

Post-War Economic Strategy for Israel – Policies to Accelerate Growth

Aaron Institute for Economic Policy
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Background

Aaron Institute for Economic Policy's vision is to promote sustainable economic growth and reduce poverty. The Institute focused on designing economic reforms addressing the structural weaknesses of the Israeli economy while preserving and strengthening its key advantages. These reforms are grounded in empirical research, international comparison, and systemic analysis, providing decision-makers with data-driven tools to support the design and implementation of effective policies.

Over the past two decades, Israel maintained robust annual growth of 3.5%, driven primarily by high-tech expansion and rising employment. The October 7th multi-front war diverted the economy from this trajectory. GDP growth fell sharply – 1.7% in 2023 and 0.7% in 2024 – resulting in declining per capita GDP and a rising debt-to-GDP ratio. The implementation of Trump's initiative appears to be leading toward the end of the war, helping to restore economic activity and reducing risks associated with prolonged Israeli control of Gaza, including potential sanctions and brain drain.

To secure recovery and restore pre-war robust growth, Israel must implement long-term growth-enhancing reforms. The Aaron Institute has developed comprehensive set of reforms that address both the weaknesses and strengths of the Israeli economy. The recommended reforms are grounded in empirical research, supported by detailed implementation plans, and can be applied immediately, some with only modest fiscal investment.

The Institute's analysis indicates that growth-enhancing reforms could raise average annual growth to 3.7% over the next decade and place the debt-to-GDP ratio on a converging path. Without them, growth may slow to around 2.5% annually, leaving income per capita stagnant and risking a diverging debt trajectory.

This paper outlines the key challenges and the Aaron Institute's recommended reforms in these areas: investment in transportation infrastructure (Chapter 1); public-sector digital transformation (Chapter 2); reducing the cost of living through regulatory streamlining (Chapter 3); housing affordability (Chapter 4); the high-tech sector (Chapter 5); employment (Chapter 6); and strategies to promote the economic participation of Arab and ultra-Orthodox society (Chapters 7–8).

Table of Contents

1.	TRANSPORT INFRASTRUCTURE AND THE COST OF LIVING	4
1.1.	Challenges	4
1.2.	Required policy	4
2.	DIGITAL TRANSFORMATION.....	6
2.1	Challenges	6
2.2.	Required policy	6
3.	STREAMLINING REGULATION AND REDUCING THE COST OF LIVING	7
3.1	Challenges	7
3.2.	Required policy	7
4.	COST OF LIVING IN HOUSING.....	9
4.1.	Challenges	9
4.2.	Required policy	9
5.	THE CONTRIBUTION OF ISRAEL'S HIGH-TECH SECTOR TO ECONOMIC RESILIENCE AND MACROECONOMIC PERFORMANCE.....	11
5.1.	Challenges	11
5.2.	Required policy	12
6.	EMPLOYMENT AND HUMAN CAPITAL	14
6.1.	Challenges	14
6.2	Required policy	14
7.	THE ISRAELI ARAB SOCIETY.....	16
7.1.	Challenges	16
7.2.	Required policy	17
8.	THE HAREDI (ULTRA-ORTHODOX JEWISH) SOCIETY.....	19
8.1.	Challenges	19
8.2.	Required policy	19

1. Transport Infrastructure and the Cost of Living

1.1.Challenges

- I. **Chronic under-investment in mass transit systems:** Israel's transport capital per capita stands at only about 30% of that in comparable European economies. This chronic under-investment has led to one of the lowest accessibility levels among OECD members. The average public transport speed in Israel is around 15 km/h, compared with 30 km/h in leading metropolitan areas such as Madrid, Berlin, and Amsterdam. Moreover, only around 10% of trips in Israel's metropolitan areas are made by public transport, compared with 40-50% in major global cities.
- II. **Rising congestion and travel times:** Israel's rapid population and economic growth will sharply increase the demand for both passenger and freight transport. Without substantial investment in transport infrastructure, congestion and travel times are projected to rise dramatically. By 2040, the number of urban trips is expected to double, and average travel time to increase by about 40%

The combination of low infrastructure capital, slow public transport, and limited accessibility constrains labor mobility, reduces productivity, and undermines Israel's competitiveness and quality of life.

