

The Socioeconomic Threat facing Israel

Shoresh Handbook 2025

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SHORESH

Institution for Socioeconomic Research

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Foreword

In sixteen graphs – one per page, with brief accompanying text – this handbook provides a brief synopsis of key elements comprising the socioeconomic threat facing Israel. These range from Israel's national pivot in the 1970s through its growing dependence on a limited skilled workforce, and an education system at the bottom of the developed world, to Israel's demographic direction and municipal spirals of collapse that may provide an omen for a similar spiral at the national level. Israel's clear and present danger is spelled out in excerpts from a warning letter by 130 of the country's leading economists. A four-point roadmap – bridging right and left, religious and secular – for avoiding a national spiral of collapse is detailed at the end of the handbook.

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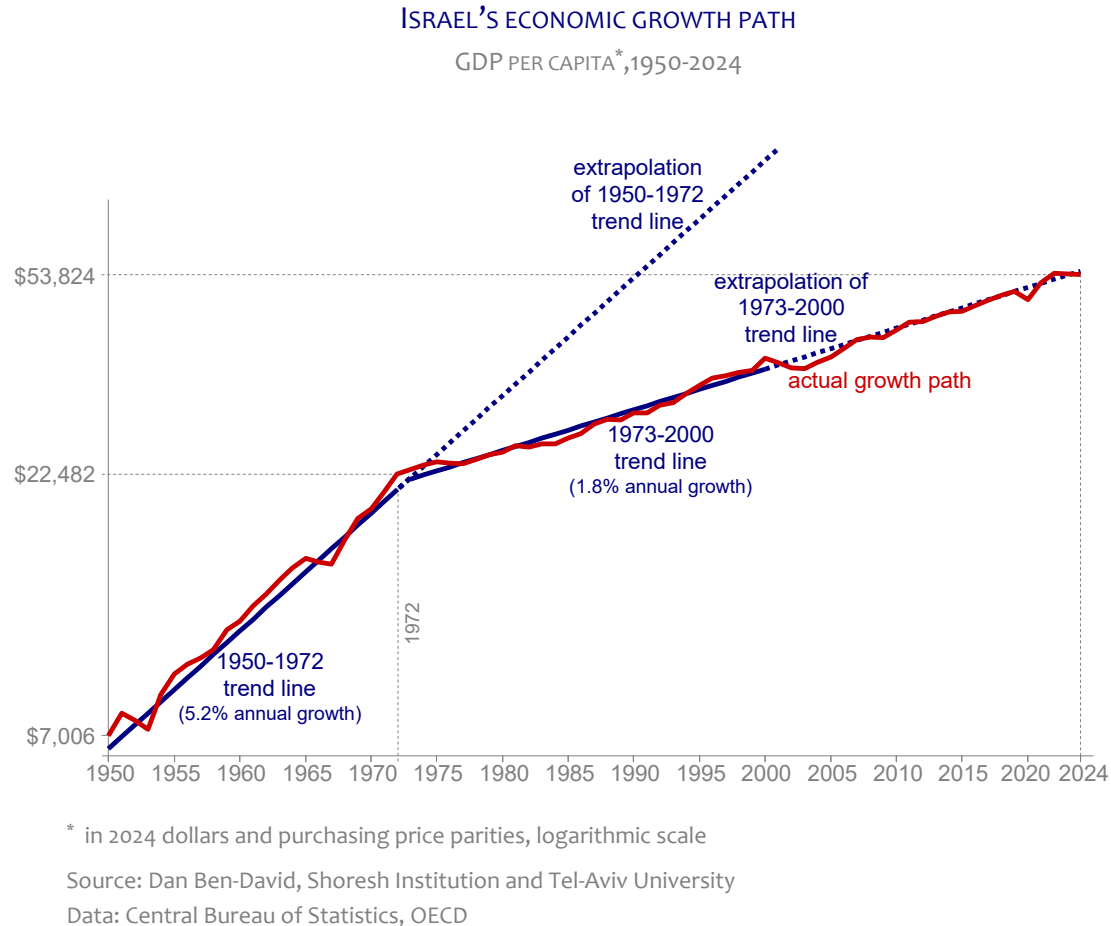
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Celebrating 10 years of Research for the Future

Israel's national pivot in the 1970s

The 1970s, the decade when Israel pivoted toward its current reality

In the 1970s, Israel changed its national priorities. It shifted from a fast growing trajectory to a new, very steady, but substantially slower growth path. Today, the labor productivity gap between the average of the leading G7 countries and Israel is three times the gap that existed in the mid-1970s.

