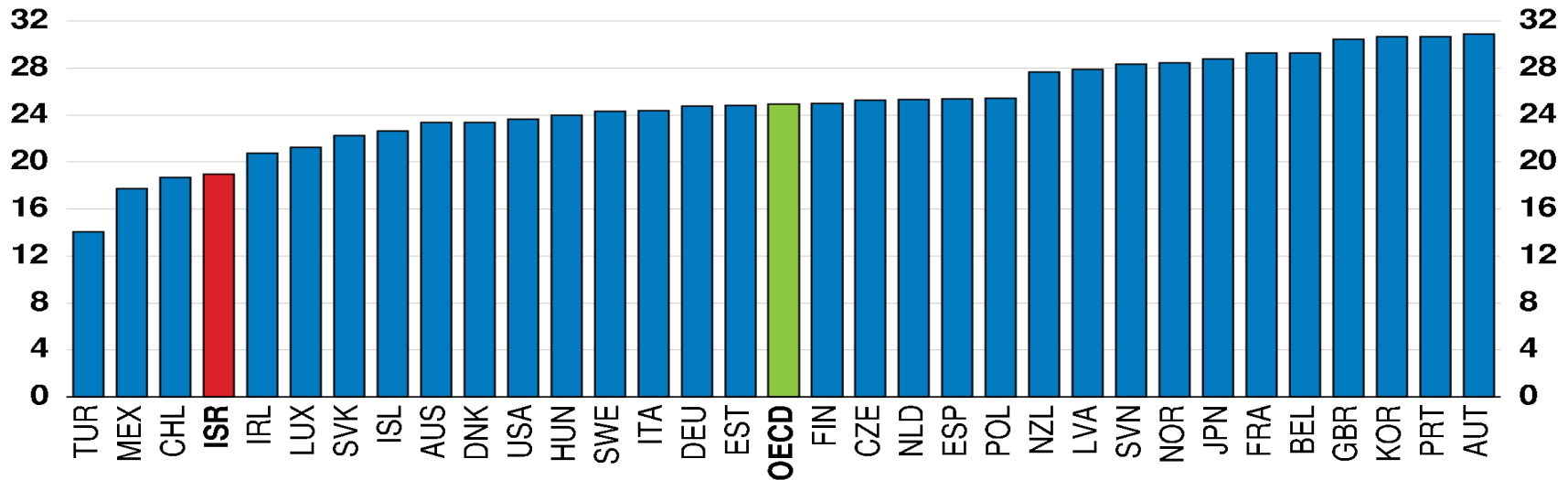


Source: OECD (2016), *PISA 2015 Results: Excellence and Equity in Education*; Ministry of Education.



Education financing remains low, especially for disadvantaged groups

Annual expenditure per student at secondary level
Expenditure relative to per capita GDP, 2014



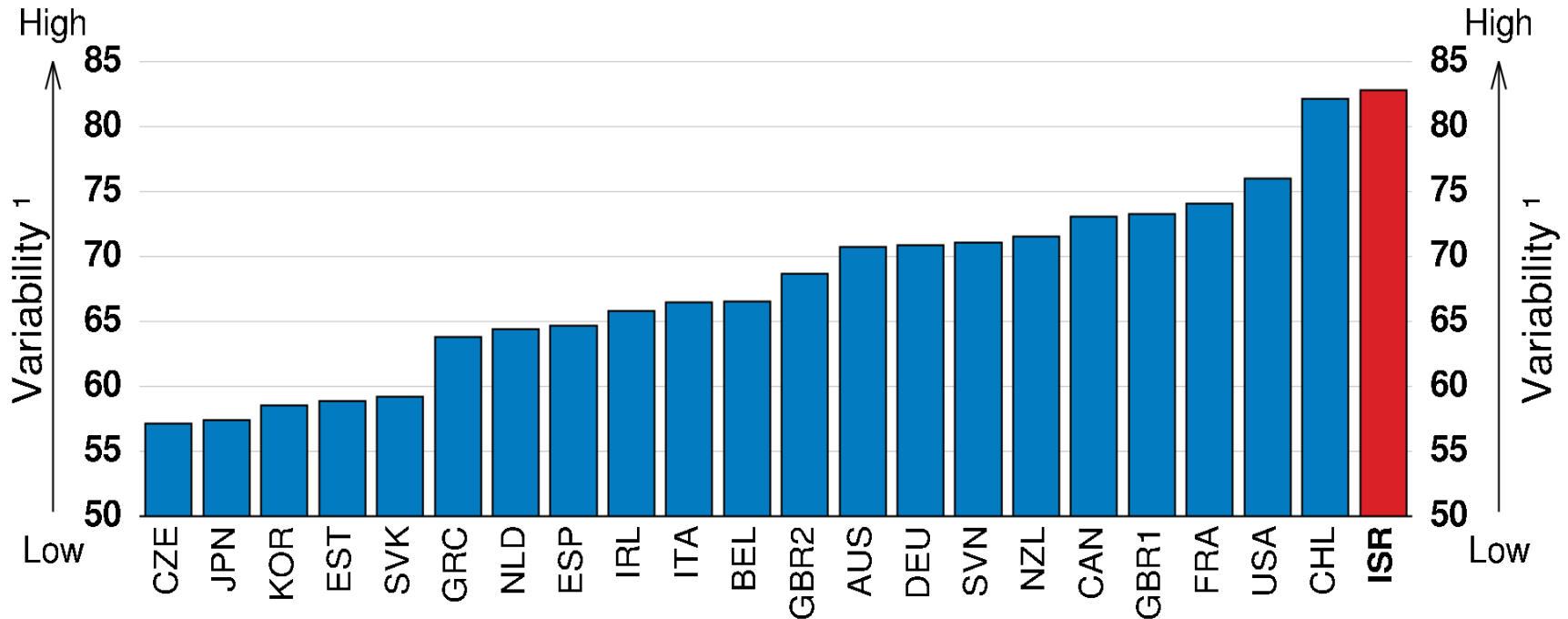
Source: OECD (2017), *Education Finance Indicators Database*.

- ✓ *Increase education funding, especially at secondary level*
- ✓ *Make funding to the Haredi stream conditional on an increase in core subjects in the curriculum and strengthened monitoring and testing*



There is a wide dispersion of skills among Israeli adults

Variability in skills is very high



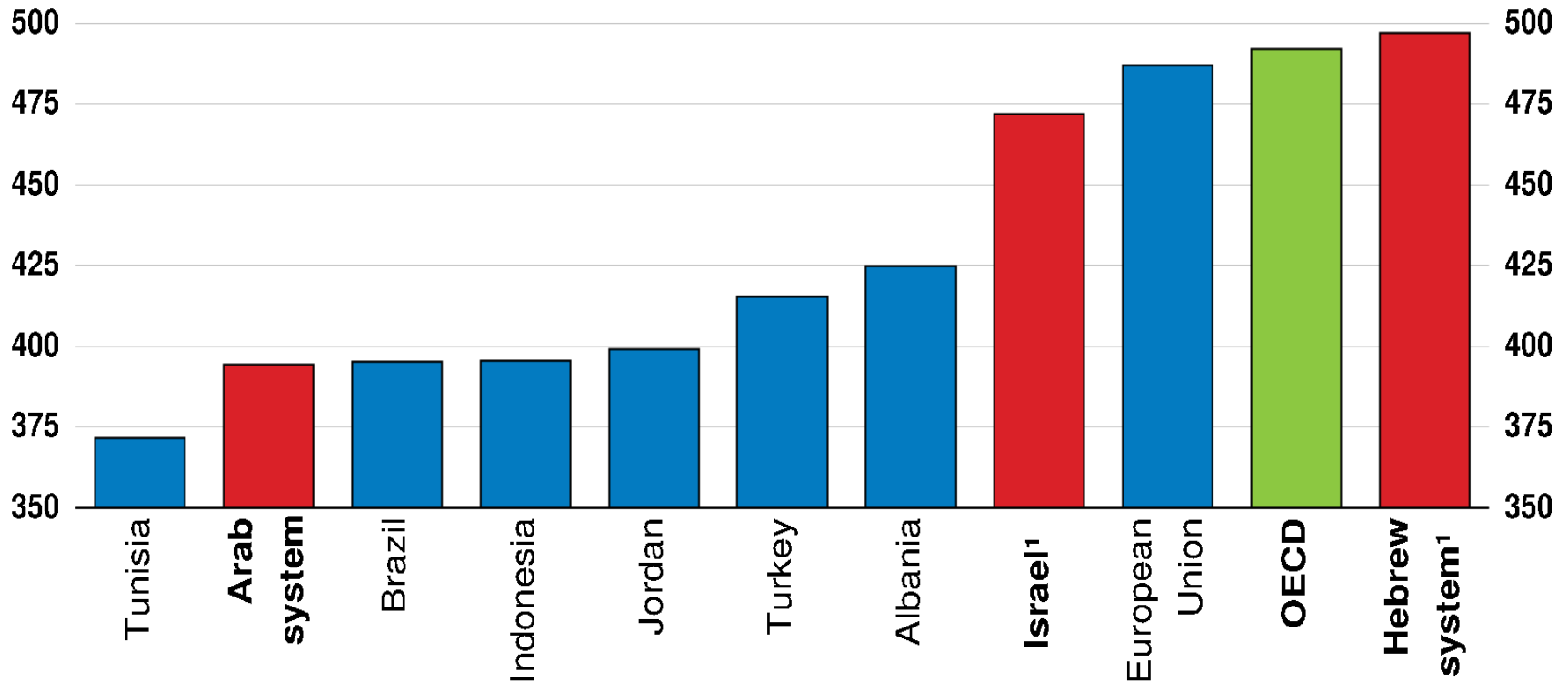
1. The measure of variability used is the interquartile range (difference between the third and first quartiles).

Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*.



Education outcomes are poor for disadvantaged groups

Average overall PISA score, 2015

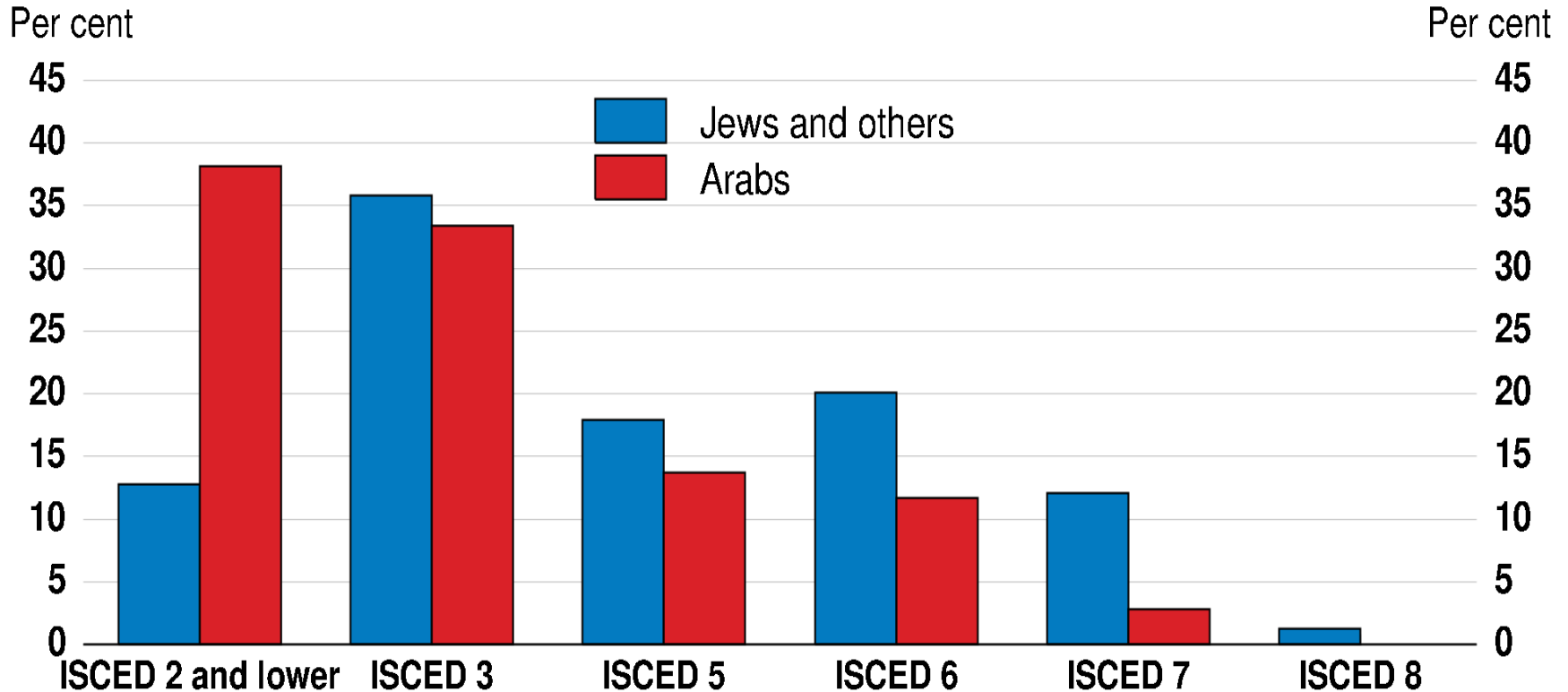


1. Haredi boys did not participate in the PISA test, as they do not study the required material. Results are thus overestimated.
Source: OECD, *PISA Database*; Shoresh (2017), *Shoresh Handbook 2017: Education and its impact in Israel*.



Arabs also have low attainment

Educational attainment of the population, 2015

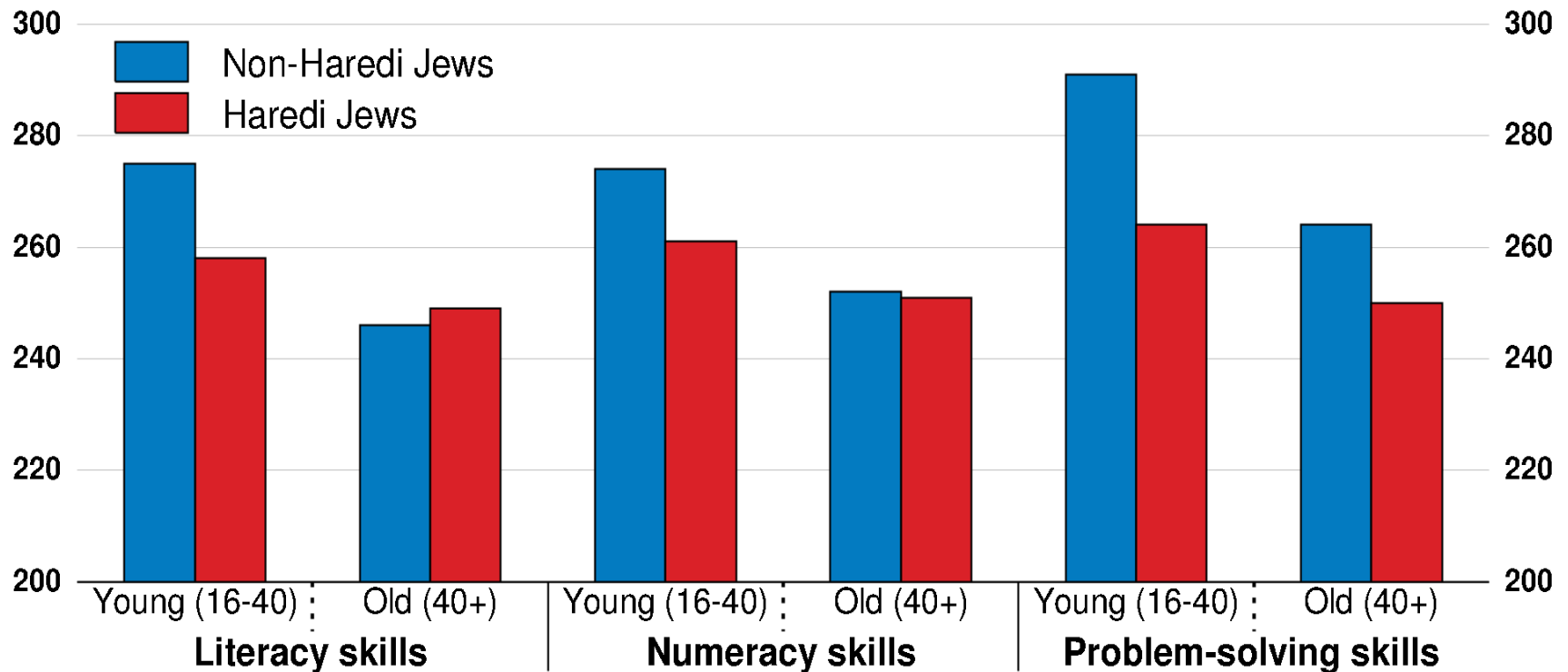


Source: Central Bureau of Statistics.