1.2.Required policy

Vision: Efficient public transport and accelerated housing supply will promote affordable living and balanced regional growth. Integrating housing with modern mass transit will reduce commute times, boost productivity, and improve quality of life.

To achieve this vision, policy should set improved transportation access as a macro-economic goal. This includes increasing access in metropolitan areas and periphery regions according to quantitative targets: ***raising travel speed to 30 kph*** in public transportation, ***increasing to 40% the share of public transportation*** in the overall number of trips, and reducing average travel times to workplaces and services.

Policy recommendations:

- I. **Set clear, measurable accessibility targets** – define national goals aligned with leading global metropolitan areas, including:

- Reducing average public transport travel time during peak hours by 30%
- Increasing the share of public transport trips from 20% to 40% of all motorized trips
- II. **Develop a long-term national investment strategy** – commit to doubling infrastructure investment to about NIS 1 trillion between 2023 and 2040 (around 2.1% of projected GDP), ensuring sustained expansion of transport infrastructure and achievement of accessibility goals
- III. **Prioritize integrated mass transit and housing development** – expand heavy rail, metro, and light rail networks across major metropolitan areas, strengthen intercity connectivity to support balanced regional growth, and promote housing supply and urban renewal around transport hubs to lower housing costs and improve land use efficiency

The accelerated investment plan is expected to deliver a significant boost to Israel's economic growth. It will enhance labor productivity and strengthen agglomeration effects. By 2040, it is projected to raise GDP per worker by 5–6%, adding NIS 150–200 billion to GDP relative to the baseline scenario—equivalent to a return of 24–30% on the total investment. **On an annual basis, the plan is estimated to contribute around 0.27 percentage points to GDP growth, closing about one quarter of the gap between the current trajectory (2.5%) and the accelerated-reform path (3.7%).** These gains stem from improved accessibility, reduced congestion, and stronger regional integration that together enhance Israel's long-term growth potential.

2. Digital Transformation

2.1. Challenges

Investment in Information and Communication Technologies (ICT) is a key driver of productivity, welfare, and economic growth. However, Israel's public ICT capital stock lags behind that of benchmark countries—Austria, Denmark, the Netherlands, Finland, and Sweden—by approximately 19%.

This shortfall accounts for an estimated 1% of Israel's productivity gap (around USD 0.3 per hour worked). The deficit is especially evident in the public administration sector, where labor productivity remains substantially below peer economies.

2.2. Required policy

Vision: Public digital transformation efforts will play a central role in reducing the productivity gap between Israel and leading OECD economies.

Policy recommendations:

- I. **Quantifiable Targets:** Set measurable digital transformation goals based on Aaron Institute research, incorporated into the 2026 state budget.
- II. **Implementation Across Ministries:** Accelerate digitalization programs across government ministries and regulators.
- III. **Performance-Based Incentives:** Aim for at least a 25% improvement in working time efficiency for both service providers and users, with measurable time savings linked to performance bonuses.
- IV. **Regulatory and Infrastructure Reform:** Advance legislative proposals focusing on regulation simplification, human capital, transport systems, and digital infrastructure.
- V. **Cost and Economic Benefit:** Bridging the ICT investment gap by 2030 requires raising public investment from 0.20% to 0.34% of GDP—an annual expenditure increase reaching approximately 4.9 billion shekels by 2030. The anticipated return is substantial: closing the ICT capital gap could add roughly 7.3 billion shekels per year to Israel's GDP through higher productivity and efficiency.

3. Streamlining Regulation and Reducing the Cost of Living

3.1. Challenges

Israel is among the most expensive countries in the developed world, with price gaps relative to OECD members widening over time (CPL 2010–2022, OECD). The cost of the average household consumption basket is exceptionally high: Israeli households spend about 78% more than those in countries with lower GDP per capita (Greece, Italy, Spain, and Cyprus) and 32% more than in wealthier countries such as Sweden, Denmark, the Netherlands, Finland, and Austria.