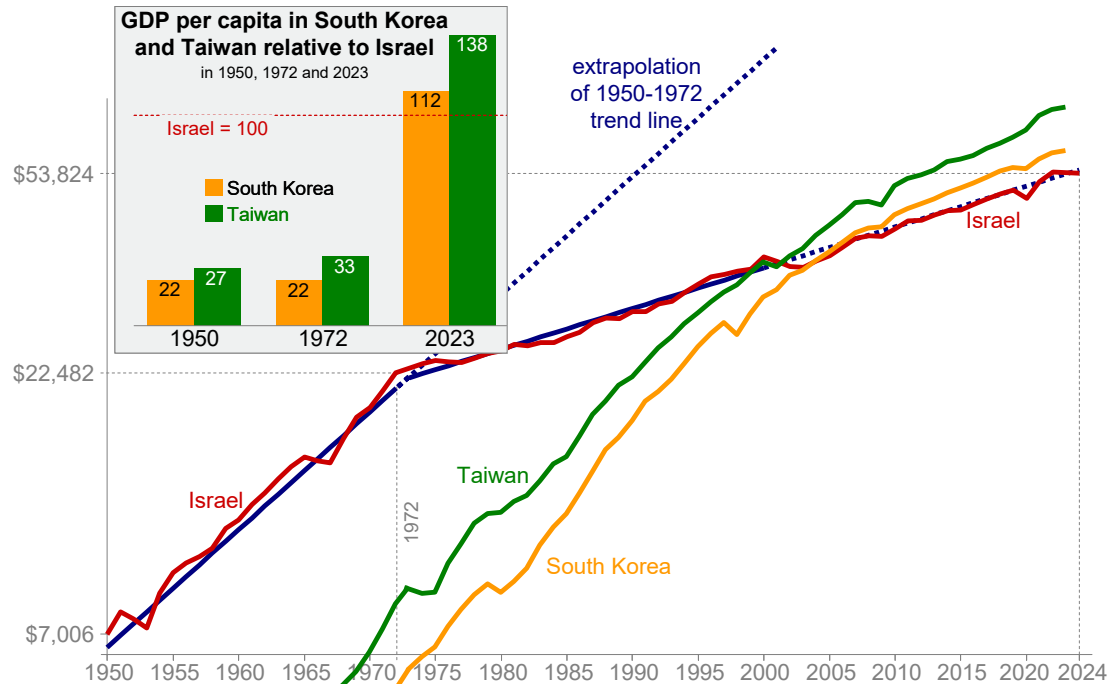


From national priorities to sectoral ones, the cost of changing direction

During the 1950s through the early 1970s, Israel's economy grew at a pace rivaled by few nations. South Korea and Taiwan, with just a quarter of Israel's living standards in 1950 – were among the very few nations that managed to keep pace in growth, so the relative income gaps remained largely unchanged by 1972. The turning point came after 1973, when Israel reoriented its focus from national priorities to sectoral and personal ones. South Korea and Taiwan stayed on track – and went on to overtake Israel in per capita GDP.

ECONOMIC GROWTH PATHS OF ISRAEL, SOUTH KOREA AND TAIWAN

GDP PER CAPITA*, 1950-2024



* in 2024 dollars and purchasing price parities, logarithmic scale

Source: Dan Ben-David, Shores Institute and Tel-Aviv University

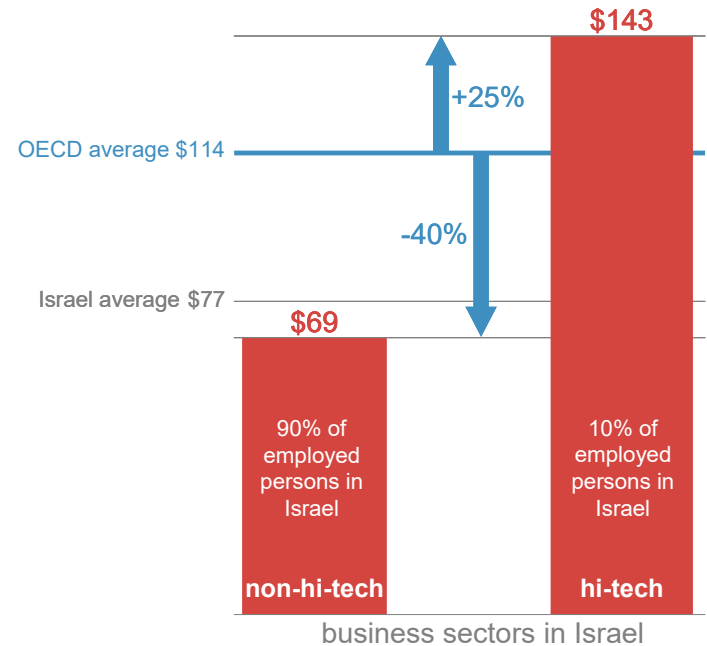
Data: Central Bureau of Statistics, Maddison (2006) and IMF

A growing dependence on a limited skilled workforce

Hi-tech might, systemic fragility

Only 10% of Israelis work in hi-tech. Their productivity is 25% above the OECD average, and they are responsible for half of Israel's exports. Because education and other vital infrastructures have undergone rampant neglect, the average productivity of all remaining Israelis is 40% below the OECD average.

BUSINESS SECTOR PRODUCTIVITY PER WORKER*
VALUE ADDED PER WORKER IN THOUSANDS OF PPP-ADJUSTED US DOLLARS, 2018

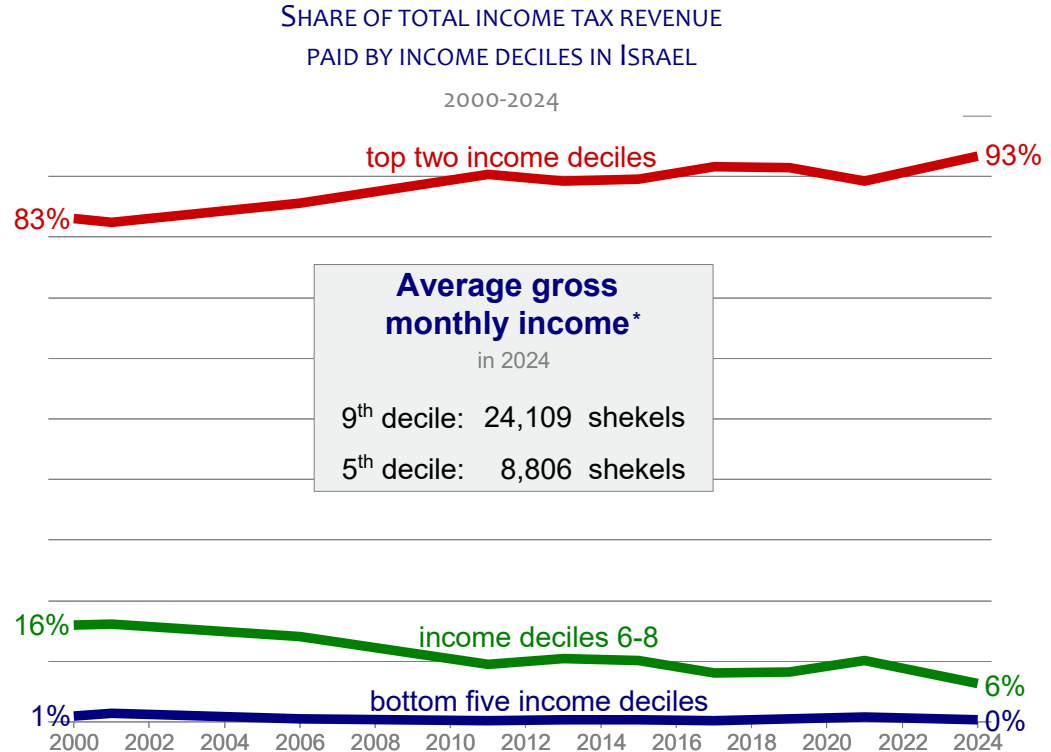


* agriculture, forestry, fishing, mining, quarrying, manufacturing, electricity, gas, water, waste, construction and market services.