Skills problems are building among the Haredi

PIAAC scores, 2015

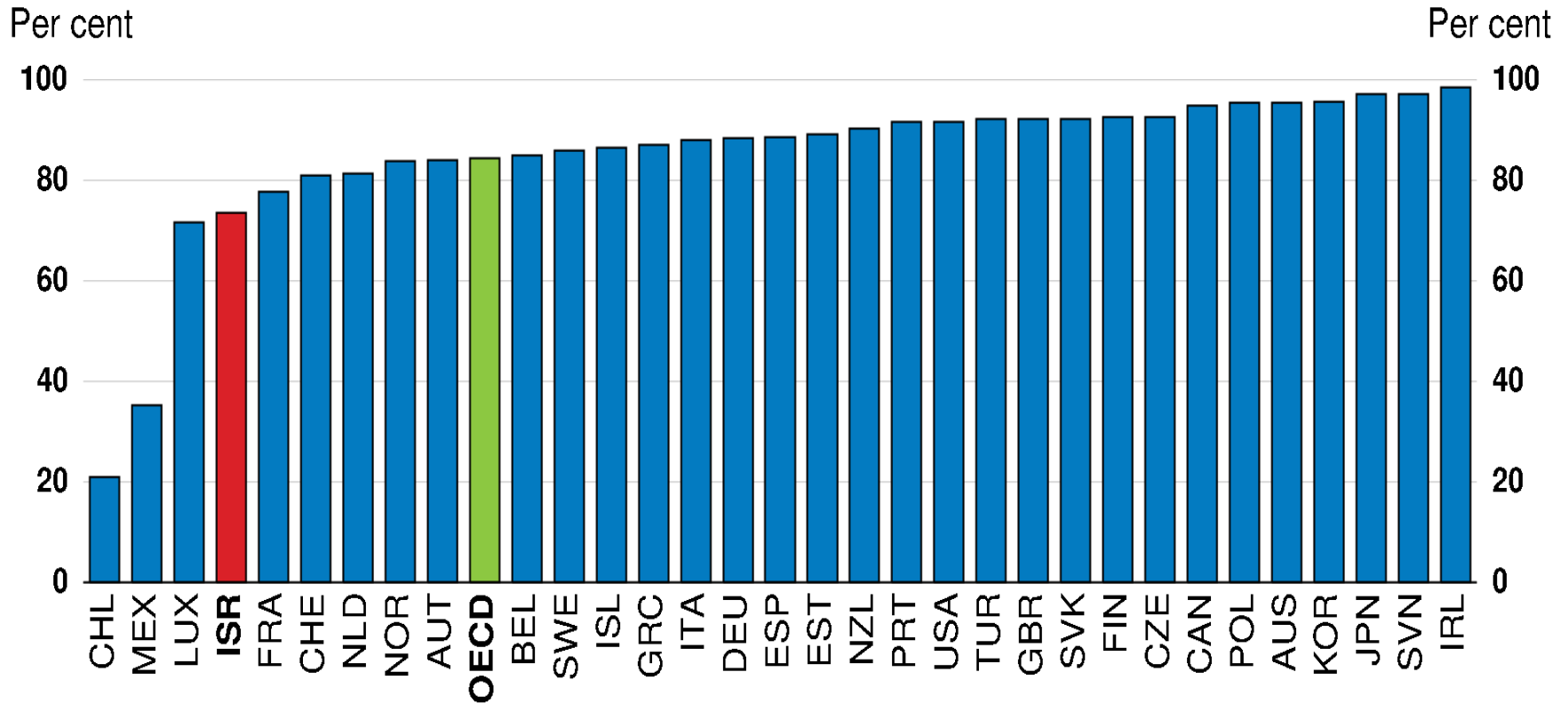


Source: Bank of Israel (2016), "Basic Skills of Workers in Israel and Industrial Productivity", Research Department, based on OECD Survey of Adult Skills (PIAAC) database (2015).



There are too many unqualified teachers

Share of fully certified teachers teaching in schools, 2015

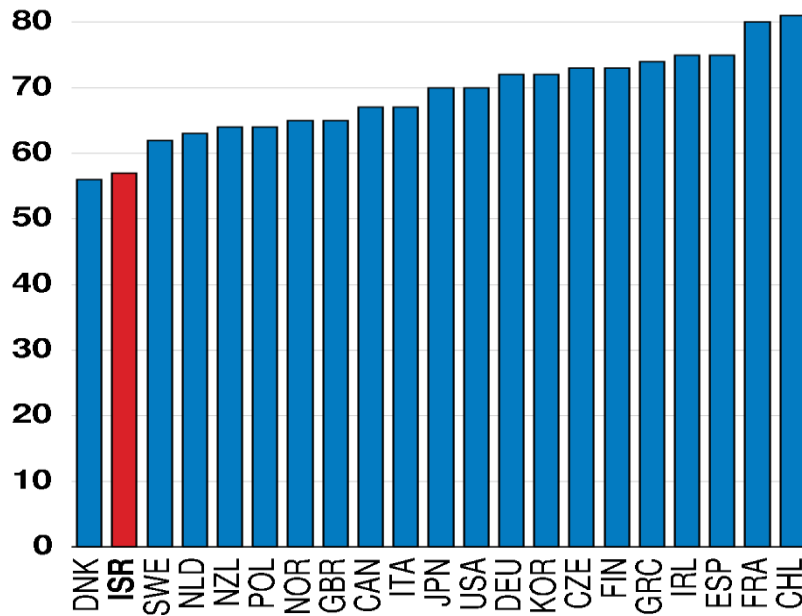


Source: OECD (2016), *PISA 2015 Results (Volume II): Policies and Practices for Successful Schools*, Figure II.6.9.

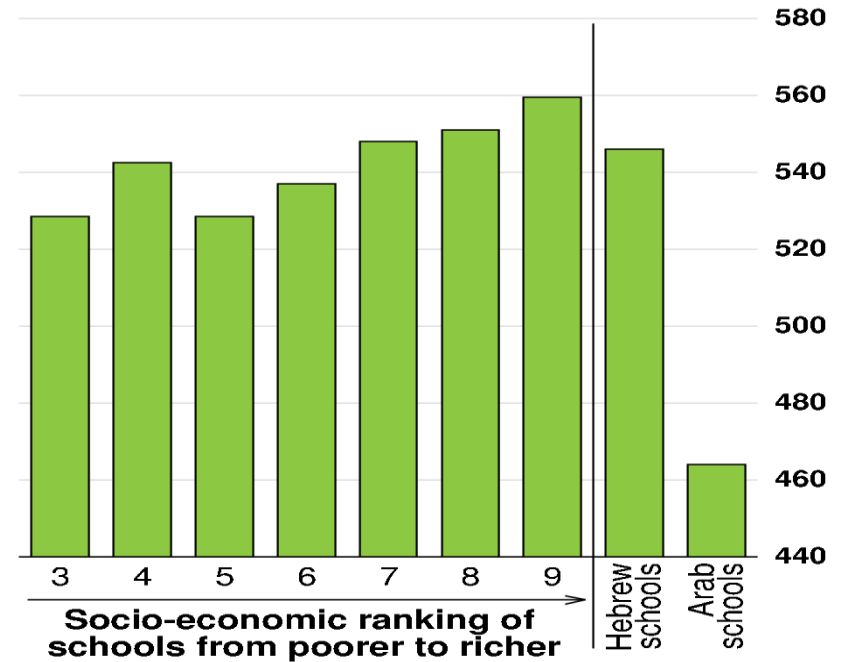


Teacher quality is weak, especially in disadvantaged schools

Percentile of teachers' skills in numeracy, 2012/2015¹



Psychometric test scores of teachers in different schools, 2013-17²



1. Score position of median cognitive skills of teachers in the cognitive skill distribution of all adults aged 25-65 excluding teachers, on PIAAC tests.