The disparity between GDP per capita measured in USD and in purchasing power (PPP) terms further illustrates the erosion of Israel's real living standards. In 2023, Israel ranked 12th in GDP per capita in USD (\$55,249) but only 20th in PPP (\$52,000). Despite multiple government committees and reform efforts over the past 15 years, little progress has been made, and Israel's cost of living remains among the highest in the OECD.

Our analysis identifies housing and food as the primary drivers of high living costs, jointly responsible for roughly 50–60% of the gap. Excessive regulation, limited competition, and protectionist policies contribute to inefficiency and inflated prices. Addressing these structural issues requires coordinated, data-driven policy focused on deregulation and enhancing market competition.

3.2. Required policy

Vision: Streamlining regulation and reducing bureaucracy to strengthen competition, enhance productivity, and lower the cost of living.

The Aaron Institute's policy recommendations are aimed at realizing this vision by achieving the following macro-economic goals:

- a. Enhancing competitiveness in service industries:** Improving regulatory quality and *positioning Israel among the top 10 countries* in the STRI (from place 31 today) within a decade.
- b. Structural reform in business licensing:** Reducing business licensing time to align with advanced economies, by adopting models from these economies, shifting to regulatory principles supported by guidance and market supervision.

- c. **Reducing import barriers:** Improving Israel's standing in the PMR (product market regulation, OECD) and Business Ready (World Bank) indicators to reach the top 10 OECD countries.
- d. **Reducing food prices** to the levels observed in advanced European countries,¹ where prices are 48% lower than in Israel.

Policy recommendations:

- I. **Establish an Economic Unit within the Regulatory Authority:** create a professional unit responsible for setting measurable targets to reduce regulation and bureaucracy, applying the Standard Cost Model (SCM) to measure costs, monitoring implementation, and publishing periodic progress reports.
- II. **Business Licensing Reform:** Shift from a risk-avoidance to a risk-management approach, emphasizing guidance and efficiency in line with OECD standards.
- III. **Boost Competition in Services:** Aim to place Israel among the top ten OECD countries in the Services Trade Restrictiveness Index (STRI) within a decade by removing barriers to foreign service providers.
- IV. **Reform the Animal-Based Food Sector:** align standards and regulations with international best practices, removing inefficiencies while safeguarding public health and consumer protection.
- V. **Liberalize the Kosher Certification Market:** reinstate the reform to end the Chief Rabbinate monopoly by introducing accredited private certifiers under unified government oversight.
- VI. **Fruit and Vegetable Market Reform:** complete the 2021 reform by fully implementing tariff reductions, providing transparent and performance-based direct support to farmers, and updating plant-health regulations in line with international standards. Promote agricultural innovation and productivity through research and technology investment.
- VII. **Ongoing Evaluation of Progress:** establish a framework for continuous monitoring and impact assessment of import and regulatory reforms to track reductions in bureaucracy, measure competitiveness gains, and ensure consumer welfare.

Recommendations related to housing are discussed separately in Chapter 4.

¹ Benchmark countries: Austria, Denmark, Finland, the Netherlands, and Sweden.

4. Cost of Living in Housing

4.1. Challenges

Israel faces a persistent housing affordability crisis. Real housing prices have risen by about 4.8% annually since 2012, while household income has grown by only around 2% annually, resulting in a 33% deviation from the long-term affordability trend. Housing accounts for roughly 40% of Israel's cost-of-living gap compared with benchmark OECD countries, with broader spillover effects that raise costs across services, commerce, and industry.

The central challenge is a chronic shortage of supply. Between 2012 and 2023, housing starts averaged 56,000 units annually, while about 60,000 new households were formed, creating a cumulative shortfall of roughly 130,000 units. Prolonged planning and permitting processes—12 months on average versus 4–6 months in peer economies—further limit the market's ability to respond to demand.

4.2. Required policy

Vision: Align housing supply with demographic growth and restore the balance between housing prices and household income within two decades.

Achieving this vision requires meeting the following macro-economic goals:

- a. **Reducing housing prices:** Bringing housing prices back to alignment with the trend line of the standard of living, through a comprehensive policy aiming to increase the number of completed construction projects, encourage the realization of building permits issued, and remove planning and infrastructure barriers.
- b. **Connecting transportation, housing, and employment:** Integrating the planning and execution of housing units with the development of existing and planned transportation infrastructures, to support economic growth and labor productivity.