Source: OECD

20% shoulder 90% of Israel's income tax burden

Poorly skilled and educated individuals earn very little. As a result, one-half of Israelis are so poor that they do not reach the bottom rung of the income tax ladder, and they pay no income tax. 93% of all Israel's income tax revenue is shouldered by just 20% of the population



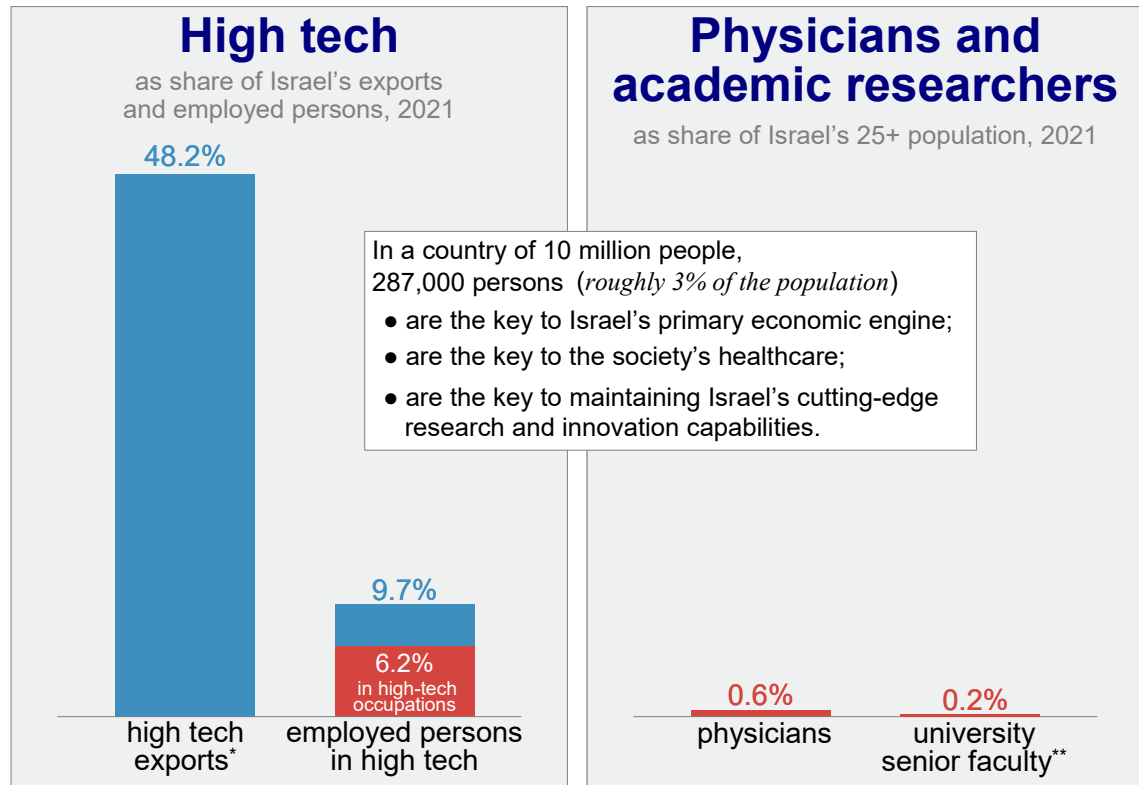
* Average gross standardized monthly income in shekels

Source: Dan Ben-David, Shores Institution and Tel-Aviv University

Data: Finance Ministry

Without pillars, the national home is at risk of crumbling

Israel's hi-tech professionals keep its economy in the developed world. Its physicians keep the country's healthcare system in the developed world. Israel's universities are responsible for educating these highly trained experts. In a nation of ten million, the above professionals total fewer than 300,000 individuals. If a critical mass of these people decide to leave, Israel will enter a spiral of collapse.



* High tech's share of total goods and services exports

** Senior faculty in research universities

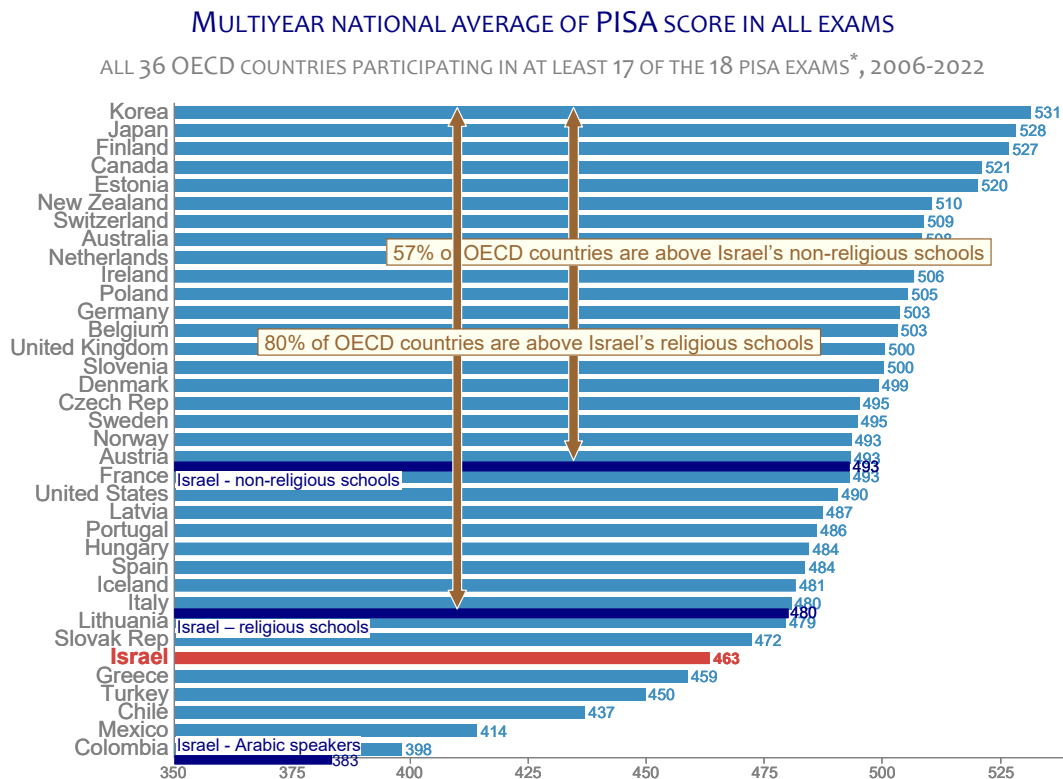
Source: Dan Ben-David, Shores Institute and Tel-Aviv University

Data: Central Bureau of Statistics

Why are so few skilled individuals shouldering the burden?

Lagging scores, lasting consequences

Israel's average educational achievement over the past two decades in core subjects (math, science and reading) is below nearly all OECD countries. Had Haredi boys – who do not even study the material – taken the exam, the average Israeli score would be even lower. Secular school stream achievement scores are below 57% of the OECD countries while religious (non-Haredi) stream scores are below 80% of the OECD countries. The achievements of Arab-speaking Israelis are below many third-world countries



* Average scores in math, science and reading. Each country participated in all 18 exams given during 2006-2022, except the U.S. and Spain, who participated in 17 of the exams.

