

Growth and Inequality in the Israeli Economy: Trends and Challenges

CEPR



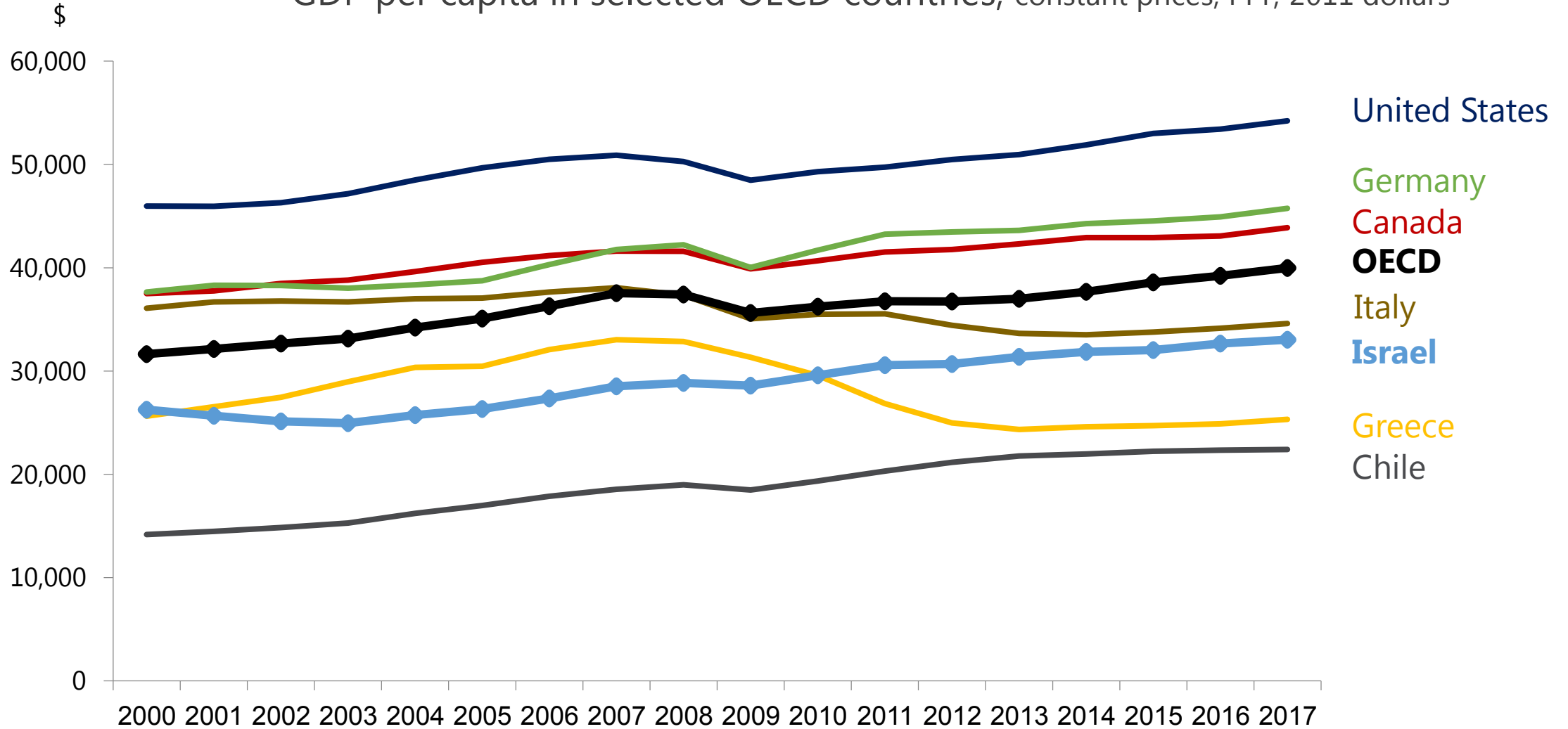
Dr. Karnit Flug, Governor of the Bank of Israel

15.5.2018



Israel's GDP per capita is growing at a pace similar to that of OECD countries

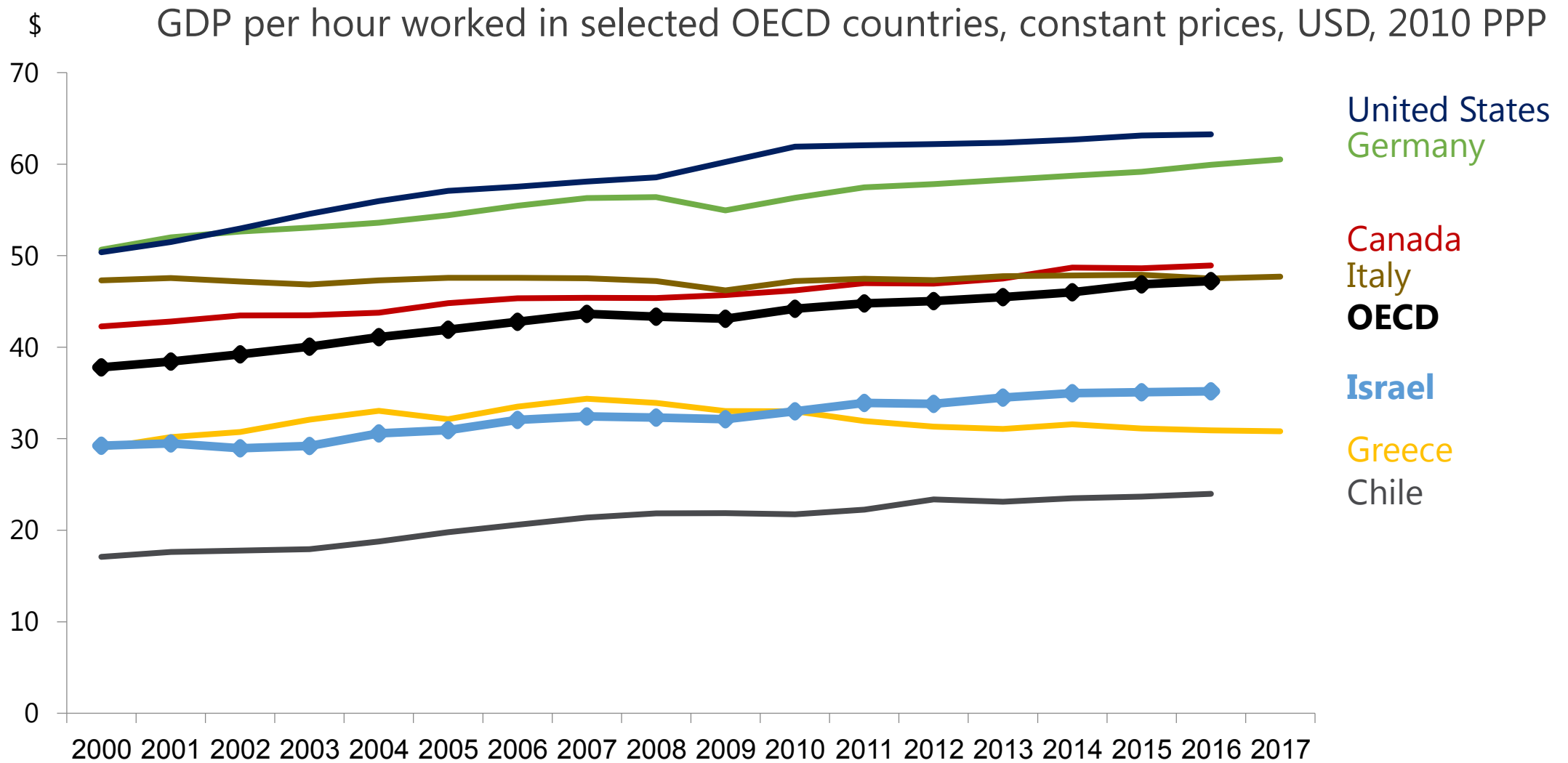
GDP per capita in selected OECD countries, constant prices, PPP, 2011 dollars



