

Where Investing Could Ensure the Growth and Development of the Israeli Economy?

In recent years, the Israeli economy has grown at an annual rate of 3%, one of the highest in the West for this period. However, despite the impressive data, workforce productivity remains 14% lower than average among developed countries. The low productivity affects wage levels and expands social gaps. The Gini Index, which measures income distribution inequality, ranks Israel as one of the worst in terms of inequality in the West.

A Bank of Israel study shows that workforce productivity varies from one branch of the economy to another.¹In the high-tech industry, workforce productivity is high compared to the rest of the OECD (150%) while the workforce productivity in traditional industries is some 62% lower.²

The Bank's analysis relied on a survey of adult skills (PIAAC) conducted by the National Bureau of Statistics. The survey found that the high productivity levels of the high-tech industry stem from the skilled workforce having capabilities similar to the average in the OECD, while in the rest of the workforce many more workers possess low skills in every parameter measured.³

	Literacy		Numeracy		Problem-solving in a technology-rich environments	
Ability	Israel	OECD	Israel	OECD	Israel	OECD
High	8%	11%	10%	11%	6%	5%
Low	27%	19%	31%	23%	18%	14%

The data become significant when linked to data on wage distribution in the economy. The link reveals income gaps, inequality in society, and limited mobility. For example, an employee with above K12 education possessing strong linguistic abilities makes an average of NIS 4,000 (gross) more than an employee with only high school education possessing weak linguistic abilities.⁴

What can be done to improve the quality of Israel's human capital?

Skilled workers with high professional abilities suitable to the industry's needs create better quality products with greater efficiency. The State of Israel has already maximized its investment in high human capital in technology and engineering. We learn this from the high salaries in these professions, the high

¹"Basic Skills of the Israeli Workforce and Productivity in Branches of the Economy" (Hebrew), *Periodic Fiscal Survey and Assorted Research Issues* (Hebrew), Research Unit, Bank of Israel.

²In A. Millard (2015), *Description and Analysis of Traditional Industries in Israel* (Hebrew), Knesset Research and Information Center.

³Tzvika Amir (2016), *Survey of Skills in Israel* (Hebrew), National Bureau of Statistics.

⁴In an economic developmental survey of recent months (139) – the connection between education and growth: Israel compared to the world (www.bio.org.il).

competencies demonstrated by that workforce, and the fact that Israel is second in the world in its percentage of people with academic education.⁵ Nonetheless, workforce productivity remains low in many branches of the economy. The reason is **the quality of both the primary school system and the advanced technological education** (for practical engineers and technicians).

Studies show that a good technological education system (with an updated, high-quality curriculum) provides the identical return to the individual and the economy per year of study as a year of academic studies. As Israel's technological and professional institutions systems were neglected for many years, economists anticipate an even higher return.⁶

Therefore, investing in technological and professional human capital for productive industries and trade would help to:

- Raise workforce productivity in the weak branches of the economy and contribute to the overall productivity of the economy.
- Increase competitiveness and growth.
- Improve workers' skills and productivity, i.e., make them better and more efficient.
- Improve the standard of living of professional workers in the middle- and lower-levels of the economy.

Investment focused on higher technological education can prevent the creation of a split economy with significant gaps between high-tech workers, on the one hand, and workers in traditional industries and commercial branches, on the other. In addition to the economic growth of investing in professional human capital for the economy and various branches of industry, developing the nation's human capital creates good employment opportunities for people from lower socioeconomic backgrounds and allows greater social mobility.

Therefore, significant investment in technological institutions is needed to enhance the quality of study in them. Such an investment would increase market competition, help stabilize the economy, and improve the professional image of technicians in many fields. Increasing employment opportunities and earning potential of the workforce would attract high-caliber and better-skilled populations to these jobs. Professional workers with high competencies would improve workforce productivity; develop industry, and increase stability and competitiveness of the economy in a changing global world.

This document was written in March 2017 by Keren Sagi for Beyachad. Beyachad—the Stella and Yoel Carasso Family Foundation, founded in 2015 by Yoel Carasso, focuses on jumpstarting and driving thinking and action in the practical technological professions, including professional training, practical engineering studies, and technicians' training, so that young Israelis can choose applied technological professions in industry, commerce, and the service field as a long-term option for high-quality employment that affords them social and economic mobility and strengthens the Israeli economy and workforce.

⁵Education at a Glance 2016 (http://download.ei-ie.org/Docs/WebDepot/EaG2015_EN.pdf).

⁶Eckstaen, Lifshitz, Saguy, and Trilnik, *Higher Professional Technological Education* (Hebrew), Aharon Institute.