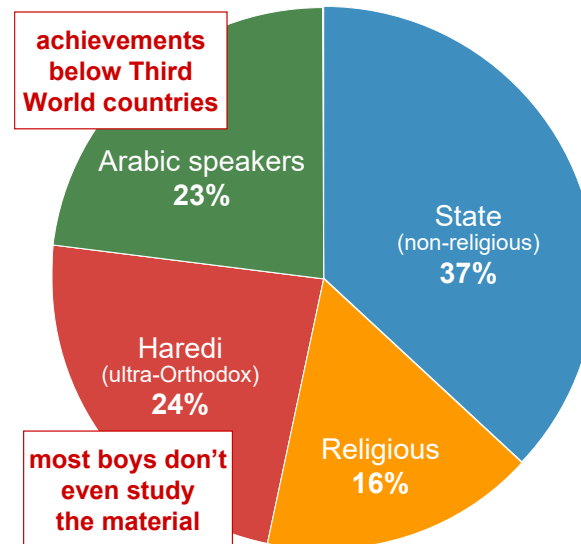
Source: Dan Ben-David, Shores Institution and Tel-Aviv University

Data: PISA and Israel's National Authority for Educational Measurement and Evaluation

Israel's demographic time bomb starts with the education provided – or not – in the classrooms

Roughly half of Israel's children (including Jewish children in secular and religious streams situated in the country's geographic and social peripheries) receive a third-world education – and they belong to the fastest-growing population groups. As adults, they will only be able to support a third-world economy, which cannot maintain first-world healthcare and welfare systems, nor the first-world military capabilities that Israel will need to defend itself in the future. Such an Israel will not become a third-world nation. It simply will not be.

DISTRIBUTION OF PUPILS IN 1ST GRADE, 2025



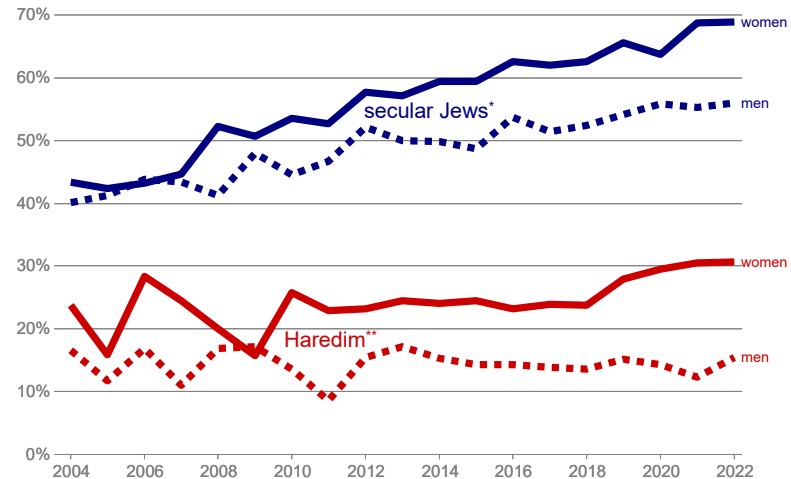
Source: Dan Ben-David, Shores Institution and Tel-Aviv University
Data: Central Bureau of Statistics

For many, the route to an academic degree is already closed at childhood

Although increasing numbers of Haredim are deciding to attend college, most are unable to overcome the extremely poor education that they receive as children and do not complete their degrees. Despite a slight increase in recent years among haredi women, the share of haredi men and women with academic degrees has remained very low and relatively stable over the past two decades.

SHARE OF PRIME WORKING AGE ISRAELIS WITH ACADEMIC DEGREES

AGES 35-54, 2004-2022



* non-religious Jews

** ultra-Orthodox Jews

Source: Dan Ben-David, Shores Institute and Tel-Aviv University

Data: Central Bureau of Statistics

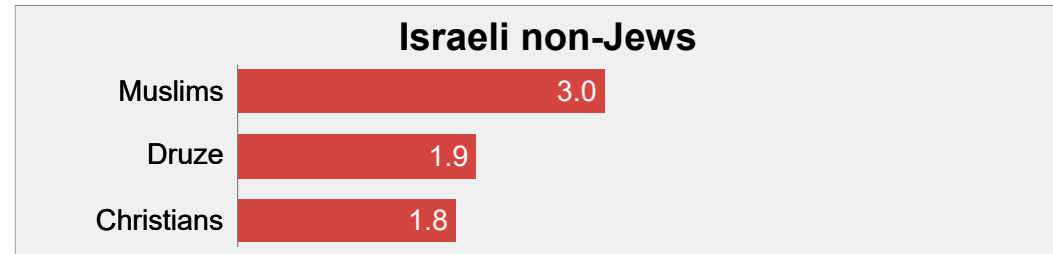
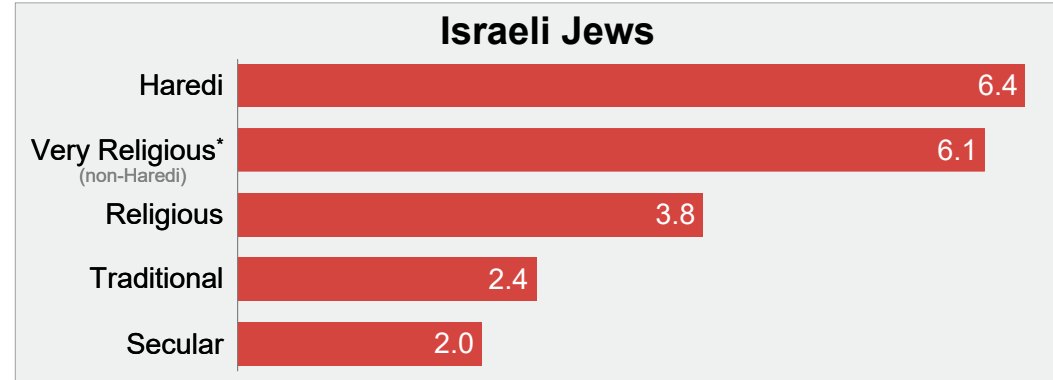
Israel's demographic direction

Many children, few shoulders to bear future burdens

The haredim, who deprive their boys of a core education that would provide them with opportunities later in life, have roughly three times as many children per family than do other population groups. Consequently, their share in Israel's overall population is growing exponentially