Source: IMF



Israel is not closing the productivity gap

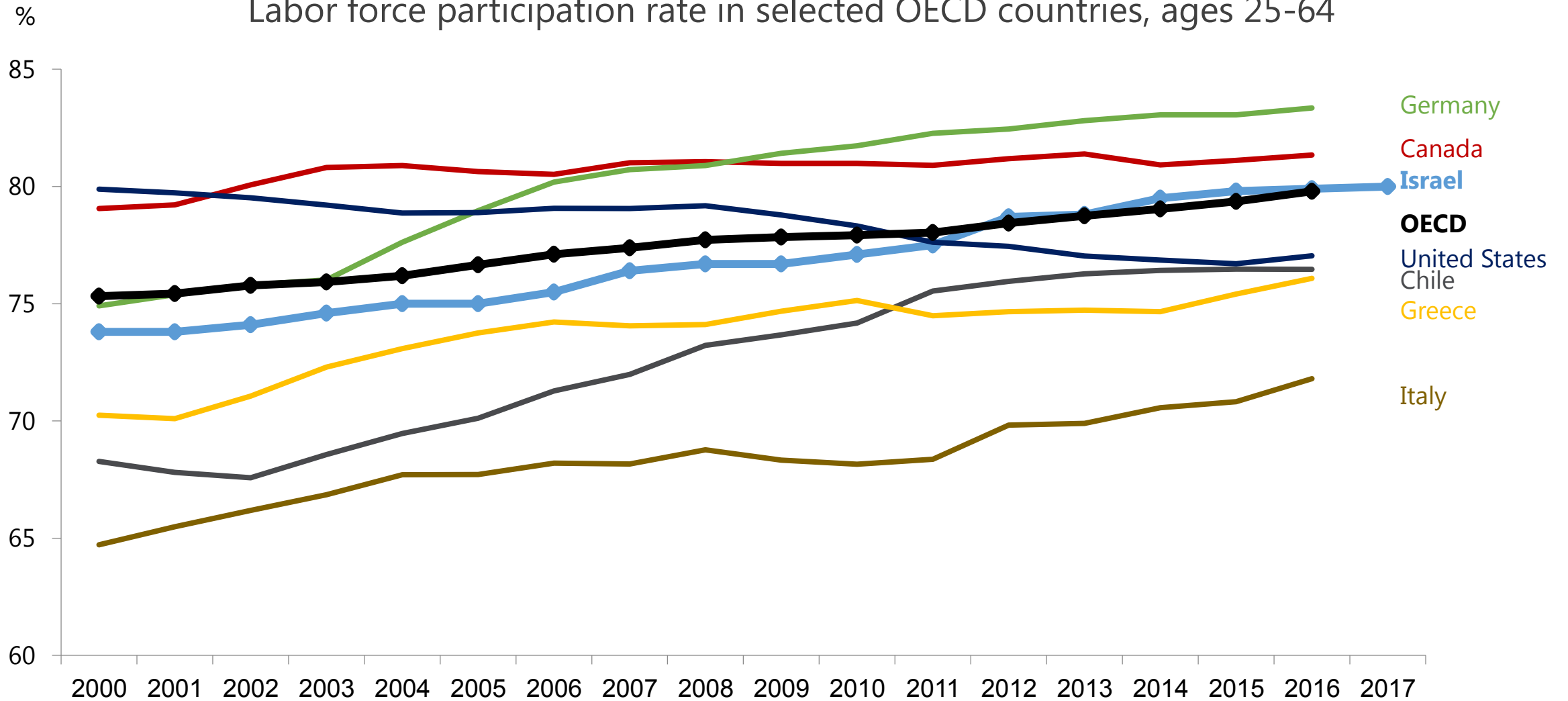


Source: OECD



The participation rate has increased slightly more than in OECD countries

Labor force participation rate in selected OECD countries, ages 25-64

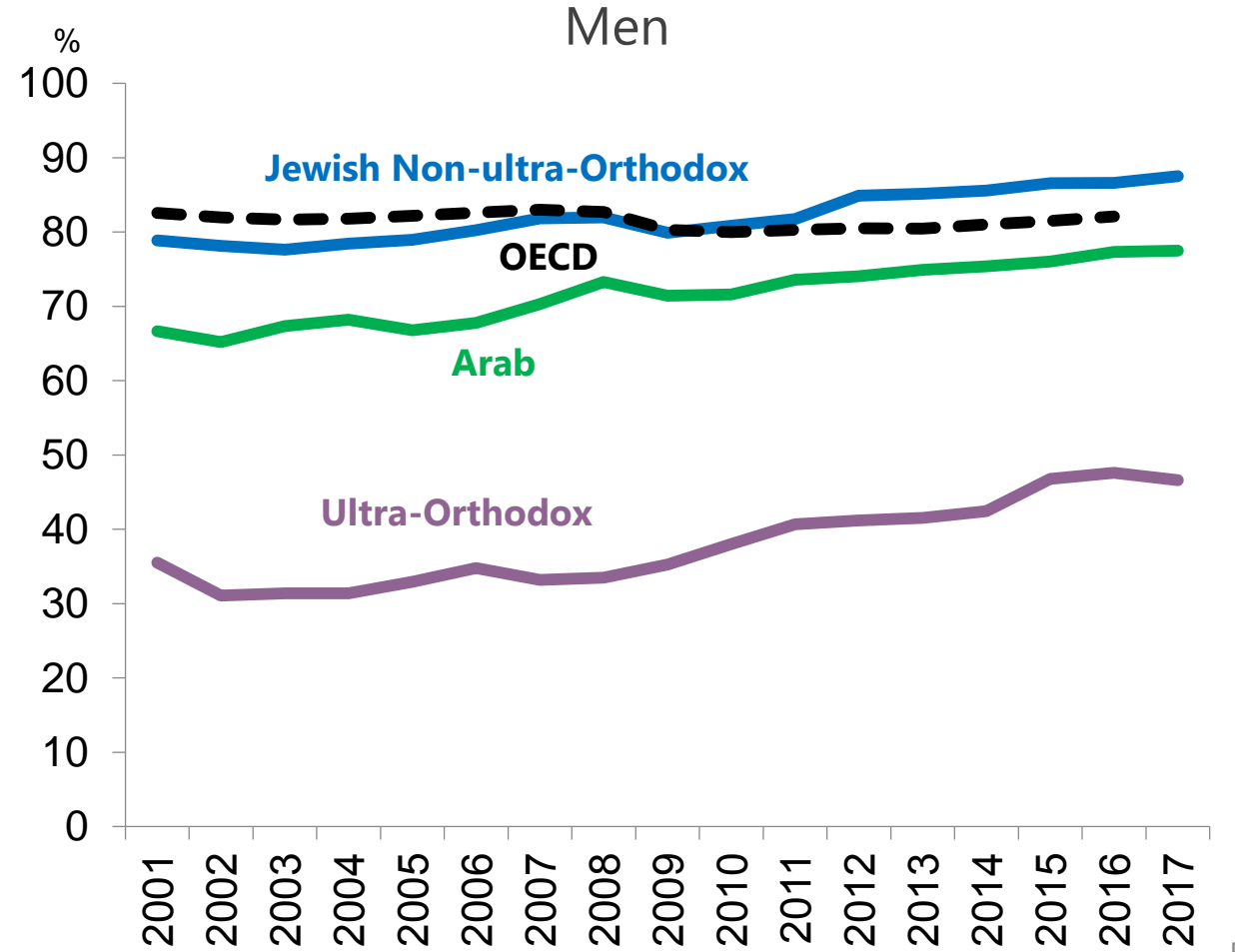
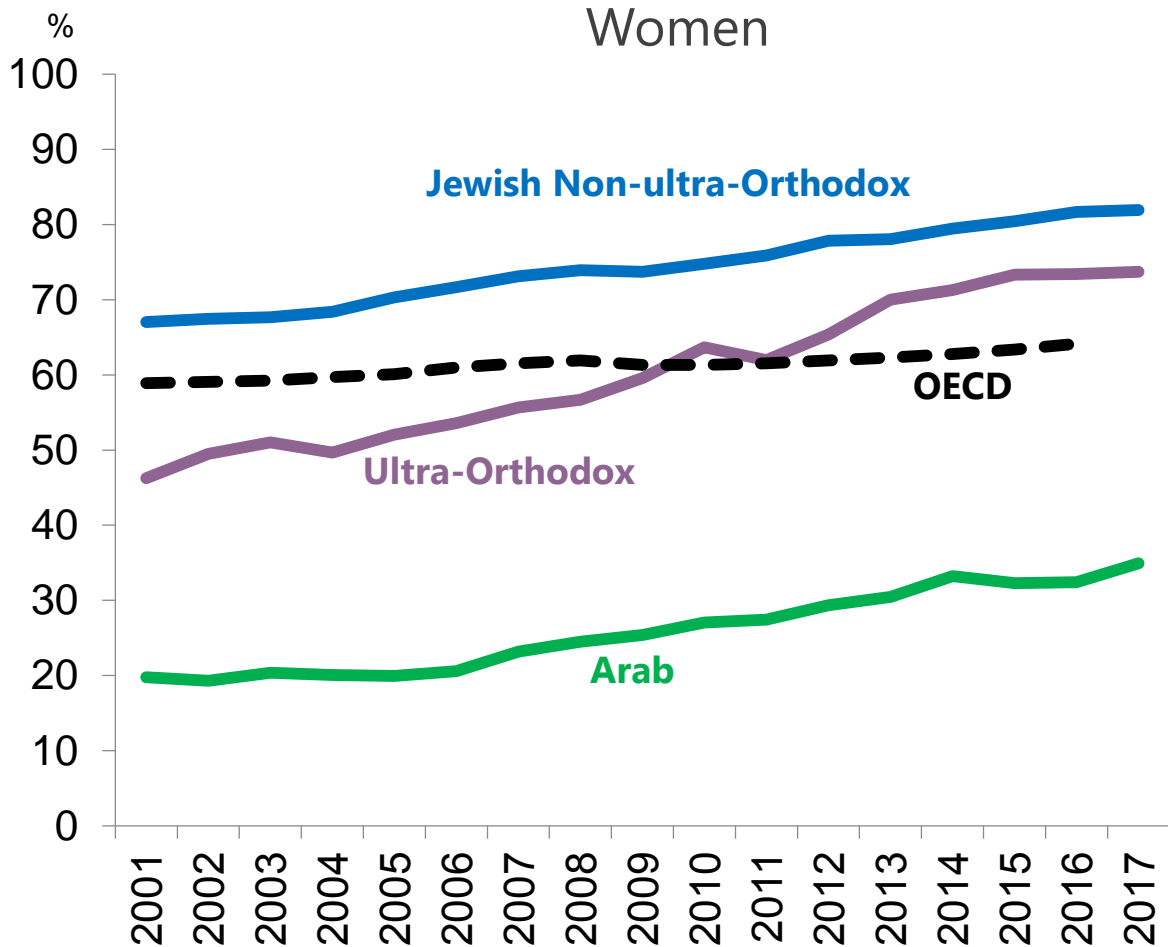


Source: OECD & CBS (Israel)



The employment rate has increased for all population groups, but large differences among groups remain

Employment rate by population groups, 2001-2017, ages 25-64



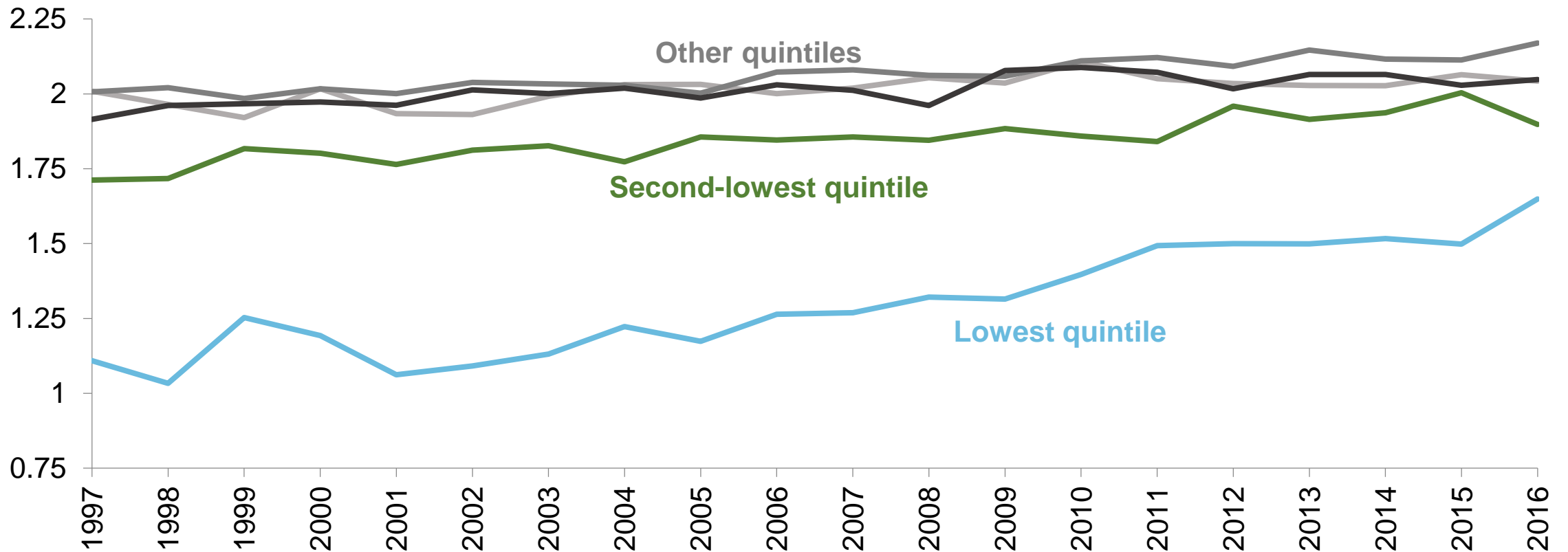
Source: CBS, OECD



The increase in employment rates is most pronounced at the lowest income quintile