Policy recommendations:

The Aaron Institute has developed a comprehensive housing reform to achieve this vision.

Key components of the reform include:

- I. **Expand housing supply** – raise annual housing starts to at least 75,000 units from 2026 onward, increasing by about 3% annually to close the existing supply gap.

- II. Promote urban renewal** – increase the share of urban renewal projects to over 30% of building permits through predefined redevelopment zones with clear building rights and greater predictability for developers.
- III. Encourage high-density, mixed-use development** – focus construction around public transport stations and urban centers to improve accessibility and land-use efficiency.
- IV. Strengthen local government incentives** – introduce a restructured property-tax framework to motivate municipalities to issue more residential permits and support balanced regional growth.
- V. Integrate housing and transport planning** – link the housing and transport reforms under a unified national planning vision to enhance connectivity, affordability, and productivity.

Simulations based on the Aaron Institute’s housing model show that restoring the balance between housing supply and household formation could stabilize housing prices to align with income growth and significantly narrow Israel’s cost-of-living gap relative to OECD peers. Additionally, the reform constitutes a major investment in housing and urban infrastructure. Together with productivity gains from higher urban density and stronger alignment between housing and employment centers, it is expected to significantly contribute to long-term economic growth.

5. The Contribution of Israel's High-Tech Sector to Economic Resilience and Macroeconomic Performance

5.1. Challenges

Israel's high-tech sector has the greatest relative economic impact on its national economy than in any other country, contributing 10% of national employment and 20% of GDP in 2023, twice the share in the U.S. and more than 2.5 times that of leading European economies (Austria, Denmark, Finland, the Netherlands, and Sweden). It is a global tech hub, second only to California, with an economic contribution comparable to Texas.

The high-tech sector provides a macroeconomic platform for Israel's stability, driving 40% of overall growth, generating 25% of total tax revenues, and contributing 52% of exports in 2023 – making it a key engine of economic resilience and a major force behind Israel's positive current account balance.

Israel's high-tech sector remains a pillar of resilience in times of crisis, achieving 1.8% GDP growth in the first half of 2024 despite a 1.3% national contraction, with over \$12 billion in investment exceeding pre-2020 levels, even as reserve duty rates in the sector were twice as high as in other sectors.

A key source of the sector's resilience is its diverse composition:

- Multinational corporations – 33% of total high-tech employment
- Fast-scaling startups – 8% of employment
- Globally leading Defense industry – 12% of employment, expanding rapidly since 2022, reaching a record \$13.1 billion in exports in 2023.

Israel's highly skilled workforce is the backbone of its high-tech sector, with 16.4% of the workforce employed in ICT roles – over twice the EU average – driven by a strong R&D focus and productivity levels 2.2 times higher than other sectors. This expertise attracts foreign VC investment and multinational companies seeking to establish R&D centers.

However, during 2023–2024 Israel's high-tech sector faced major risks:

1. **Institutional uncertainty** – Judicial reform proposals that raised concerns about property rights and investor
2. **Security disruptions** – The war, which halted economic activity, led to extended military reserve duty, and increased the risk of brain drain. These disruptions have slowed GDP growth, reduced employment and startup formation, and placed significant operational strain on high-tech firms.

An additional challenge—but also an opportunity—arises from artificial intelligence , which is reshaping the global high-tech landscape. AI has the potential to boost productivity, fuel demand for deep-tech talent, and attract companies like NVIDIA, which is expanding its investment in the local AI ecosystem. However, as global competition intensifies – with the U.S., China, and the EU investing heavily in innovation to secure technological leadership – **the challenge for Israel lies in developing and managing an effective innovation economy policy, grounded in qualitative technological edge assessment, to preserve its global competitiveness.**

5.2. Required policy

Vision: Transitioning from a dual economy to an inclusive one by sustaining the High-Tech sector as a platform for economic growth while enhancing labor productivity across all sectors through innovation and digital transformation.