FERTILITY RATES IN ISRAEL

NUMBER OF CHILDREN PER WOMAN, AVERAGE 2020-2022



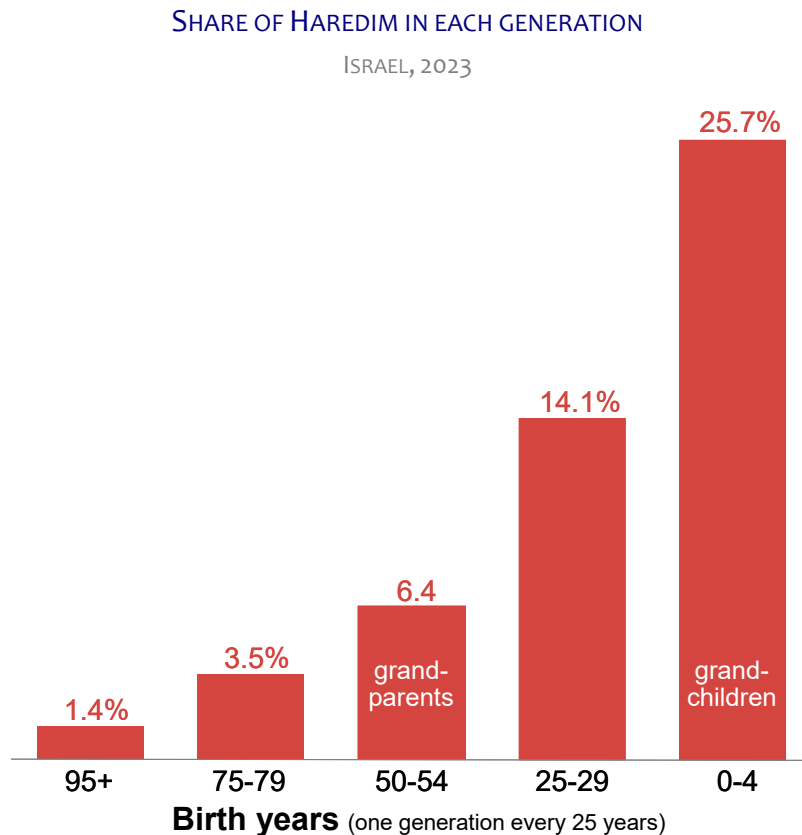
* very religious (non-haredi) Jews living in the West Bank (comprising 22% of all religious Jews living there) in 2022 only

Source: Dan Ben-David, Shores Institute and Tel-Aviv University

Data: Central Bureau of Statistics, Ahmad Hleihel and Ayelet Zionov

A growing population share, a shrinking national future

The percentage of haredim in Israel's population is doubling every 25 years – i.e. every generation. For example, Haredim comprise 6% of the 50-54 year old grandparents while their grandchildren are already 26% of the 0-4 year olds. These grandchildren have already been born. Tomorrow, they will be in school. The day after tomorrow, they'll bear their share of the national economic and defense burdens – or not. If not, what then?

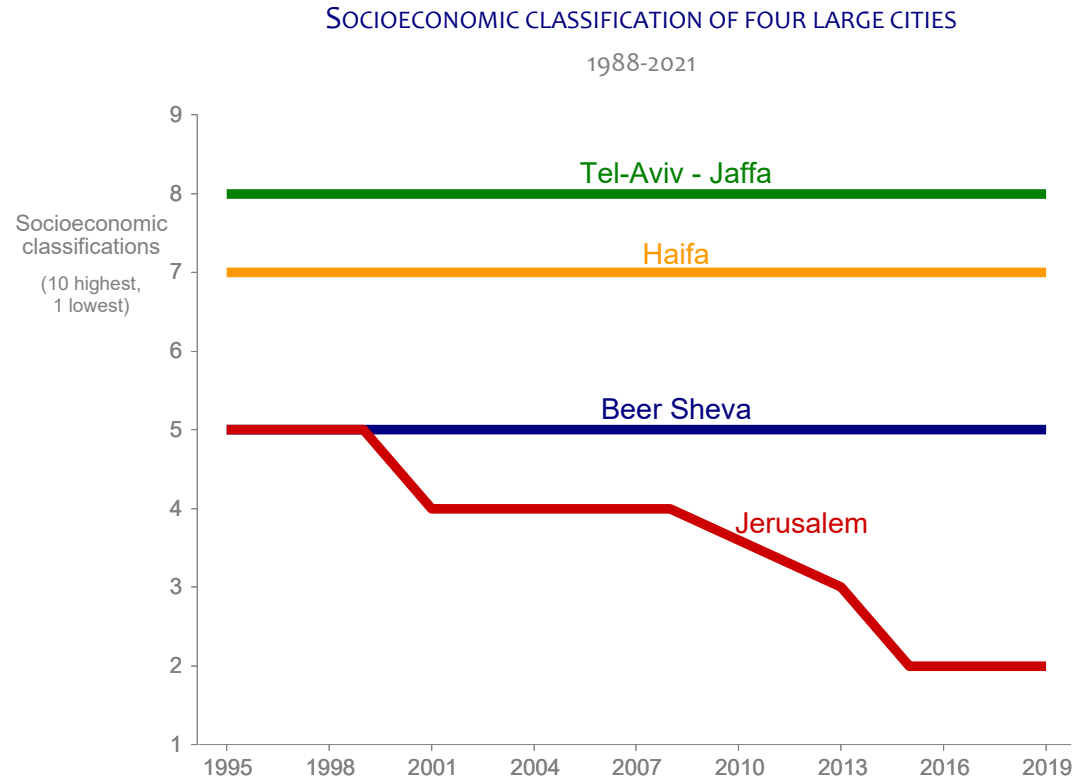


Source: Dan Ben-David, Shores Institute and Tel-Aviv University
Data: Central Bureau of Statistics

Municipal spirals of collapse

Jerusalem leads the way. Will Israel follow?

In 1995, the Central Bureau of Statistics placed Jerusalem in a middle socioeconomic classification. Within two and a half decades, it had fallen by three socioeconomic classifications, from classification 5 to classification 2. The uniqueness of the Jerusalem experience is shown in a comparison with three other large Israeli cities.