Average number of employed people per household Ages 25–54, by net income quintiles, 1997–2016

Average # of wage earners
per household



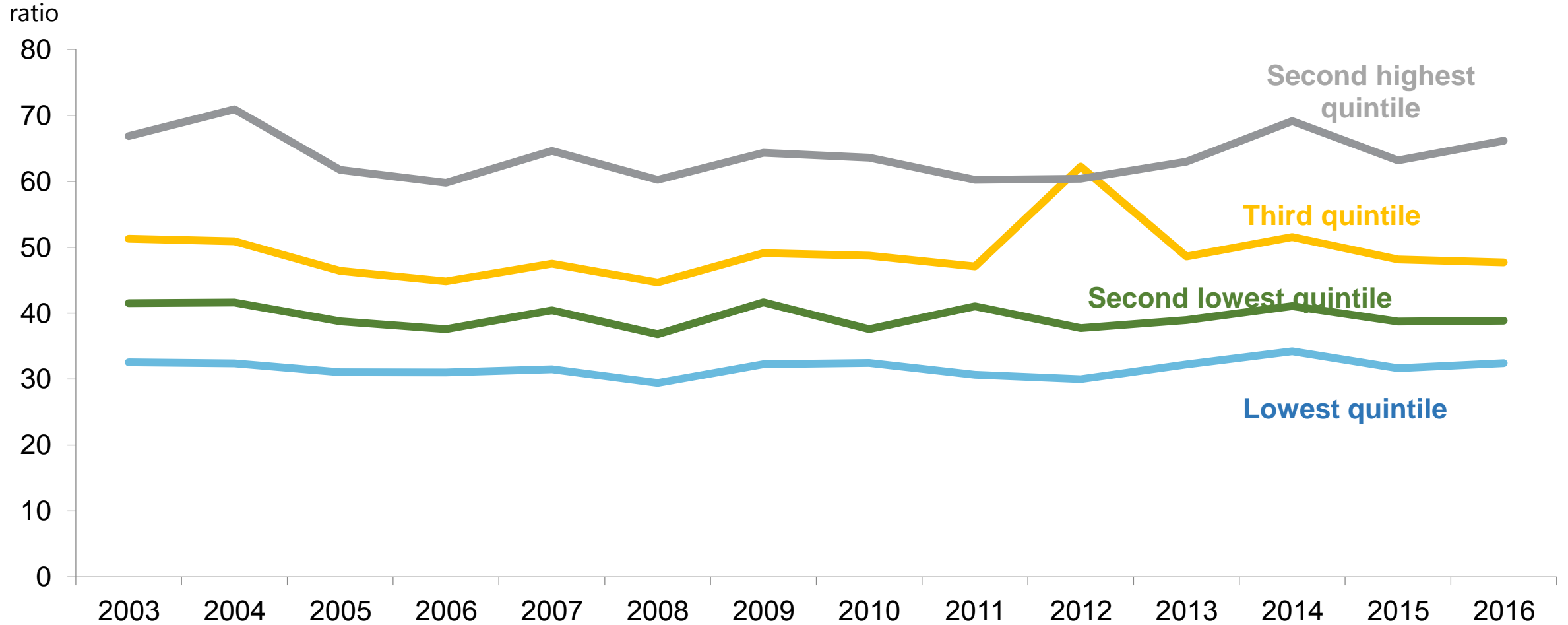
*Includes part-time positions

SOURCE: Based on Labor Force Surveys of the Central Bureau of Statistics (Bank of Israel Annual Report 2017).



Large gaps remain in hourly wages among the quintiles

Ratio of hourly wage for each quintile vis-à-vis the highest quintile
Ages 25–54, 2003–16

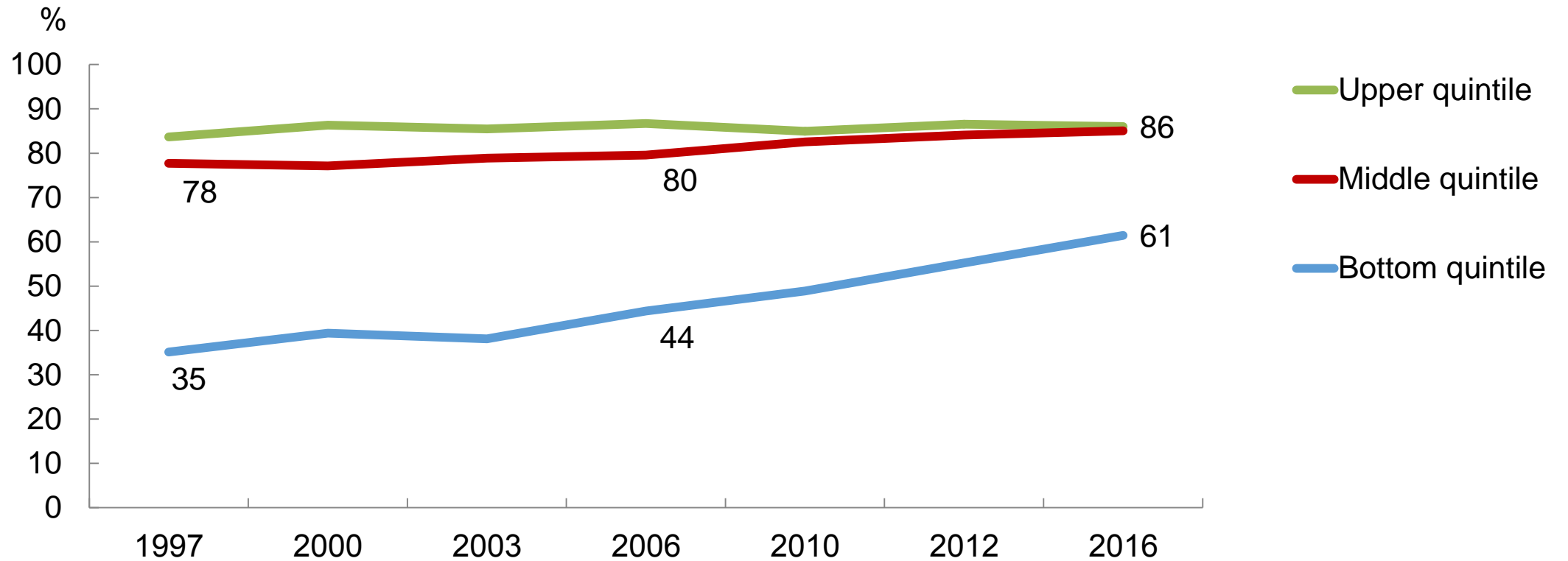


SOURCE: Based on Labor Force Surveys of the Central Bureau of Statistics (Bank of Israel Annual Report 2017).



For the lowest quintile, labor income as a share of total net income has increased markedly

Labor income as share of total equivalized net income By net income quintiles, households, ages 25–54

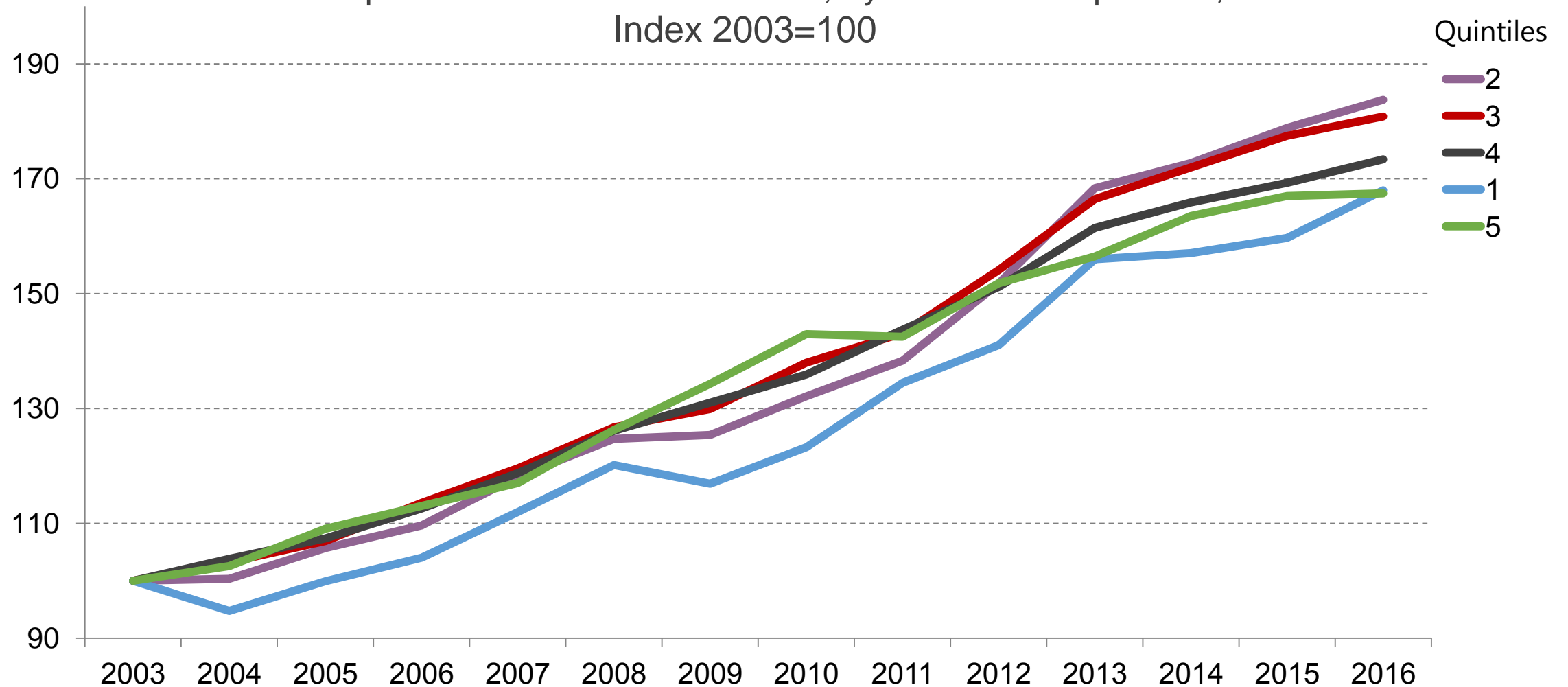


SOURCE: Based on Labor Force Surveys of the Central Bureau of Statistics (Bank of Israel Annual Report 2017).