To translate this vision into measurable outcomes, the Aaron Institute sets the following macro-economic goals:

Preserving high-tech as a growth engine: Safeguarding the high-tech sector as a platform for national economic growth and promoting a shift from a dual economy to an inclusive one by raising productivity across industries through innovation and digital transformation.

High-tech skills: Implementing the Perlmutter Committee recommendations to achieve *annual growth of 3.5% in tech employment*, with emphasis on women, diverse population groups, and peripheral regions.

Innovative business capital: Setting a target of *2% annual productivity growth across all industries* through innovation-driven reforms.

Efficient and digital government: Enhancing public-sector productivity through comprehensive digital transformation.

Policy recommendations:

- I. Expand Human Capital for Israel's High-Tech Future.** Israel should enhance the quality and diversity of its high-tech workforce. This includes fully implementing the Perlmutter Committee's recommendations to achieve a 3.5% annual growth in tech-related employment across all sectors of the economy.² Special emphasis should be placed on integrating women, underrepresented populations (including Arabs and Haredim), and residents of peripheral regions.

² Perlmutter Committee on High-Tech Manpower.

- II. Strengthening Industry-Academia Knowledge Transfer.** It is essential to strengthen knowledge transfer between academia and industry. Establishing reliable metrics to track progress and identify the most effective policy tools will help guide these efforts. Aligning academic programs with industry needs in AI will better prepare graduates for the evolving job market. Additionally, enhancing collaboration mechanisms and removing barriers to commercialization will ensure that cutting-edge ideas translate into economic growth.
- III. Ensure Internationally Aligned and Credible Tax Policy.** Israel should align tax policies with international standards to maintain global competitiveness. Ensuring tax credibility and predictability will enhance the business environment, attract more multinational corporations and investors, and support the sustainable growth of startups and innovation-driven companies.
- IV. Enhance Workforce Productivity Across All Economic Sectors.** Israel should target an annual 2% increase in productivity across non-tech sectors. This requires integrating more tech-skilled employees across all industries, accelerating digitalization, and fostering innovation. Expanding R&D efforts, particularly in the defense sector, and improving productivity in government-owned defense companies will be key to meeting this goal. Additionally, fostering collaboration between academia and industry and supporting startups will drive technological advancements. In parallel, improving public sector efficiency through digital transformation is crucial.

While the high-tech industry accounts for about 40% of Israel's total growth in 2017-2024, its marginal contribution—arising from structural reforms and from maintaining its current share in total output and employment—is relatively small. Most additional growth from these reforms will stem from non-high-tech industries, which are characterized by lower productivity and growth. To sustain Israel's long-term expansion, the productivity of the rest of the economy must grow by roughly 2%, primarily through digitization, productivity gains, and the integration of Arab and ultra-Orthodox populations into quality employment, alongside improving their skills—including digital and high-tech capabilities. These productivity gains will partly derive from the spillover effects of the high-tech sector, whose innovation and practices enhance efficiency across the broader economy. If, however, the high-tech sector's share in total output and employment were to rise, its contribution to overall growth would increase accordingly.

6. Employment and Human Capital

6.1. Challenges

- I. **Low employment rates** among Haredi men, Arab women and Arab men. Employment rates for these groups remain far from the 2030 targets and are lower than those of non-Haredi men and women.³ Low employment is partially explained by low educational attainment, but employment gaps persist within each education level. Employment disparities also exist between geographic regions within each population group.
- II. **Low employment quality (wage)** among Haredi men, Arab men, Haredi women and Arab women. For Haredi men and Arab women, lower monthly labor income is driven by both fewer working hours and lower hourly wages. For Haredi women, the main factor is fewer hours, while for Arab men, it is primarily lower hourly wage. Employment quality is also low among individuals from all population group (including non-Haredi Jewish) who lack post-secondary education.
- III. **Structural challenges** - lack of a comprehensive and coordinated employment policy. Employment programs, technological education and vocational training are fragmented and spread across multiple government entities. There is also a severe shortage of reliable, up-to-date data.

Low employment rates and poor employment quality pose a major challenge for growth, particularly given the expected demographic shifts. However, they also present an opportunity. If demographic changes occur without any changes in education, employment and wages, labor income per capita will decline by 0.4% annually by 2035. However, if education, employment and wage gaps between Haredi and Arab populations and non-Haredi Jewish are fully closed, labor income per capita would grow by 1.5%.