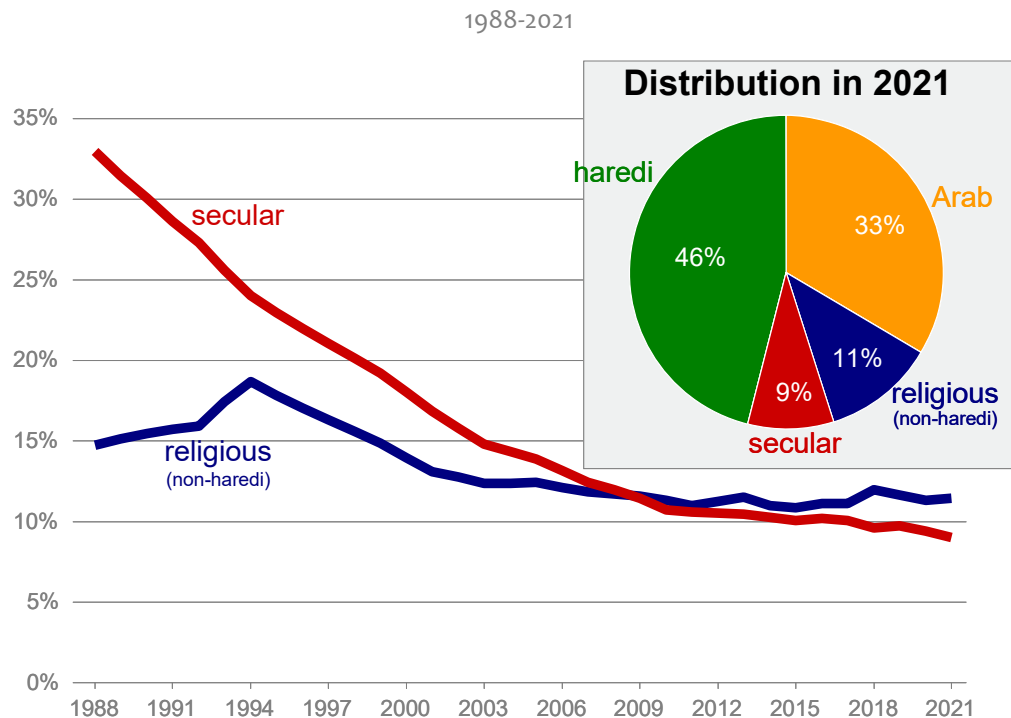
Source: Dan Ben-David, Shores Institute and Tel-Aviv University
Data: Central Bureau of Statistics

The flight of the educated

Israel's capital city, Jerusalem, encapsulates a transformation process that is informative for the direction that the country as a whole is headed. Incorporating predominantly Arab East Jerusalem – a policy direction espoused by an increasing number of Israeli politicians with regard to Israel's control of the entire West Bank – already ensures a reduced share of non-Haredi Jews in the city's population. But the rapidness of the city's demographic evolution is exceptional.

The share of secular Jewish pupils in Jerusalem's primary schools collapsed from 33 percent to 9 percent in just over three decades. Religious (non-Haredi) schools also exhibited a drop in their relative share to 11 percent, though that fall is not close to the reduction in the secular share. As of 2021, nearly half of the city's primary school pupils are Haredim (46 percent) while a third are Arab pupils.

SHARE OF PUPILS BY EDUCATION STREAM IN JERUSALEM'S PRIMARY SCHOOLS



Source: Dan Ben-David, Shores Institute and Tel-Aviv University

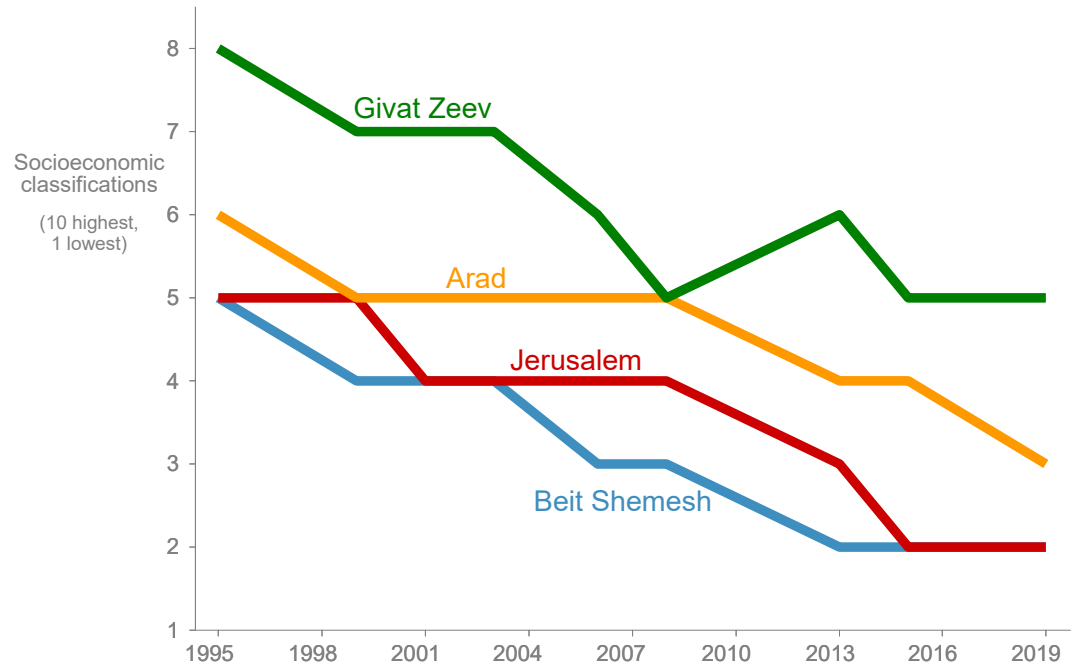
Data: Jerusalem Institute for Policy Research

Municipal freefall, an omen for the nation

The four Israeli towns that fell the farthest in Israel's socioeconomic classifications over the past three decades are Jerusalem, Beit Shemesh, Arad and Givat Zeev – towns with rapidly shrinking secular populations (the people who tend to be the more educated). In the mid-nineties, Jerusalem and Beit Shemesh were rated 5 on a scale from 1 (poorest) to 10 (wealthiest). Today, they are at 2. Arad dropped from 6 to 3, while Givat Zeev fell from 8 to 5.