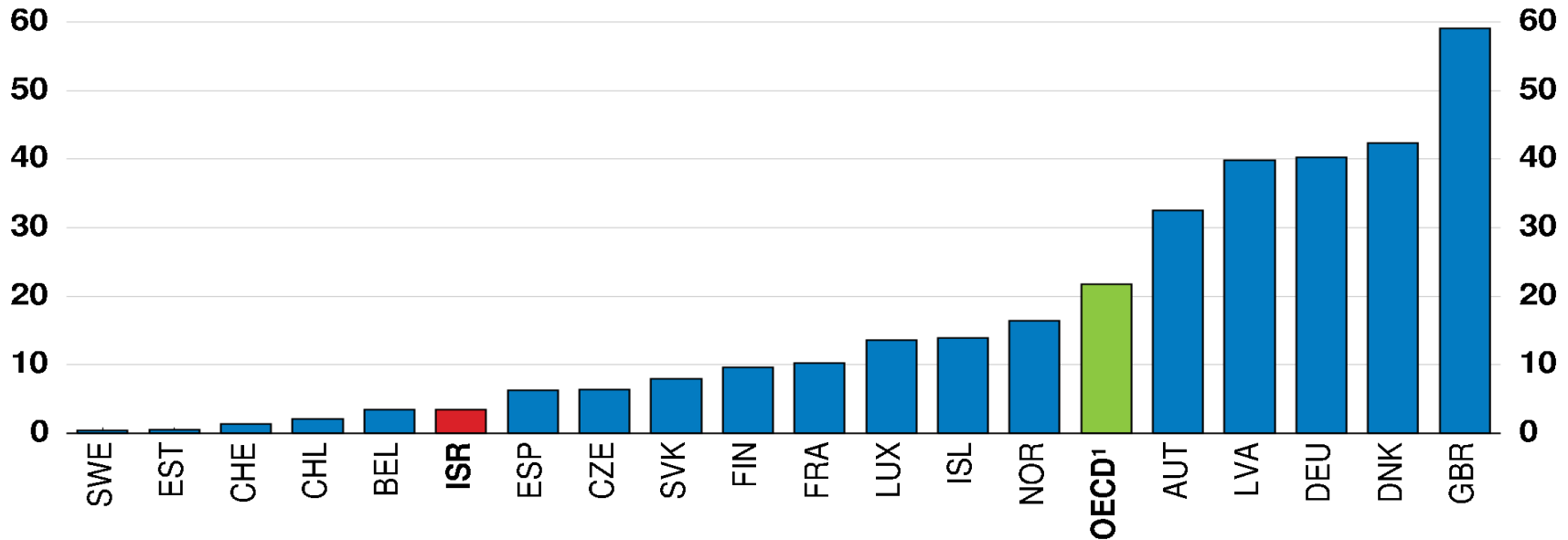
2. 2016 data for Arab and Hebrew schools.

Source: E. Hanushek, M. Piopiunik and S. Wiederhold (2014), "The Value of Smarter Teachers: International Evidence of Teacher Cognitive Skills and Student Performance", *NBER Working Paper series*, No. 20727, December 2014 (revised April 2017), Table 1; M. Ritov and Z. Kril (2017), "Teacher Skills", Ministry of Finance, Chief Economist Department Working Paper.



Participation in work-based vocational training is weak

Students in combined school- and work-based programmes
% of all students in upper secondary education, 2015



1. Average of countries with available data.

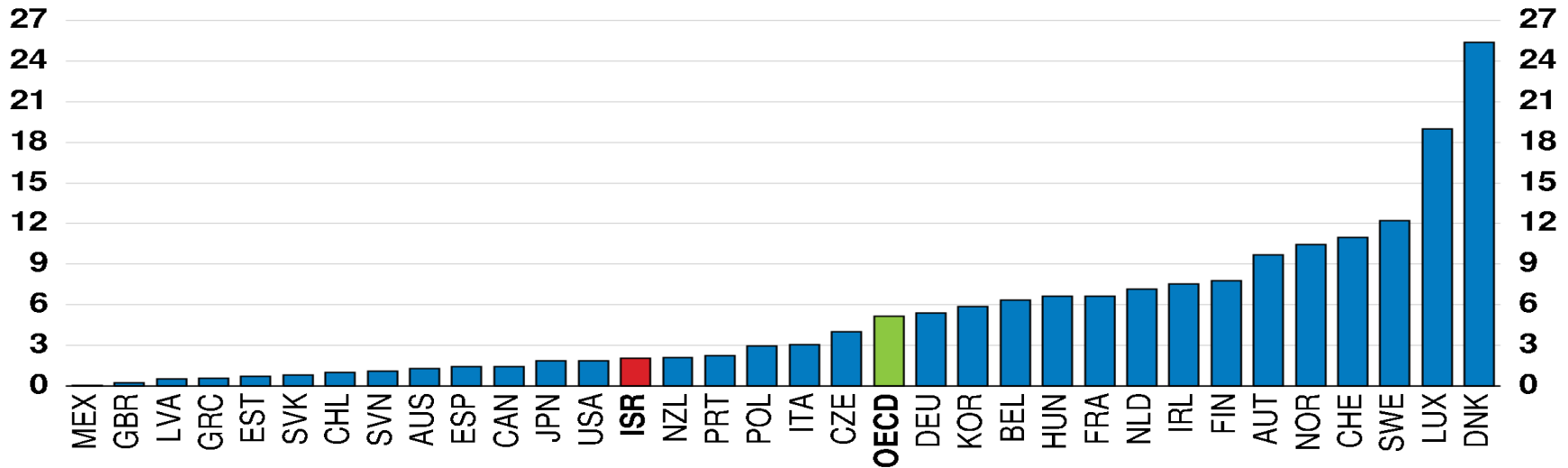
Source: OECD (2017), *Education at a Glance 2017: OECD Indicators*.

- ✓ ***Expand work-based learning in vocational programmes***
- ✓ ***Establish a National Vocational Education and Training Authority that would group and coordinate training activities***



The unemployed receive little training

Spending on ALMPs¹ per unemployed person
In thousand USD PPPs, 2015 or latest year available



1. Active labour market programmes.

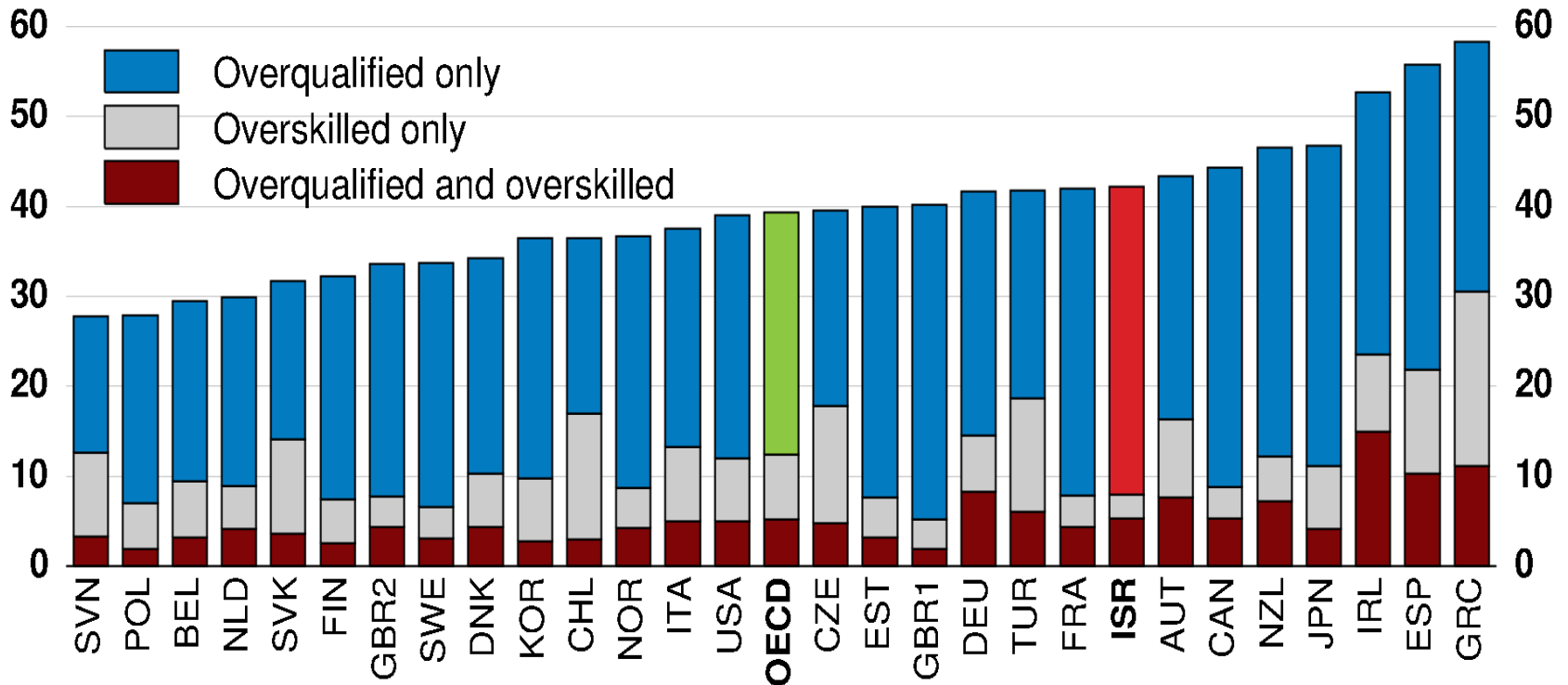
Source: OECD, *Labour Market Programmes/National Accounts/Annual Labour Force Statistics Databases*.