The largest gains in disposable income are in the 2nd and 3rd quintiles

Net equivalized household income, by net income quintiles,
Index 2003=100



Source: Bank of Israel based on CBS data

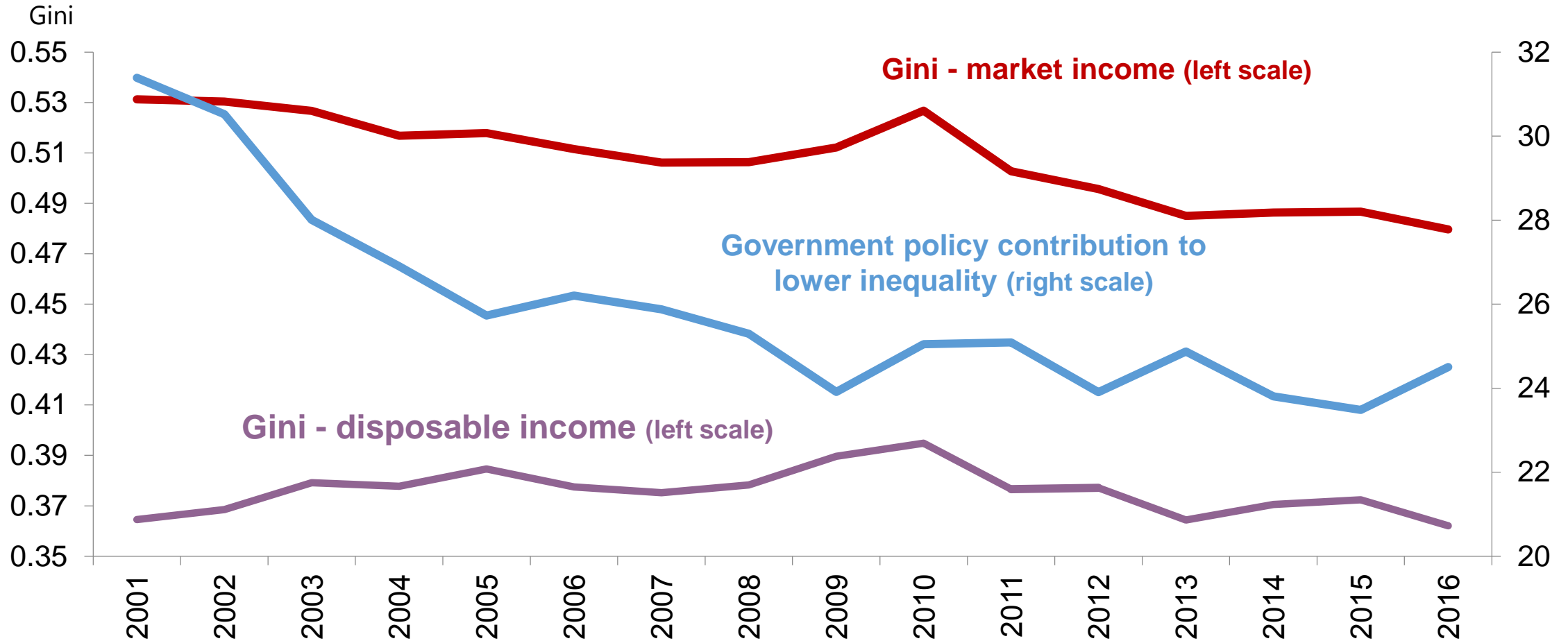


To Sum Up

- Reducing progressive income tax and welfare payments incentivized an increase in labor force participation, but also reduced the level of income redistribution.
- This policy resulted in a reduction of market income inequality due to an increase in the number of breadwinners per household in the lowest quintile.
- However, until 2010, net income inequality rose due to the reduced redistribution policy.
- In recent years, with the stabilization of income redistribution policy, the continuing reduction in market income inequality also translated into a decline of inequality in disposable income.



Gini Index, for disposable and market income, and the contribution of taxes and transfers to lower inequality, 2001-2016



