Reichman University
Aaron Institute for Economic Policy
In the name of Aaron Dovrat z"l

The Growth and Poverty Reduction Pyramid: Methodology and 2024 Update

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This is a short summary, for the full paper (in Hebrew) see
https://www.runi.ac.il/research-institutes/economics/aiep/policy-papers

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Aaron Institute for Economic Policy

Dedicated to the memory of Aaron Dovrat

The vision of the Aaron Institute for Economic Policy in the Tiomkin School of Economics is to support sustainable economic growth and social resilience, along with poverty reduction. To achieve these goals, the institution strives to design a strategy based on measurable goals, which can be subjected to international comparison, and propose detailed plans for economic policies based on the most updated international knowledge. We focus primarily on reforms towards economic growth stemming from increasing employment and raising the GDP per hour worked (labor productivity) in Israel.

The key measure of sustainable economic growth – GDP per capita – is still low in Israel compared to leading developed countries, and so is labor productivity. Through its economic studies, the Aaron Institute presents goals, innovative policy tools, and reforms to promote growth, high-quality employment, and labor productivity.

The Institute's mission is to help shaping the socioeconomic policy in Israel through the development of long-term plans that address the full range of economic and social issues facing the Israeli economy. Our main focus is families with less than median income, who comprise significant parts of the Arab and Haredi (ultra-Orthodox) populations. In these groups specifically, increasing employment and productivity would greatly contribute to achieving the goals of growth, social resilience, and poverty reduction. In addition, our studies aim to influence the professional discourse, and to stimulate discussion based on reliable information and socioeconomic research that offers practical tools to achieve these goals.

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The Growth and Poverty Reduction Pyramid: Methodology and 2024 Update

Aaron Institute developed a model providing visual representation of the conceptual framework for economic strategy planning: The Sustainable Growth and Poverty Reduction Pyramid.[1] The pyramid provides a comprehensive view of all components within the Israeli economy and society, in a tiered structure. Each tier supports the success of the tier above it and is in turn supported by the activity in the tier below it. The top of the pyramid represents the objective of the economic policy advocated by Aaron Institute: reducing the gaps in GDP per capita and in poverty rates between Israel and the benchmark countries. The second tier contains metrics indicating the success of the Israeli economy in various areas directly required to meet this objective, such as employment and factors of production which support high labor productivity. The third tier represents input components that need to be provided by the government for this purpose; and the fourth tier, which is the base of the pyramid, represents the essential preconditions for economic activity within the national economy.

This depiction allows us to examine the relative condition of the Israeli economy compared to the benchmark countries, whose accomplishments in terms of sustainable growth and poverty reduction have been proven in recent decades. Examination of each component across the various tiers reveals the economy's strengths and weaknesses, making it possible to concentrate research efforts and the necessary government policies towards advancing the strategic objective, while continuously measuring progress.

[1] The model's methodology is based on a framework for assessing competitiveness performance (Ireland's Competitiveness Scorecard 2016) designed by The National Competitiveness Council in Ireland (the initial model was presented in 2003, and expanded in 2016), which was adapted to the characteristics of the Israeli economy and expanded to incorporate key policy areas for the Israeli economy. For further details, see National Competitiveness Council (2016).

Our analysis highlights the challenges that the Israeli economy must overcome in order to meet the preconditions for economic growth – national security, the judicial system tasked with protecting the property rights of individuals and preventing corruption, and the budgetary policy. The recent war has led to a significant change in the Israeli fiscal policy, and in the absence of a responsible budgetary policy – one which would aim for budgetary contraction as well as the promotion and nurturing of growth engines – the national economy will not be able to regain the robust growth trajectory which had characterized it prior to the war. The analysis presented in this paper also highlights the need to streamline the public sector, invest in public infrastructures, and promote competitiveness in the economy.