For strong and Inclusive Growth: The OECD perspective

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Despite per capita GDP convergence, the productivity gap with leading OECD countries has not declined. 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 decades.
Inequality and poverty are higher in Israel than in most other OECD countries.

Poverty rate\(^1\) after tax and transfers

2012, Total population

1. Relative to 50% of median disposable income.

Source: OECD, Income Distribution Database.
Inefficient sheltered sectors are dragging down overall productivity performance.

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

**Total factor productivity in manufacturing and trade and services**

Index 1990 = 100

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

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.

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.

- 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).

1. Or latest year available.

Haredi and Israeli-Arab students suffer from poor educational outcomes

Student performance by community

Did not pass matriculation exams
Passed matriculation exams

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

- 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:
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תודה-Thank you
Additional slides
## Contributions to Growth

<table>
<thead>
<tr>
<th></th>
<th>2003-08</th>
<th>2008-14</th>
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</thead>
<tbody>
<tr>
<td><strong>Average annual growth rates (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>3.0</td>
<td>1.4</td>
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<tr>
<td>Labour utilisation</td>
<td>1.1</td>
<td>1.1</td>
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<tr>
<td><strong>of which:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour force participation rate</td>
<td>0.0</td>
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<tr>
<td>Employment rate</td>
<td>1.2</td>
<td>0.3</td>
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<tr>
<td>Employment coefficient&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Labour productivity</td>
<td>1.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>of which:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital deepening</td>
<td>-0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Total factor productivity</td>
<td>2.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Dependency ratio</td>
<td>0.5</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

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.

* 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

- 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