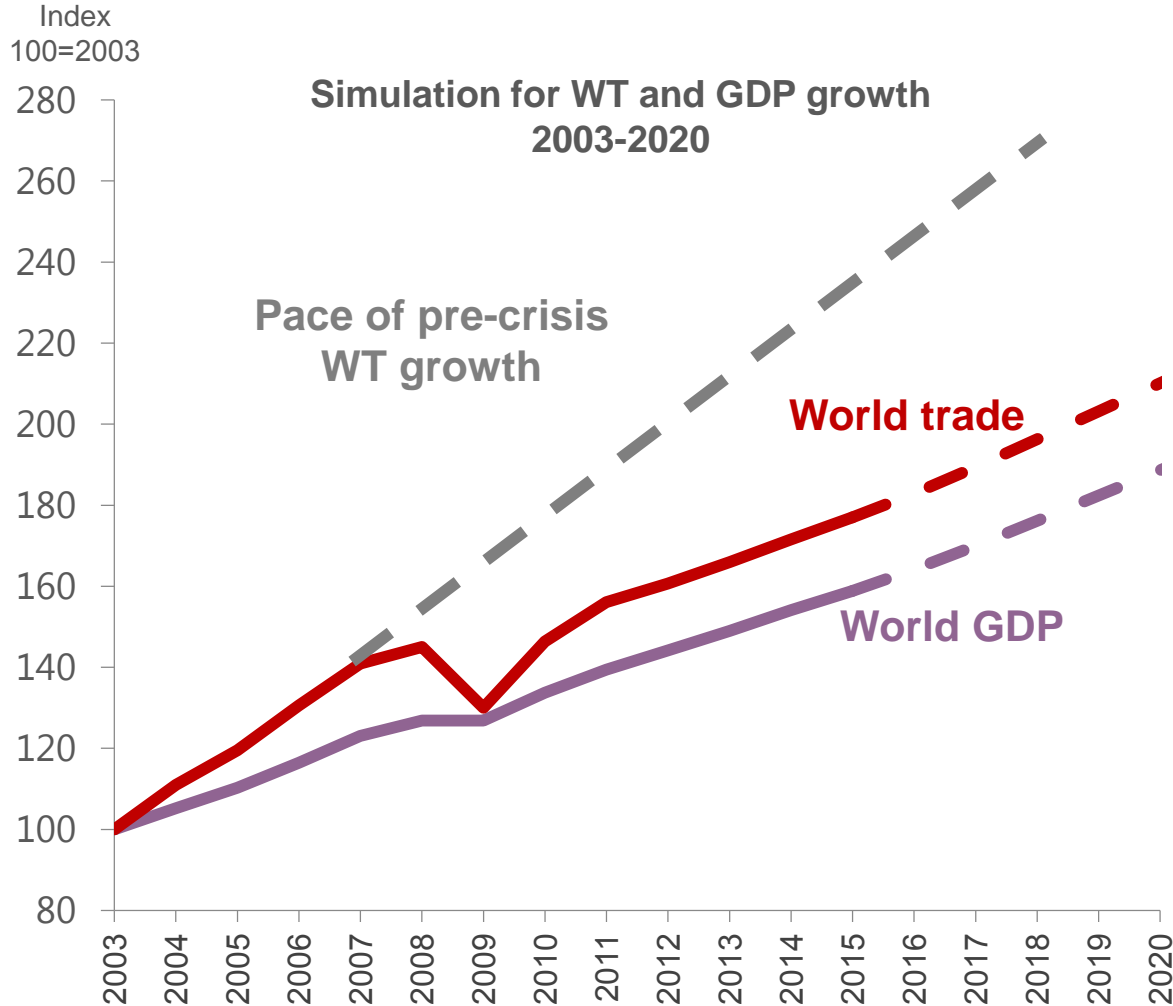
Source: Bank of Israel

The Productivity Challenge

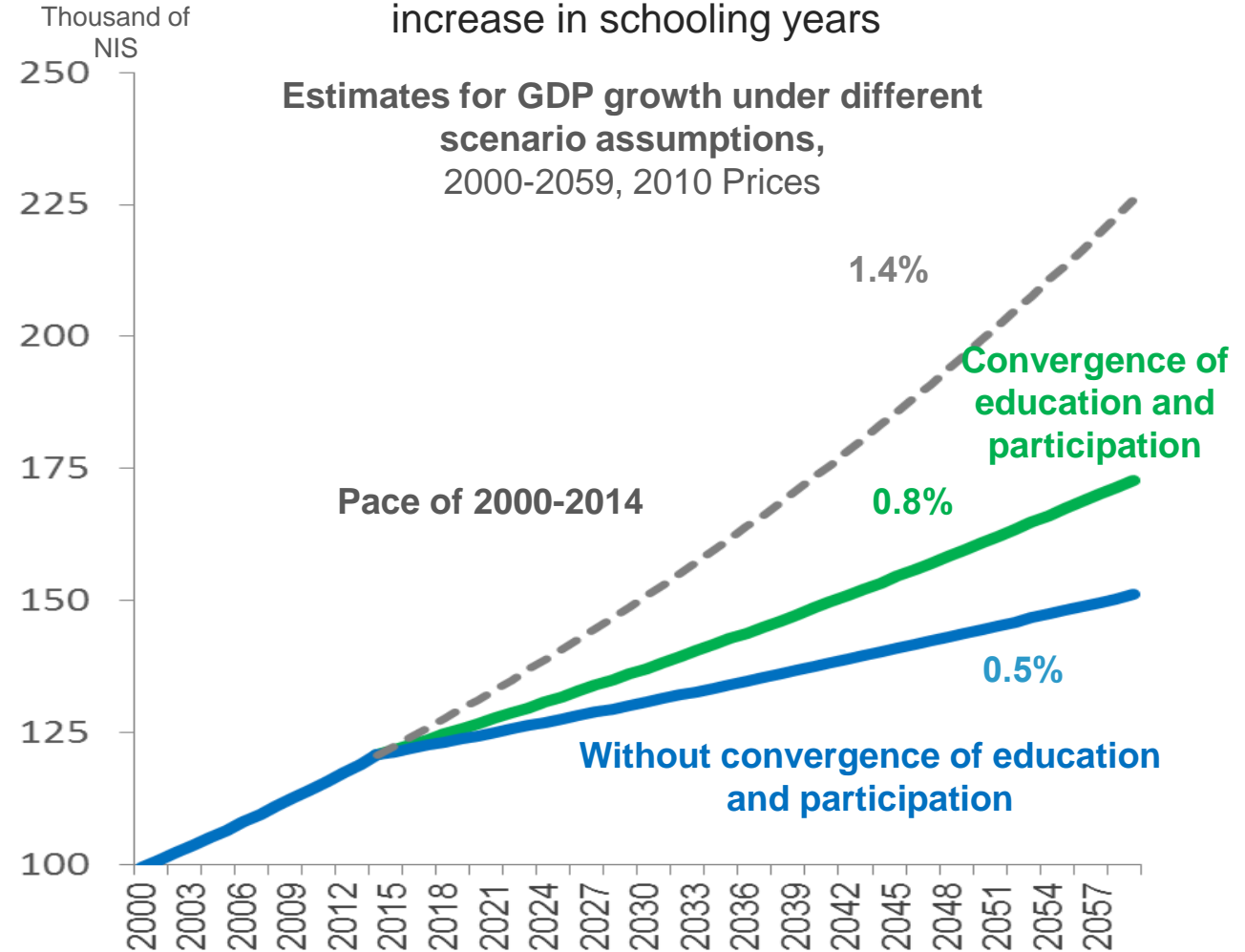


Headwinds to future potential growth

Global trends



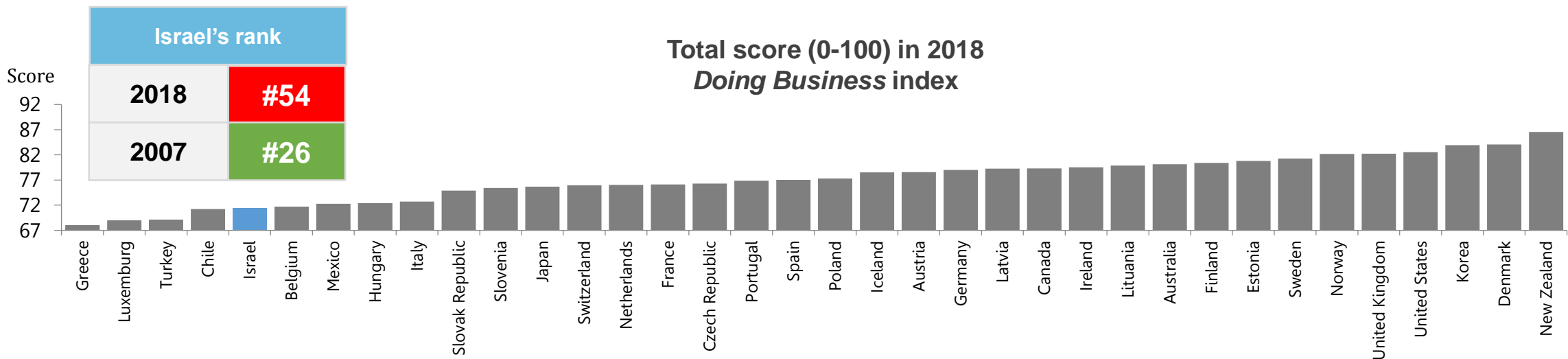
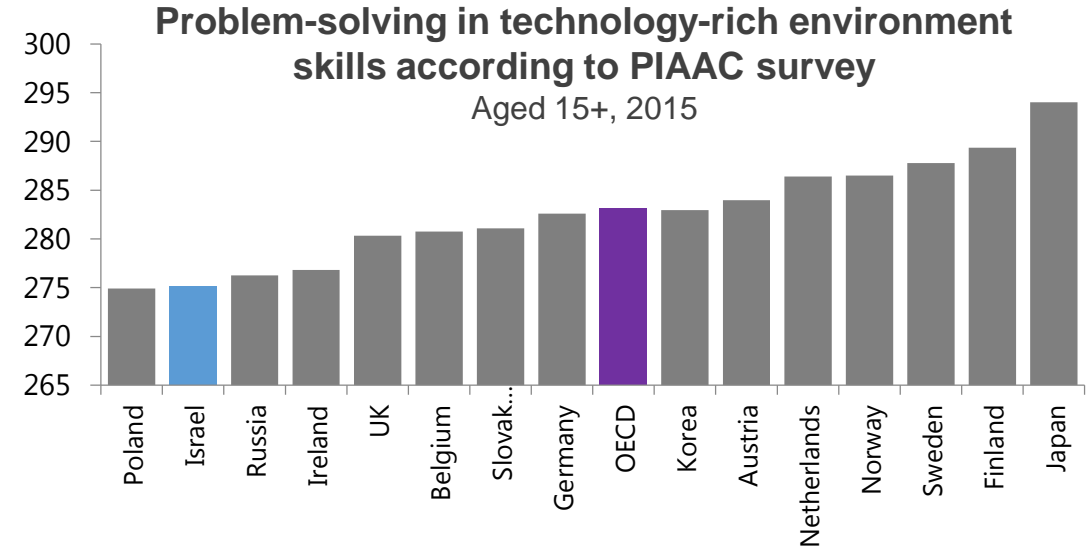
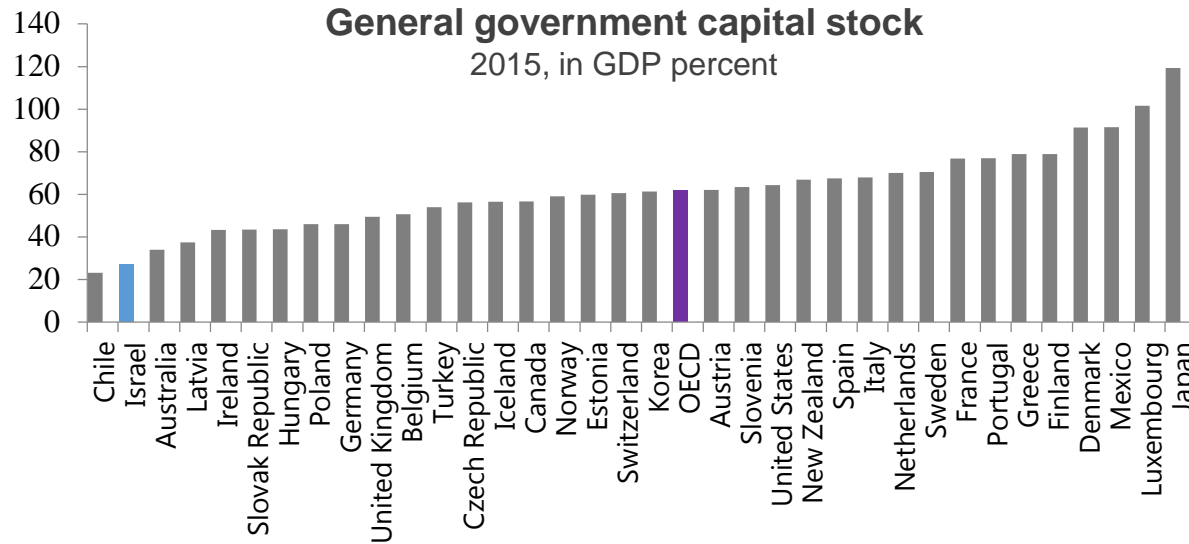
Demographic trends and exhaustion of the increase in schooling years



Source: OECD ,The Global Trade Slowdown: Cyclical or Structural, IMF, WEO Economic Outlook No 95 - May 2014 - Long-term baseline projection.



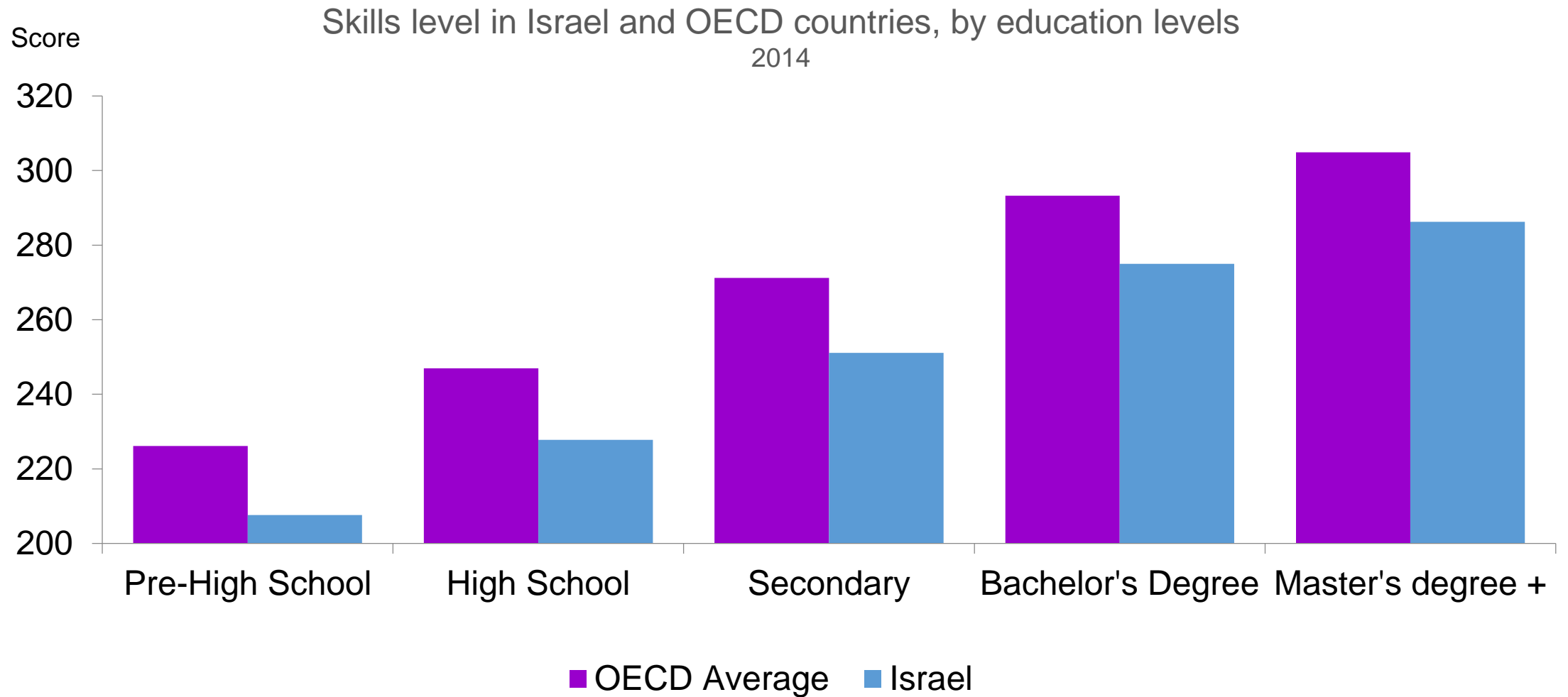
Key factors holding back productivity include deficiencies in skills & infrastructure, and overburdening regulation



Source: Bol ,Doing Business, OECD, IMF.



