
Toward a True Socio-Economic Turnaround

by

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Perhaps a little more modesty would have been in order before the finance minister convened a press conference to inform the nation of our expected entry into the club of the ten leading countries within the next ten years. This is the same person who gave a nearly identical address in his first year as prime minister in 1996. Average living standards in the G7 countries that year were 38% higher than in Israel. Since then, their standards of living rose by 17% while ours rose by just 3% (in fact, our living standards would have fallen by 2% had it not been for the outlier year, 2000). Thus, the finance minister should understand if we wish to abstain from a repeat screening of the horror movie that he and his party imposed on us over the past eight years.

Living standards in Israel have steadily been falling farther and farther behind the leading western countries for the past 30 years. Poverty and income inequality have been steadily rising throughout this period, reaching western peaks in recent years. Can such a country actually change direction? In the Wild East in which we live, the existential question is not whether such a change is possible – it is – but what needs to be done in order to ensure a successful turnaround.

Real treatment at the source of the problems requires adequate provision of the tools and working conditions necessary for the Israeli worker to succeed in an open and competitive economy. In “A Blueprint for Improving the Employment Outlook in Israel,” an academic interdisciplinary team that I headed (team members included two sociologists, Noah Lewin-Epstein and Haya Stier, and two economists, Avner Ahituv and I, from Tel-Aviv and Haifa Universities) emphasizes the importance of a systemic approach integrating short and long term solutions. The main points of our comprehensive plan include:

1. Work incentives and reduction of the tax burden:
 - (a) replacement of work disincentives with work incentives;
 - (b) combining all sources of aid and subsidies, with transparent criteria for allocation;
 - (c) combining family incomes from all sources and widening the tax base;
 - (d) reduction of government expenditures to enable reduction of the tax burden.
2. Significant reduction in the number of foreign workers.
3. An integrated system for adults including:
 - (a) supplementary education (the “Second Chance” program);
 - (b) vocational training;
 - (c) job placement.
4. Substantial improvement of Israel's educational system and:
 - (a) truly free compulsory education;
 - (b) longer school days;
 - (c) subsidized enrichment programs for children and youth during after-school hours.
5. Significant upgrading of Israel's transportation infrastructure.
6. Investment in research and development
7. A change in the political culture that includes:
 - (a) serious law enforcement;
 - (b) credible public policies,
 - (c) provision of a national security horizon.

If press releases and public claims are to be believed, the government is already implementing the recommendations. But there is more here than meets the eye.

The government purportedly wants more people to work, so what is the wisdom of cutting the formal welfare aid channels without touching the huge backdoor financing channels well hidden from public scrutiny in non-transparent and unfathomable budget items? Where is the voice of the finance minister with regard to non-enforcement of basic labor laws like minimum wage? Is it serious to concentrate on the expulsion of illegal foreign workers with one hand, while the other hand continuing to issue entry permits to new workers, and while there is no move to substantially increase the hiring cost of foreigners relative to Israelis? Job placement ala the Wisconsin Plan is not a substitute for upgrading education among working age products of Israel's abysmal educational system, nor for providing skills compatible with a modern economy – and the intent is not more failing vocational training programs of the kind currently available.

The requirement to report incomes annually – combined with serious enforcement and penalties that act as strong deterrents – will facilitate discernment of the truly needy while introduction of a negative income tax will increase the motivation to work, supplement low incomes, and act as an incentive for more complete reporting of business activity.

In a country not blessed with unlimited funds, the recommendation for a substantial improvement in the transportation infrastructure is not intended to condone the waste of billions on unnecessary trains to Eilat or slow trains (slower than buses) through Beit Shemesh to an out-of-the-way Jerusalem station. The recommendation for significant improvement in the educational system does not correspond with the deafening silence of the education and finance ministers when their government signed a recent coalition agreement completely releasing ultra-orthodox schools from implementing any reforms.

Any hope of successfully turning around Israel's long run trajectories is heavily dependent on a shift from incomplete, ineffective and superficial policies slickly packaged with glossy slogans and excessive marketing, to long overdue serious, professional management of the country.