FOUR MUNICIPALITIES EXPERIENCING THE GREATEST REDUCTION (3 UNITS) IN SOCIOECONOMIC CLASSIFICATION

1995-2019



Source: Dan Ben-David, Shoresh Institution and Tel-Aviv University

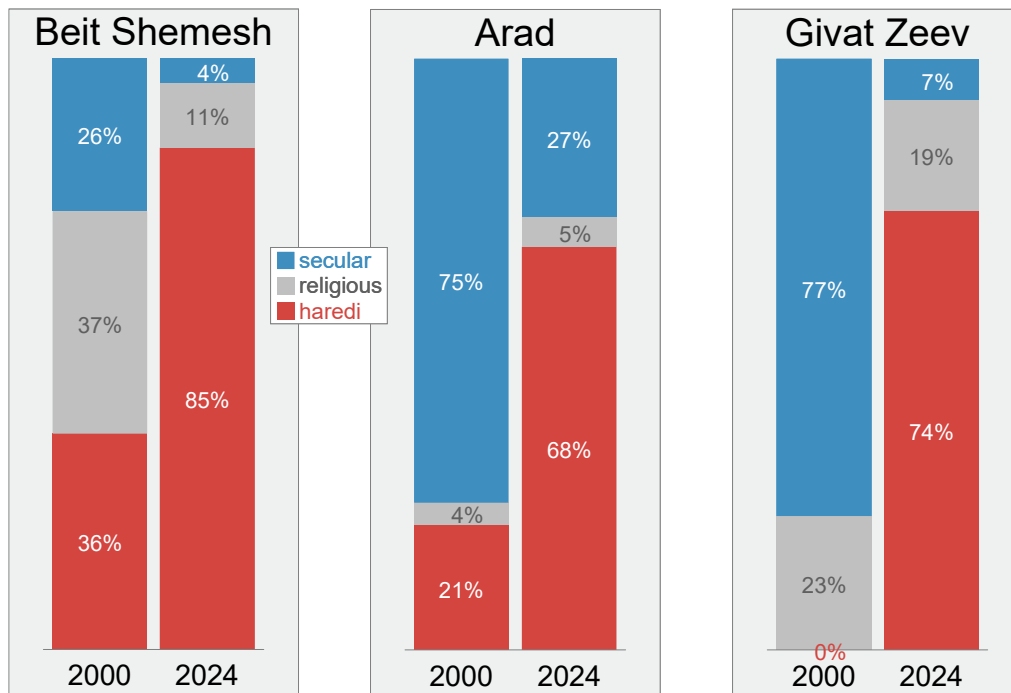
Data: Central Bureau of Statistics

Today's towns, a glimpse of tomorrow's Israel

Together with Jerusalem, the Israeli towns who fell the farthest in Israel's socioeconomic classifications over the past three decades were Beit Shemesh, Arad and Givat Zeev. These towns experienced dramatic shifts in the composition of their primary school populations. In 2000, Arad and Givat Zeev had large secular majorities. Within just two and a half decades, however, Haredi children became the overwhelming majority in each of these towns, while the secular share simply collapsed.

PRIMARY SCHOOL PUPILS BY EDUCATION STREAM AS SHARE OF TOTAL PUPILS IN MUNICIPALITY*

THREE MUNICIPALITIES THAT FELL THE FURTHEST (IN ADDITION TO JERUSALEM)
IN ISRAEL'S SOCIOECONOMIC CLASSIFICATIONS, 2000, 2024



Source: Dan Ben-David, Shores Institute and Tel-Aviv University

Data: Education Ministry

Israel's clear and present danger

Warning letter signed by 130 of Israel's leading economists

May 28, 2024

Among the signers were 119 university professors, including six deans and one past university president and the current and past presidents of the Israel Economic Association. Signers also included economists who served in leadership positions at the Finance Ministry, Bank of Israel and the Prime Minister's Office.

Excerpts from 2024 warning letter

“Without a change in the current trajectory, these processes endanger the country's very existence. Many of those who bear the burden will prefer to emigrate from Israel. The first to leave will be those with opportunities abroad ... Israel's remaining population will be less educated and less productive, thus increasing the burden on the remaining productive population. This, in turn, will encourage further emigration from Israel. This process of a 'spiral of collapse' in which increasingly larger groups decide to emigrate, will further deteriorate the conditions of those who remain, while severely impacting populations with fewer emigration options, including the Haredi population itself.

The demographic and economic processes that the city of Jerusalem has undergone in recent decades – its rapid decline in socioeconomic indicators and its increasing abandonment by large segments of its secular population – clearly illustrate this spiral of collapse phenomenon and the dangers facing the entire State of Israel.”

“Jerusalem has Israel to support it. But Israel has only itself.”

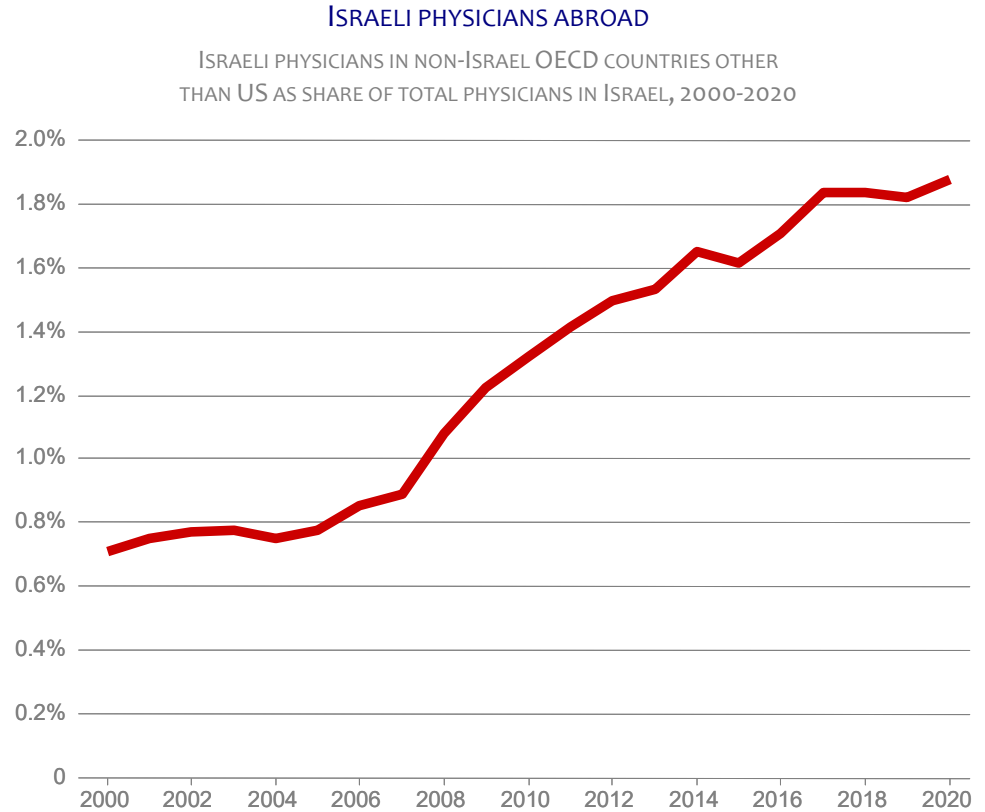
“This is a clear and present danger to the country, one that we assess has a very high probability of realization ... The danger is clear, and in our estimation, the probability of its realization is very high... This is a real alarm. History will not forgive the State's leaders in the present and future – from all ends of the political spectrum – if they stand by.”

complete letter: https://economists-for-israeli-democracy.com/files/letter_2024-05-28_eng.pdf

Emigration

Doctors without borders, the Israeli edition

Net migration out of Israel has been occurring at a steady pace for decades, albeit in relatively small numbers. Over the past two decades, the number of Israeli physicians practicing in other OECD countries has more than doubled in relation to those still practicing in Israel.