The level of skills relevant to the labor market is relatively low in all education groups

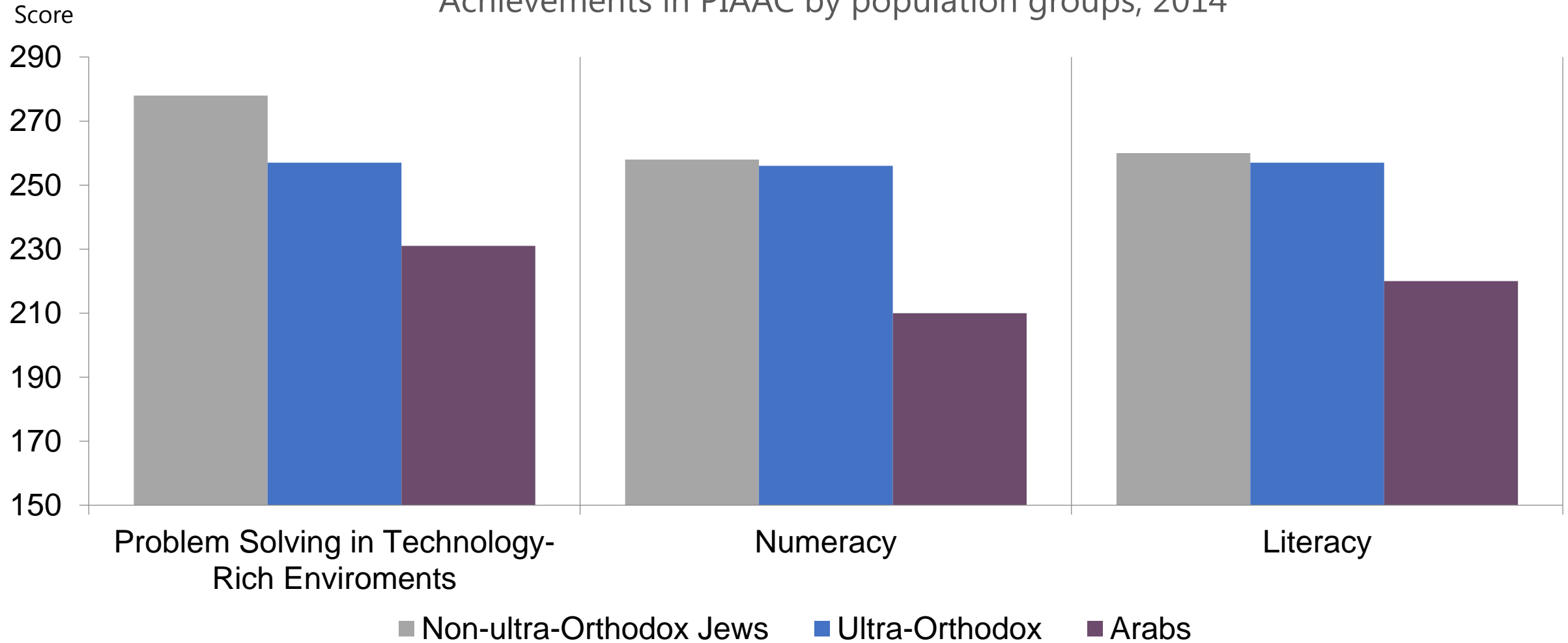


Source: BOI



There are large gaps in the average skill level between the various population sectors

Achievements in PIAAC by population groups, 2014





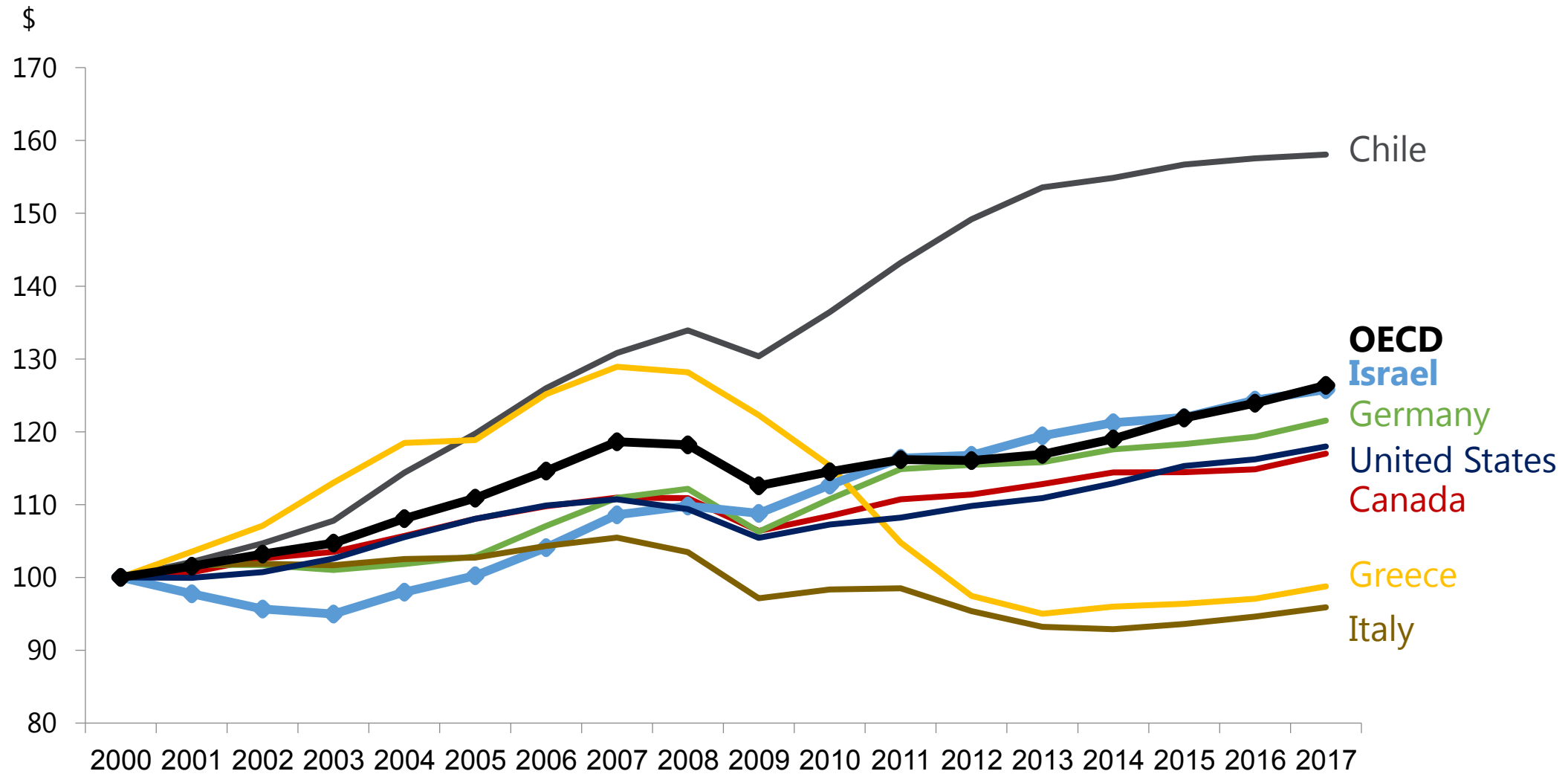
Increasing productivity is the key to supporting inclusive and sustainable growth

- Increase human capital: Education and vocational training, including expansion of affirmative action**
- Integrate population groups into the labor market: Active labor market policy and tailoring the adequate policy for each group**
- Remove obstacles to growth and productivity**
 - Infrastructure
 - Business environment
 - Competitiveness
 - Promote reforms (ports, electricity, and the natural gas and energy industry)
 - Research and development
- Increase quality and efficiency of public service systems (health, long-term care, welfare, pension, etc.)**