- ✓ *Evaluate systematically the effectiveness of existing active labour market policies*
- ✓ *Raise funding for effective programmes, above all for training*



There are plenty of overqualified workers

% of mismatched workers, 2012 and 2015¹



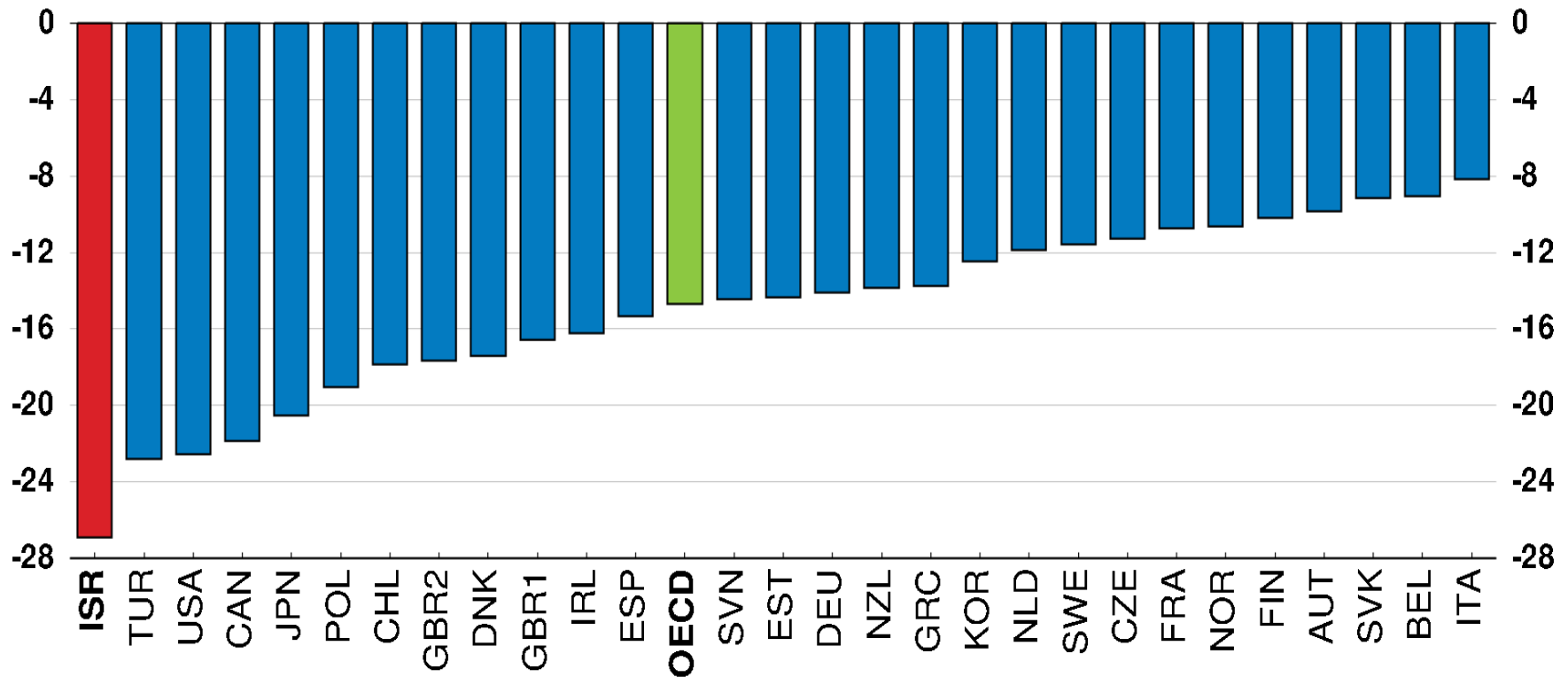
1. Chile, Greece, Israel, New Zealand, Slovenia and Turkey: Year of reference 2015. All other countries: Year of reference 2012. Data indicated as Belgium correspond to Flanders; GBR1 = England and GBR2 = Northern Ireland.

Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*, Table A3.5; OECD Survey of Adult Skills (PIAAC) database (2012 and 2015).



Such workers suffer a very large wage penalty

% difference in wages between overqualified and well-matched workers¹



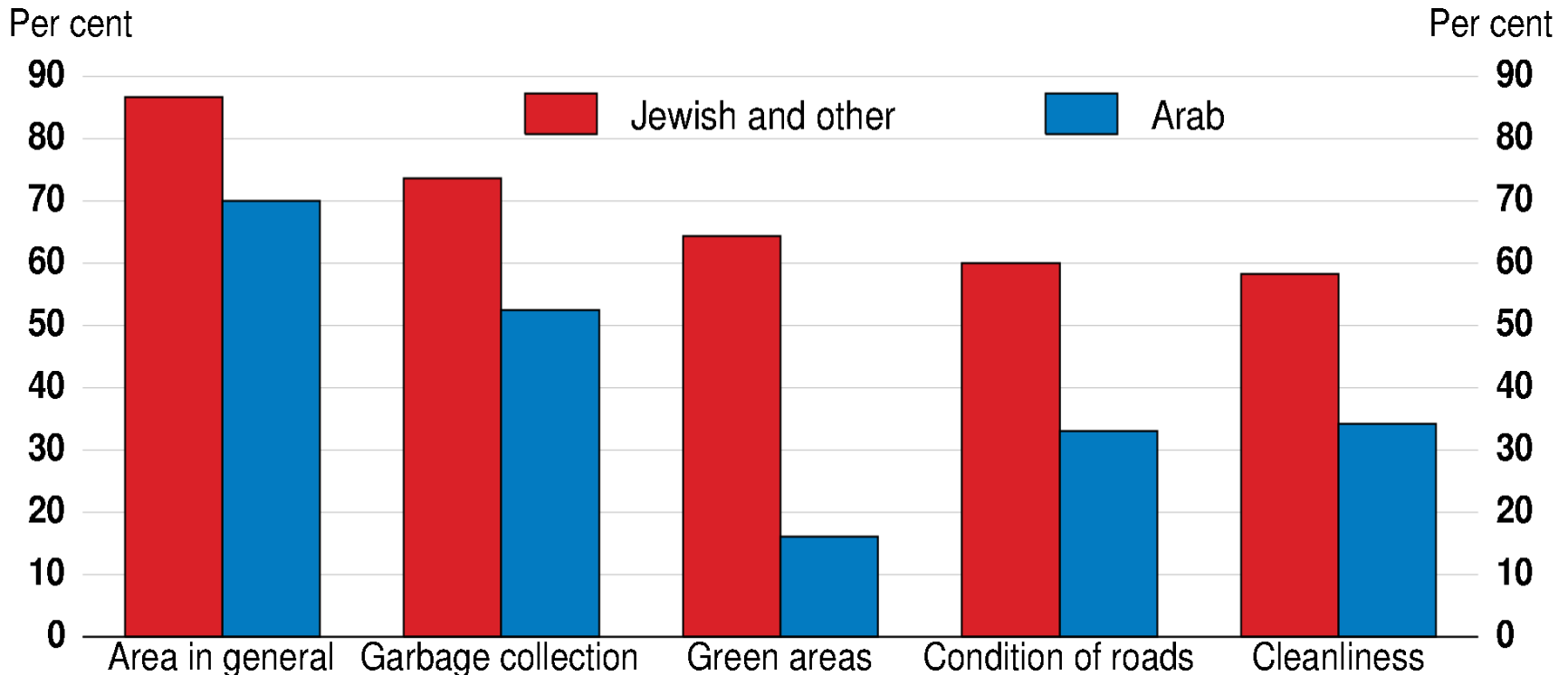
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Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*, Table A3.5; OECD Survey of Adult Skills (PIAAC) database (2012 and 2015).