6.2. Required policy

Vision: Promote growth, social mobility and poverty reduction by integrating individuals from all populations and regions into quality employment and by increasing productivity across all economic sectors and regions – transforming Israel from a traditional, peripheral economy employing low-skilled workers into a global, innovative economy based on high-quality human capital.

³ Employment rates for 2022, ages 25-64: non-Haredi men 88%, Arab men 75%, Haredi men 53%, non-Haredi women 85%, Arab women 43%, Haredi women 80%.

Policy recommendations:

- I. Human capital – post-secondary education, K-12 education and skills development.** Improve the quality of technological education and vocational training as a key mechanism for increasing productivity and wages, especially for individuals not pursuing academic studies and also for workers seeking upskilling or reskilling opportunities. Set targets to expand student participation, and open new programs in high-demand occupations. The business sector should be involved in defining curricula and providing apprenticeships. We also emphasize the importance of acquisition and adaptation of basic skills (Hebrew, English, mathematics and digital literacy) and non-cognitive skills.
- II. Employment boosting programs.** Establish one-stop employment centers that provide vocational evaluation and guidance, adapt workers' skills and offer continuous support for training, active job search and placement. Programs should be tailored to address the specific barriers faced by different population groups.
- III. Independent and effective labor ministry.** Create a strong labor ministry with a strategic view of the labor market and responsibility for implementing comprehensive employment and human capital policy. Centralize the management of all employment, technological education and vocational training programs. The ministry should set and monitor national targets. Available, accurate and up-to-date data are essential for identifying trends, challenges and needs, as well as for evaluating program effectiveness.
- IV. Regional policy,** aimed at increasing labor income, employment rates and wages of residents of the region, as well as enhancing productivity of businesses in the region. Implementation should occur through intersectoral regional partnerships that foster investment in human capital, private capital and public infrastructure.
- V. Removing disincentives** for employment and education. Eliminate or significantly reduce benefits that are not conditional on employment or exhaustion of earning capacity.
- VI. Regulation of non-Israeli workers,** including Palestinian workers, to minimize negative impacts on the employment and wages of Israeli workers.

7. The Israeli Arab Society

7.1. Challenges

- I. **Defining national targets for education, higher education, and employment for Arab society by 2035:** Between 2012–2022, per capita income in Arab society (an indicator of contribution to GDP) increased by 4%, compared to a smaller rise among non-Haredi Jewish (3%) and Haredi Jewish (2.5%), reflecting the impact of government policies promoting economic integration of the Arab population. However, per capita income in Arab society still amounts to only 44% of that in the non-Haredi Jewish population.
Currently, there are cuts to Government Resolution 550, accompanied by political efforts to halt investments in its programs. In the context of Israel's broader economic and social challenges, especially in the aftermath of October 7th, as defense expenditures and the government deficit have risen, it is now more critical than ever to invest in the growth engines of the Israeli economy.
- II. **Low level of Hebrew proficiency among Israeli Arabs:** Many Arab students have limited proficiency in Hebrew, creating a major barrier to their integration into higher education and the labor market.
This low proficiency stems from outdated teaching methods and teachers who lack proper training in modern Hebrew instruction.
The Institute has led a reform within the education system to improve the Hebrew teaching methods. However, for this reform to succeed, Israel lacks the professional expertise required to train teachers and develop CEFR-aligned learning materials. Moreover, the reform is not yet coordinated with the higher education system and the labor market.
- III. **Misalignment Between Rayan Centers and National Employment Goals:** Rayan Centers are government-run hubs that promote training and employment in Arab society. However, their goals are not aligned with national employment objectives. There is a need to clearly define target audiences, intervention tools, and incentive mechanisms to ensure the centers effectively contribute to achieving employment outcomes.