Thank
You

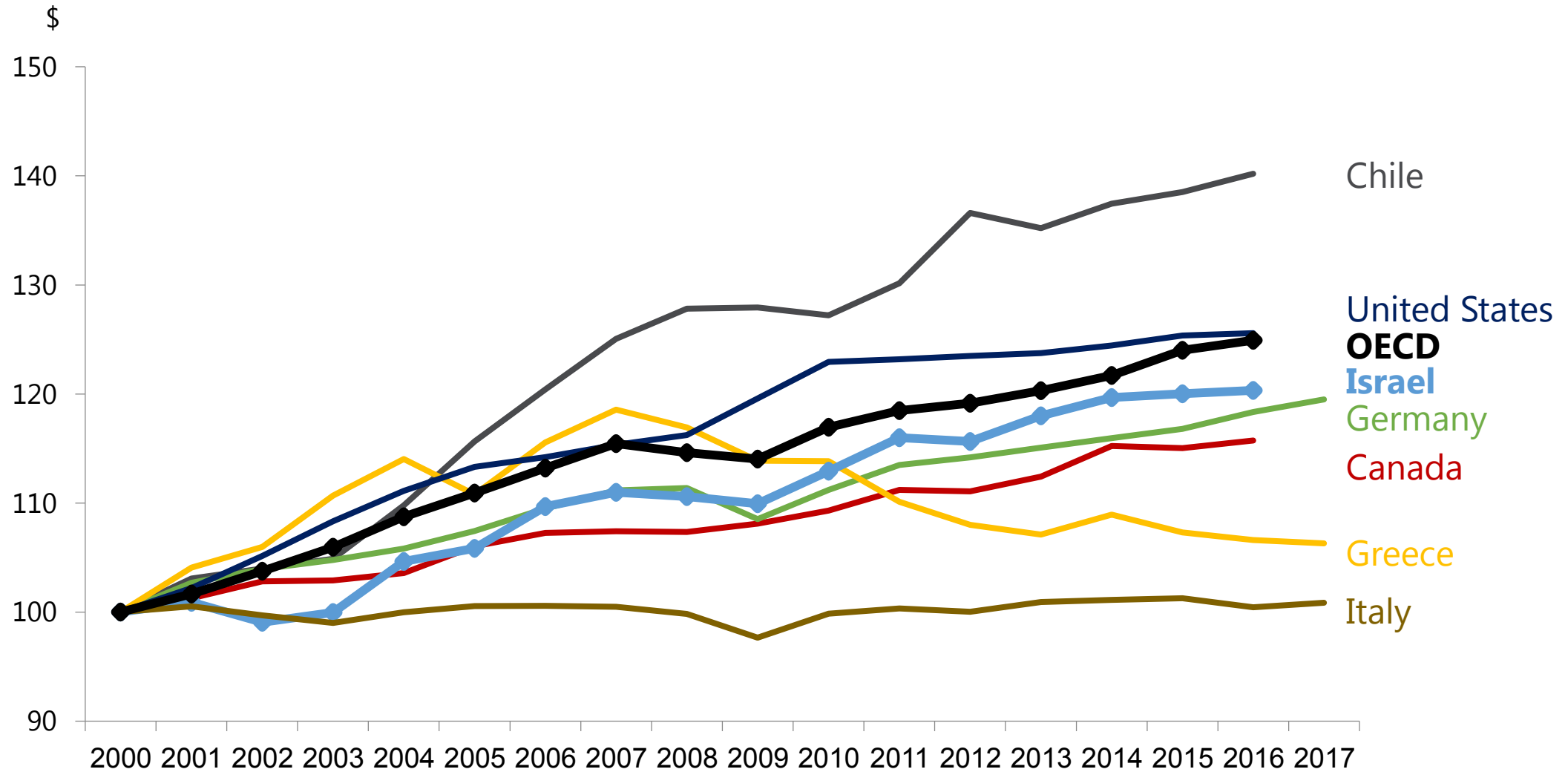


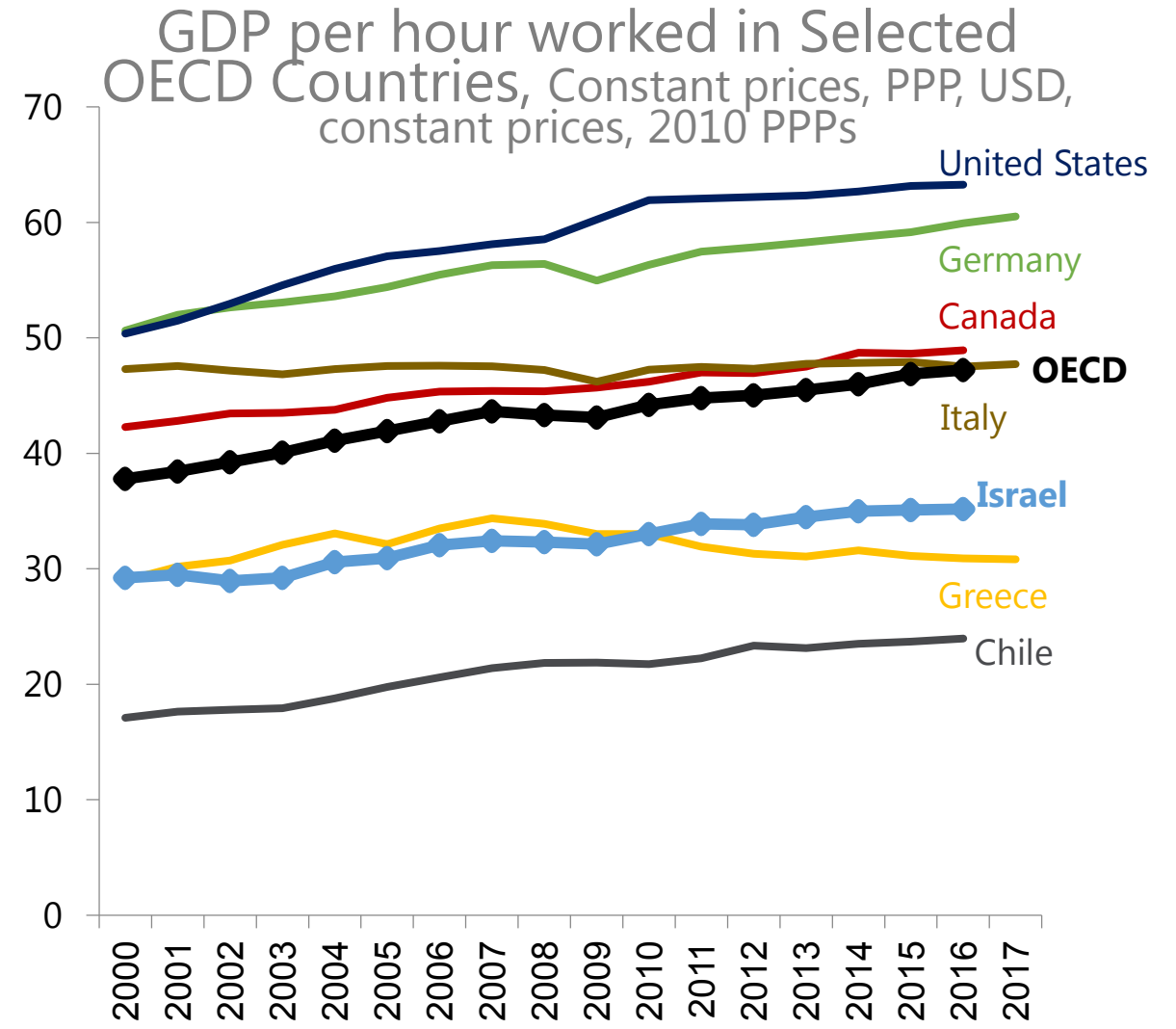
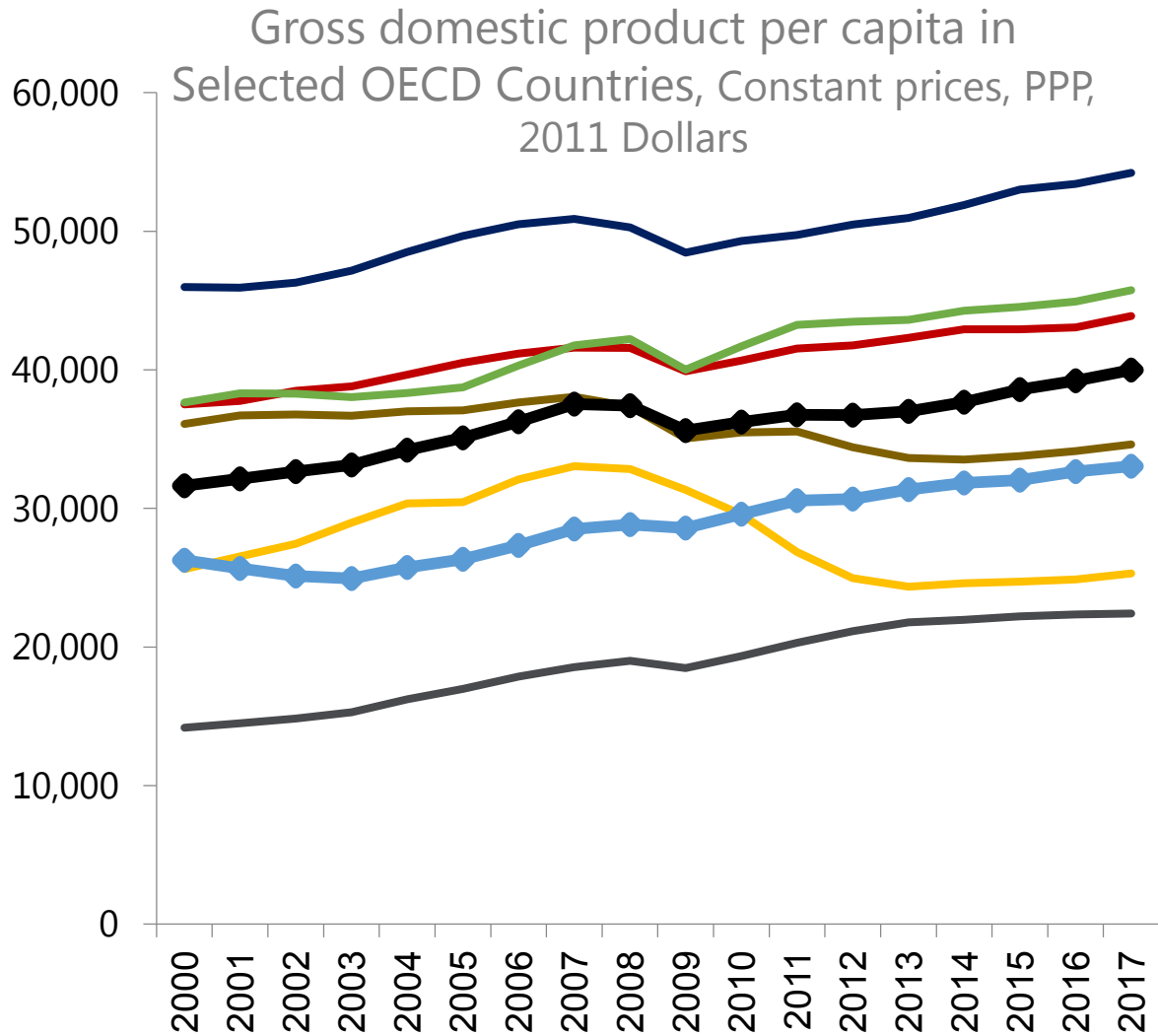
Index of GDP per capita in Selected OECD Countries, Constant prices, PPP, 2011 Dollars