Disadvantaged areas also suffer from inadequate infrastructure services

Satisfaction with selected infrastructure services by population groups
Share of respondents that were satisfied or very satisfied, 2015

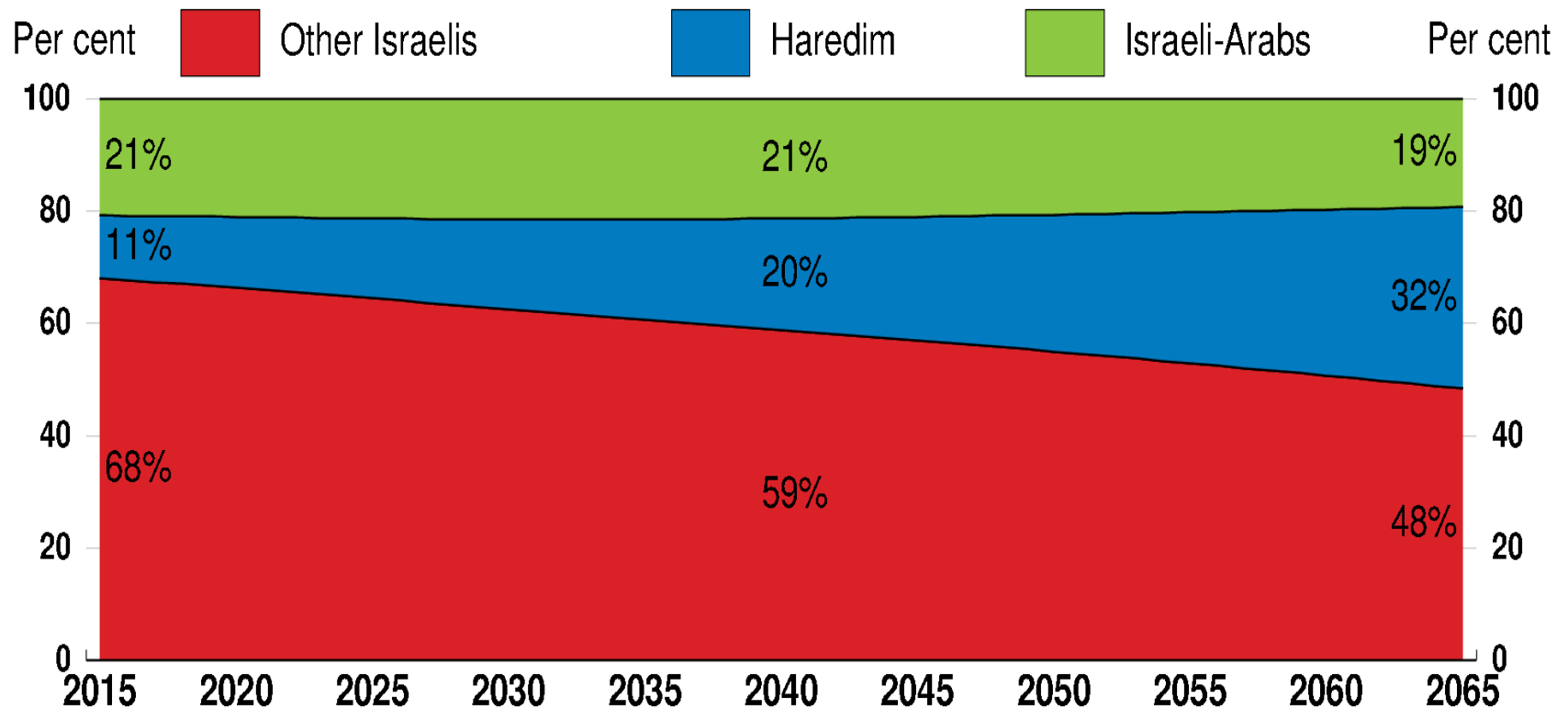


Source: CBS, 2015 Social Survey.