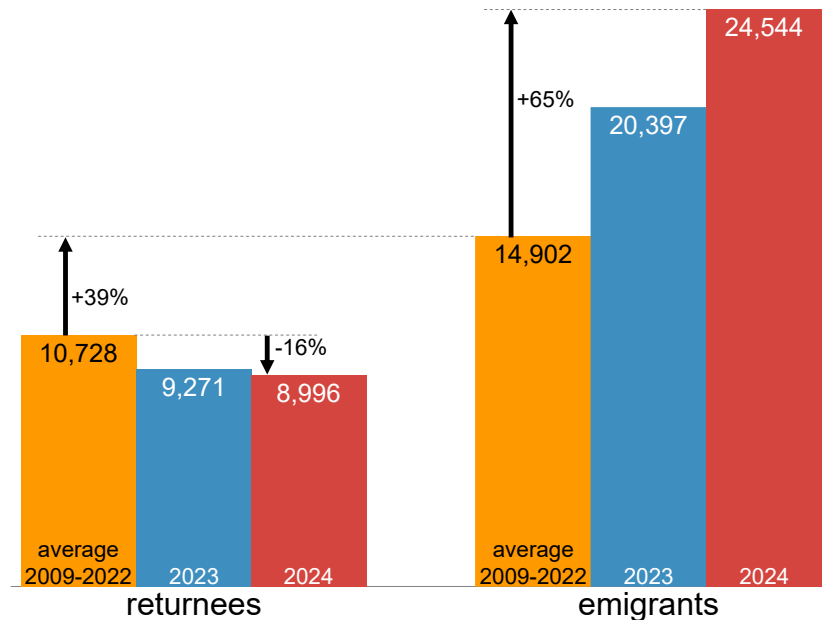
Source: Dan Ben-David, Shores Institute and Tel-Aviv University
Data: OECD

From hi-tech to hightail, in the wake of the attempted judicial coup

Since the government judicial coup attempt began in 2023, there has been a pronounced surge in the number of Israelis leaving the country. This surge became even more pronounced after the beginning of the October 7 War. While the overall numbers are still relatively small for a country with a population of 10 million, the key question is whether a critical mass of the 300,000 highly-trained professionals in hi-tech, physicians and university faculty will conclude that preventing a national spiral of collapse is no longer possible and choose to emigrate.

NUMBER OF NATIVE-BORN ISRAELI EMIGRANTS AND RETURNEES*

during January-August in each year, 2009-2024



* Each year represents the number of those who left that year and were still abroad in the following year, and those who returned that year and were still in Israel in the following year. These are native-born Israelis who remained abroad, or in Israel, a minimum of 275 out of the 365 days since their departure (with first 90 days continuously).

Source: Dan Ben-David, Shores Institution and Tel-Aviv University

Data: Central Bureau of Statistics

The Israel 2.0 Roadmap for avoiding a national spiral of collapse

Before it's too late, a roadmap to save Israel's future

1. The key to national change of direction is a complete **overhaul of Israel's education system**. A significant upgrade in the core curriculum for all Israeli children, with special emphasis on the weaker parts of society – and no more exceptions for the Haredim. We need them, and they need the opportunities that will open up for them when they receive a first-world education.
2. **An overhaul of budgetary priorities** will incentivize compliance with the education overhaul. Israel's need to allocate tens of billions of shekels to recover from the October 7 war will necessitate, among other things, a complete cessation of direct and indirect funding (a) for schools that won't teach the upgraded core curriculum in its entirety, and (b) for lifestyles of non-work.

Israel 2.0 Roadmap

Ensuring Israel's future – four point Shores framework

Objective: Returning Israel to a sustainable long run trajectory ensuring faster economic growth, lower poverty, and Israel's ability to defend itself

1. Overhaul of Israel's education system *including*

- significant upgrading of common core curriculum, funding only for fully compliant schools.
- changing the way that teachers are chosen, taught and compensated;
- systemic reform of the education ministry and its methods of operation.

2. Overhaul governmental budgetary priorities *including*

- ending benefits that incentivize lifestyles of non-work;
- funding only schools preparing pupils for future in modern economy and liberal democracy.

Objective: Safeguarding the above changes

ensuring that Israel remains on its new, sustainable, long run trajectory

3. Electoral reform

- cabinet ministers with expertise in their ministry's realm within an executive branch able to implement its decisions and enforce the law;
- creation of effective checks and balances must be established between the three branches of government.

4. Drafting and ratifying a constitution

Setting in stone national foundations that will protect the country and the rights of its citizens, and make it difficult for anyone in the future to set it back.

3. **Reforming Israel's system of government** will enable the implementation of the education and budgetary overhauls. A government with few ministers, but those who actually understand what their ministries do. An executive branch with the ability to implement and enforce, alongside independent legislative and judicial branches, with checks and balances among all three branches of government.

4. **Drafting and passing a constitution** that will firmly entrench the basic rules for the road ahead. While rapid the demographic changes will allow future populations to undo the changes in the constitution and the system of government, the hope is that an upgraded education system in Israel will have done its part during these decades, and future generations will not want to turn back the clock to the reality that we currently live in.

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For a decade, the Shores Institution has been highlighting Israel's root (shores) underlying domestic challenges that pose an existential threat to the country's future. But if the findings aren't seen and internalized, they can't lead to change. As we mark 10 years of independent, evidence-driven insights, we're asking for your help to amplify Shores's voice.

Why your donation matters?

Your support will directly fund efforts to raise the necessary public awareness to ensure that our findings reach people who care deeply about Israel, and push for an action plan that will ensure Israel's socioeconomic sustainability and literal survival for future generations.

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