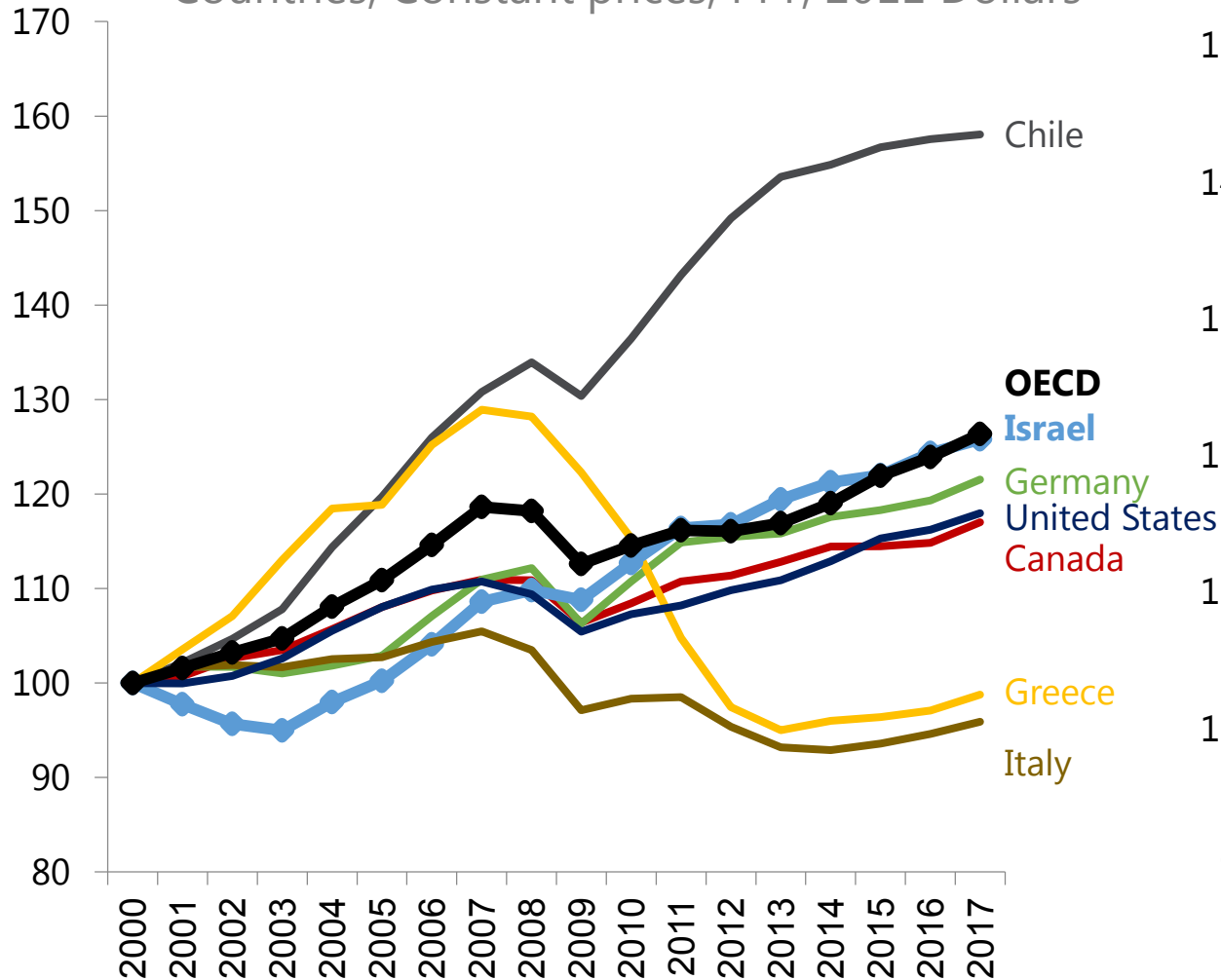
Index of GDP per hour worked in Selected OECD Countries, Constant prices, PPP, USD, constant prices, 2010 PPPs



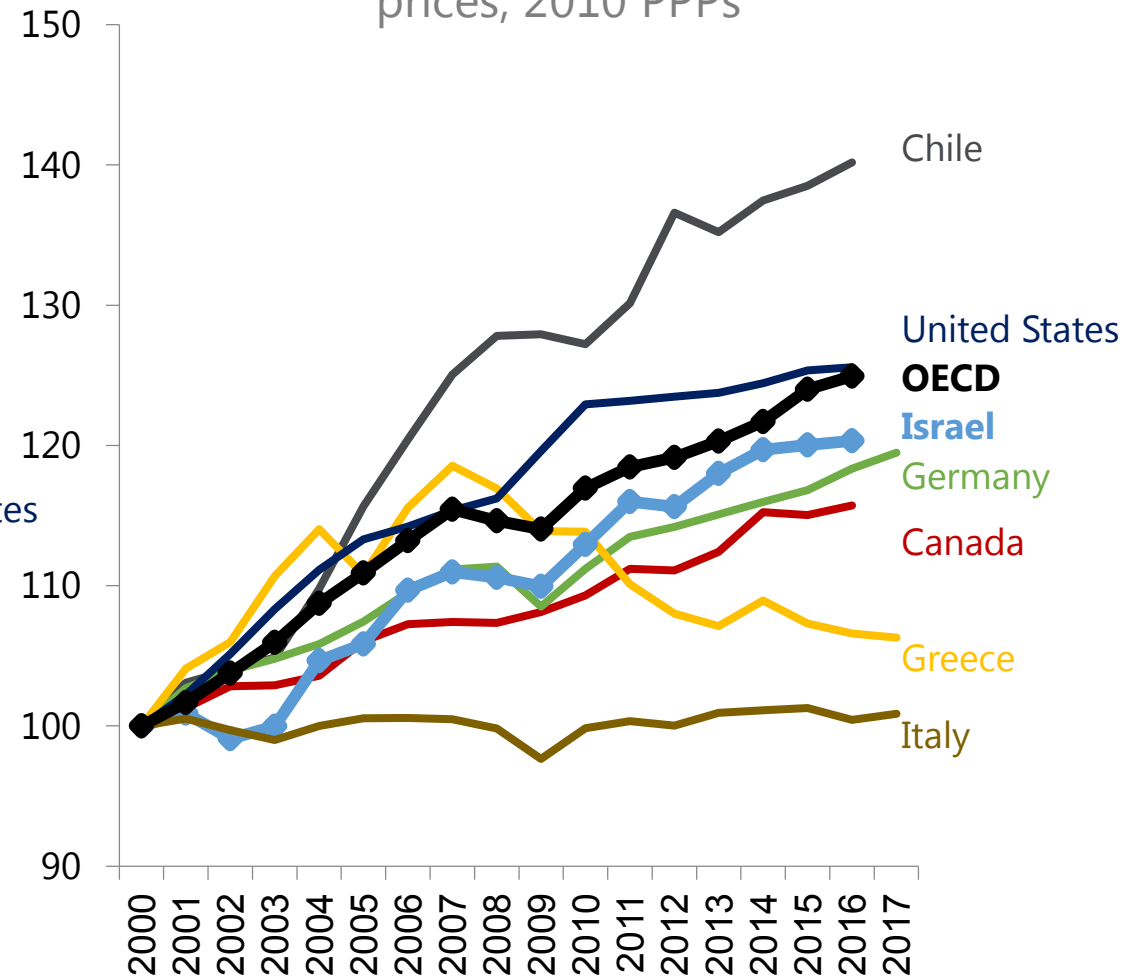




Index of GDP per capita in Selected OECD Countries, Constant prices, PPP, 2011 Dollars



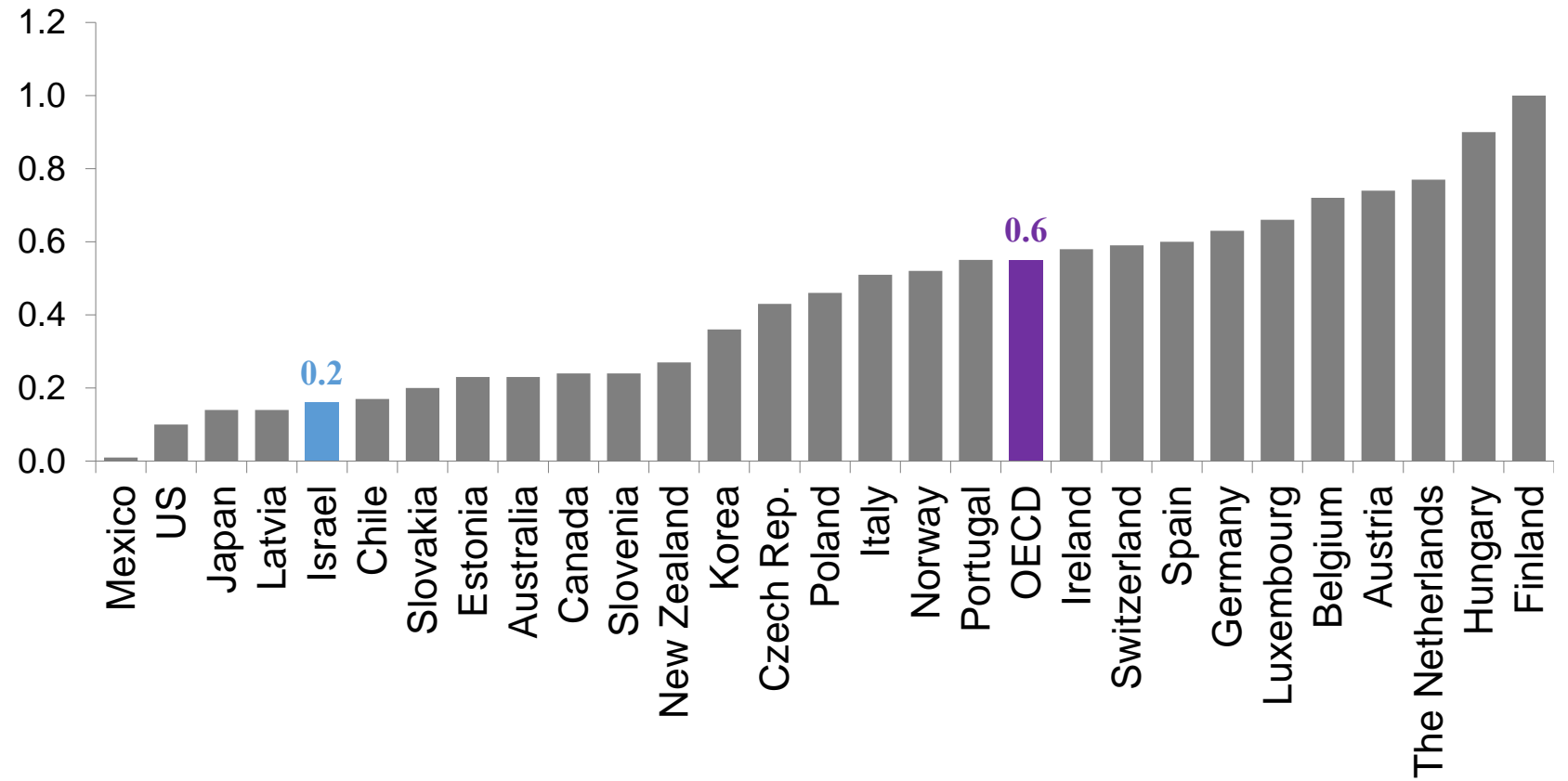
Index of GDP per hour worked in Selected OECD Countries, Constant prices, PPP, USD, constant prices, 2010 PPPs





Expenditure on Active Labor Market Policy in Israel is low despite numerous studies showing the contribution of such tools to increasing employment and wages

Expenditure on Active Labor Market Policy in Israel, and in other OECD countries, 2015 (% of GDP)





Labor Share of GDP, Israel and OECD, 1995-2017

Following a decline in the return on labor, there has been a turnaround, due to the tightening of the labor market