Israeli-Arabs and Haredim will constitute half of the population by 2060

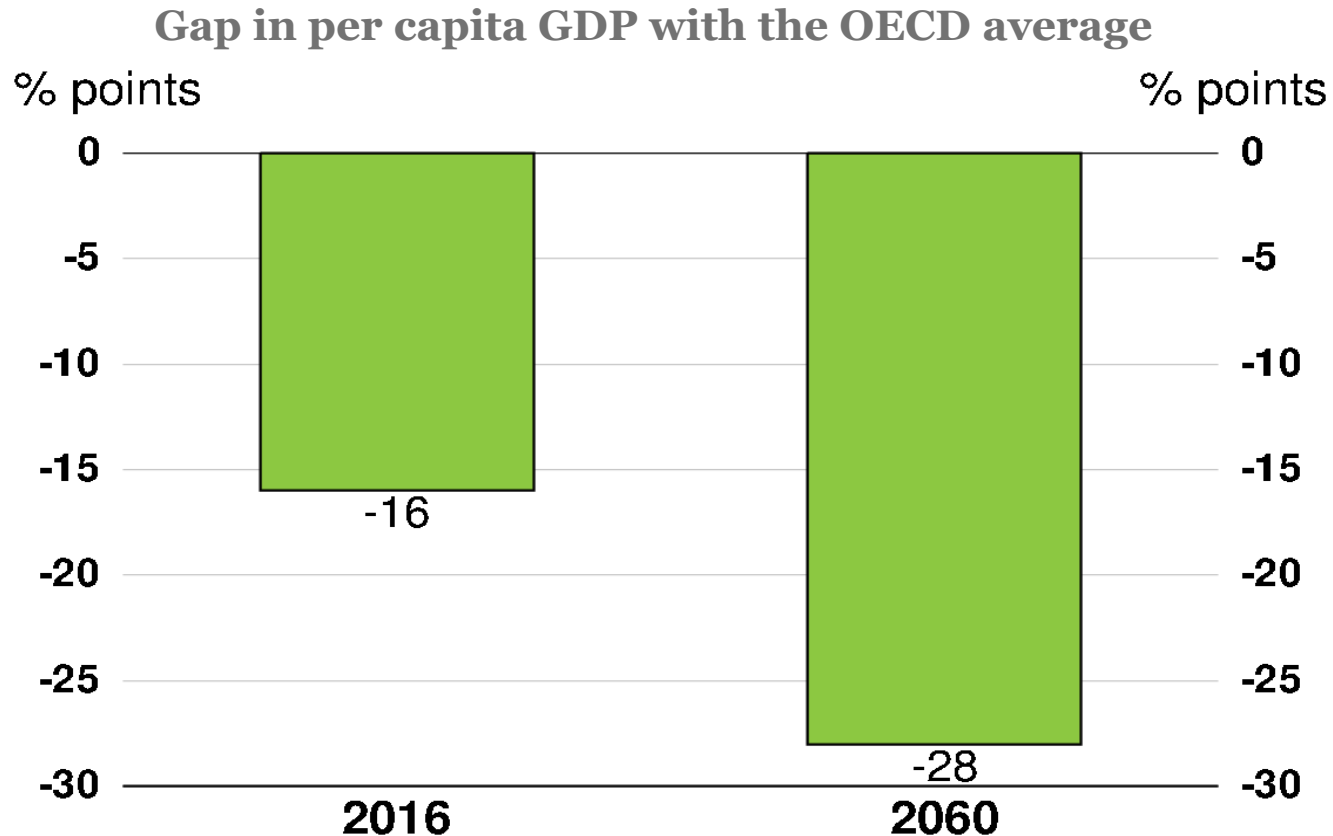
Demographic trends by community group



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



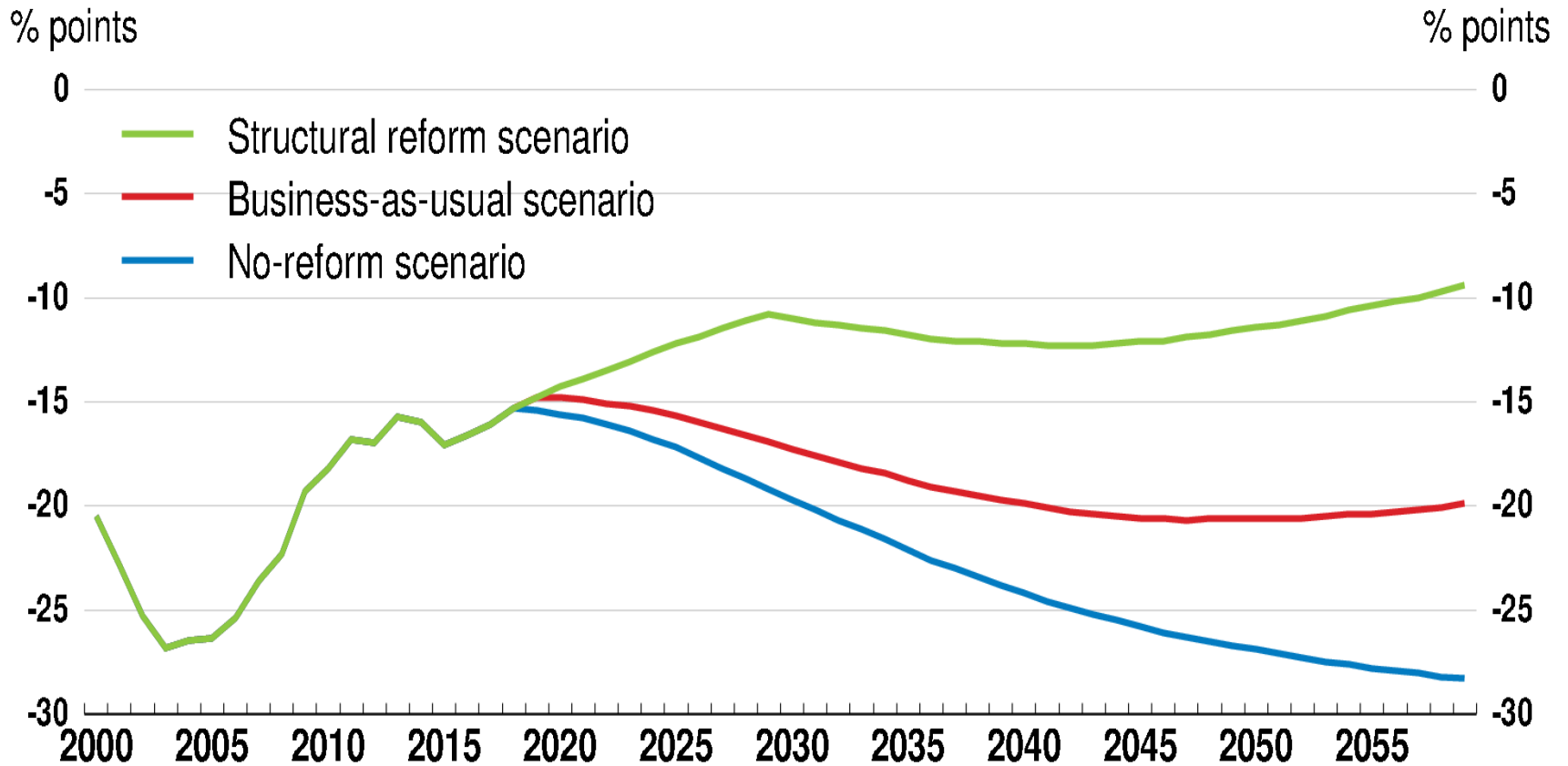
Without further social inclusion, relative living standards will fall



Source: OECD calculations.



Ambitious reforms could shrink the per capita GDP gap with the OECD average



Source: OECD (2017), *Economic Outlook No. 102 Database*; A. Geva (2015), "Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059", Ministry of Finance, http://www.mof.gov.il/ChiefEcon/EconomyAndResearch/ArticlesSet/Article_20150518.pdf.



How should these challenges be tackled?

- 1) By enhancing human capital and making education more inclusive
- 2) By improving infrastructure and the business environment

These structural reforms can be funded while maintaining prudent fiscal policy.

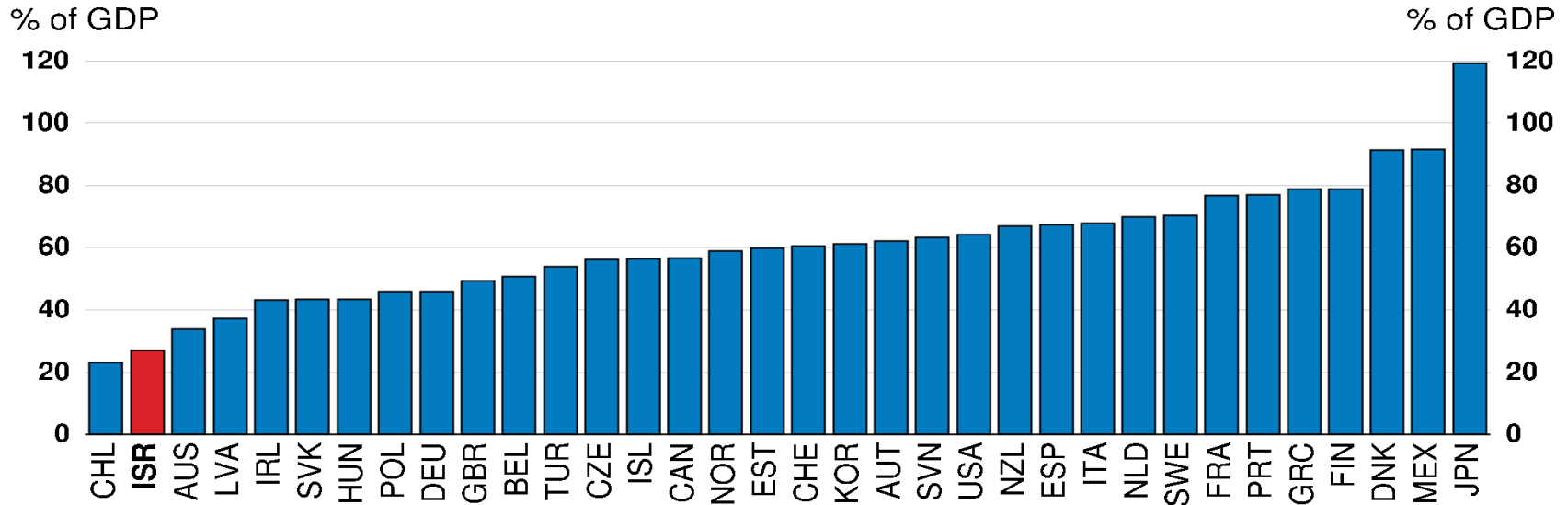


Improving infrastructure and the business environment (EXTRA SLIDES)