7.2. Required policy

Vision: Promoting the economic advancement and mobility of Arab society, measured by per capita output, through creating equal opportunities for individuals to realize their potential and fostering shared society. This vision aligns with the broader mission of the Aaron Institute — sustainable economic growth, social resilience, and poverty reduction.⁴

Realizing this vision requires meeting the following macro-economic goals:

- a. **Enhancing education system quality:** Increasing eligibility for matriculation among boys from 57% to 80% by 2035 and among girls from 80% to 90%, and expanding eligibility for credentials that allow entry into technician and practical engineering programs; narrowing instruction-quality gaps between the Hebrew and Arabic education systems; and strengthening skills needed for successful transition into post-secondary and academic education and the labor market.
- b. **Expanding Arab participation in higher and vocational education:** Achieving annual increases in academic attainment in Israeli institutions of 7.3% among men and 1.1% among women through 2035, and annual expansions of 10.7% among men and 11.7% among women in participation in MAHAT and vocational programs in high-demand fields by addressing key barriers.
- c. **Improving employment levels and job quality:** Increasing employment among men without post-secondary education from 74% today to 78% by 2035 and for women from 33% to 58%. Promoting diversity and inclusion programs in both the public and business sectors.
- d. **Enhancing Hebrew proficiency:** Establishing a standard for teaching and assessing Hebrew literacy across the continuum from schooling to training, higher education, and employment.

Policy recommendations:

- I. **Defining National targets for education, higher education, and employment for Arab society by 2035:** Increase per capita income and narrow gaps with the non-Haredi Jewish population through integration into quality employment (higher employment rates and wages) and enhancement of human capital. We defined targets for 2035 along the continuum of education, post-secondary education, employment, and wages. These targets serve as a strategic compass, guiding intervention programs and budget allocations.

⁴ [Further information - The Center for Economic Policy of the Arab Society in Israel](#)

Achieving the 2035 employment and human capital targets will reduce per capita income gaps by 11 percentage points and contribute 0.25% to GDP.

- II. **Advancing a Government Resolution on Hebrew Instruction in Arab Society:** Establish a national body responsible for developing expertise in Hebrew instruction in Israel. This far-reaching reform will influence all teaching systems — academia, the Ministry of Education, and the Ministry of Labor — and will close a gap of nearly three decades in language instruction.
- III. **Building an Effective Framework for Rayan Centers:** We developed the infrastructure by defining target audiences, setting measurable goals, and creating incentive mechanisms to enhance effectiveness and drive successful outcomes —all aimed at achieving the employment targets set for 2035.

8. The Haredi (Ultra-Orthodox Jewish) Society

8.1. Challenges

Haredi households in Israel experience significantly lower income levels than non-Haredi Jewish households. This gap stems from several structural and cultural factors: limited human capital and skills relevant to modern labor markets, lower average income among Haredi women despite relatively high participation rates in the labor force, low employment rates and limited working hours among Haredi men, and concentration of both men and women in low-quality, low-productivity sectors. These dynamics contribute to persistently high poverty rates among Haredi families. Additional challenges stem from the military service exemption and the housing density.

8.2. Required policy

Vision: The Haredi society will pursue higher education, participate in military or civil service, and integrate into the labor market, thereby increasing household earning potential and strengthening Israel's long-term economic resilience.

Policy recommendations:

- I. **Educational Accessibility:** Expand access to core subjects—mathematics and English—within Haredi schools and yeshivot.
- II. **Vocational and Academic Pathways:** Develop high-quality professional training programs and preparatory courses for technological or academic studies.
- III. **Tailored Service Models:** Establish culturally adapted military and civil service tracks suitable for Haredi participants.
- IV. **Economic Incentives:** Implement both positive and negative incentives at the individual level, such as conditional benefits tied to employment participation of both spouses.
- V. **Encourage Productive Employment:** Reduce non-employment-related benefits, promote higher-quality job opportunities, and open additional training tracks for women in seminaries.
- VI. **Outcome-Based Funding:** Direct state funding toward vocational programs that demonstrate measurable returns in employment outcomes.

Eliminating disincentives to work would generate substantial fiscal savings that could be redirected toward education and employment initiatives.

Preliminary macroeconomic analysis indicates that narrowing gender and education gaps in Haredi employment could raise average household income by 11–12% and increase total labor income by up to 2%, directly contributing to national GDP.