Israel has a large deficit of infrastructure

The public capital stock was low in Israel in 2015



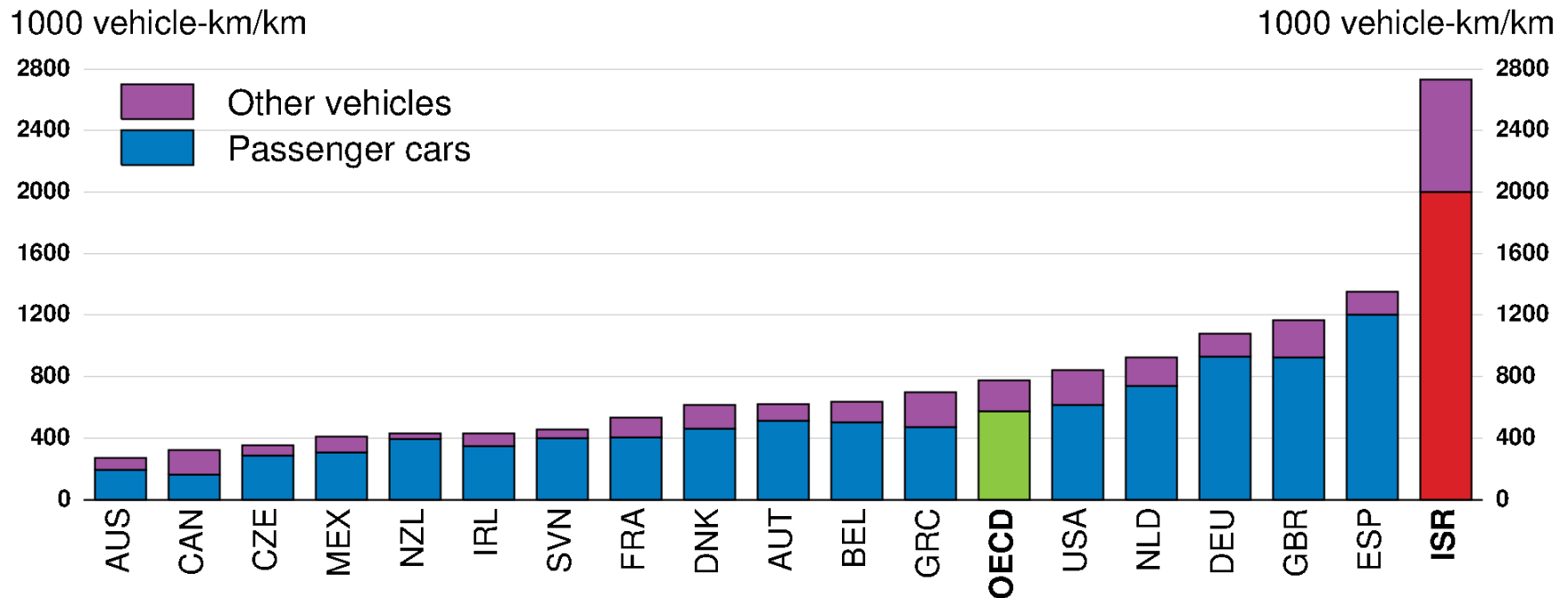
Source: IMF, *Investment and Capital Stock Dataset*, <http://www.imf.org/external/np/fad/publicinvestment/>.

- ✓ ***Raise budgetary resources for infrastructure. Use public-private partnership agreements, especially in public transport, following a careful and clear allocation of their risks***
- ✓ ***Ensure that municipalities have adequate resources to finance local infrastructure services needed in new residential areas***



Better public transport infrastructure is urgently needed

Road traffic intensity per network length, 2014 or latest available year



Source: OECD (2015), *Environment at a Glance 2015: OECD Indicators*, Figure 2.11.

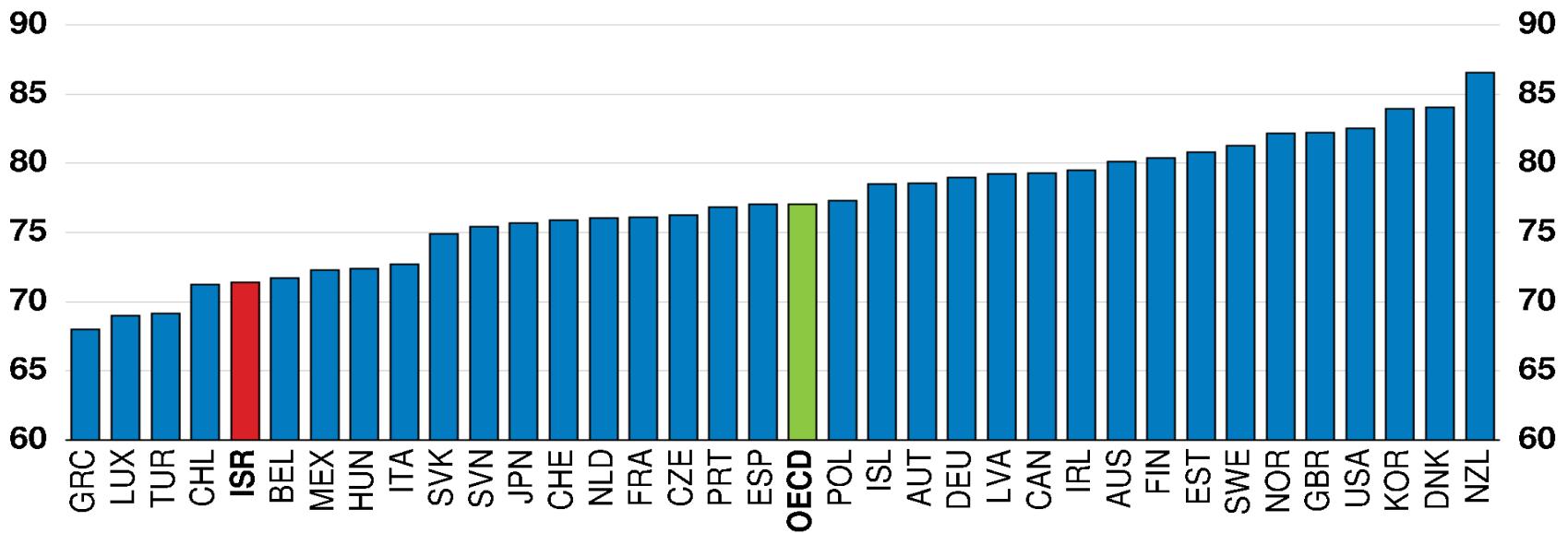
- ✓ *Promote road tolls and electricity smart meters to foster user funding of infrastructure*
- ✓ *Better coordinate large and cheaper residential developments in peripheral areas with public transport to where jobs are located*



Improve the business environment to boost efficiency

The business environment remains less favourable than in other OECD countries

Distance to frontier, from 0 (worst performance) to 100 (best performance), 2018



The 'frontier' represents the best performance observed on each indicators in the Doing Business across all economies.

Source: World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*.

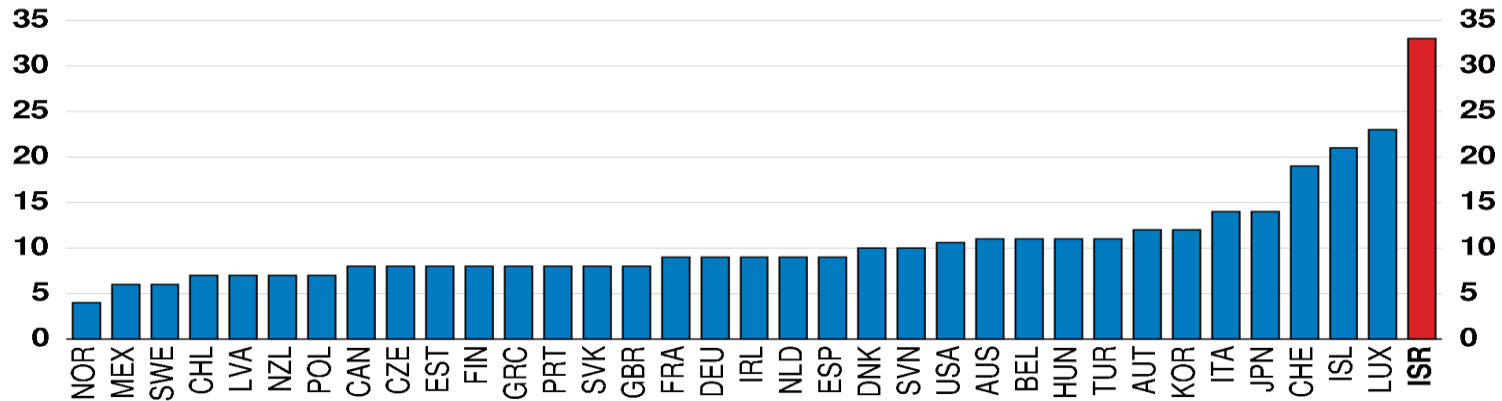
- ✓ ***Promote a more efficient use of infrastructure by enhancing its regulation***
- ✓ ***Introduce, in particular, competition in airport management***



Streamlining bureaucracy is needed

Tax procedures for businesses are onerous

Number of payments required to comply with taxes per year, 2017 data



Time (number of hours) required to comply with taxes per year, 2017 data

