

### *Labor Market Reforms*

Until 1973, Israel experienced one of the fastest growth rates and highest standards of living in the world. Since that time, however, per capita economic growth has been stagnant, unemployment levels have been high, inequality between rich and poor has increased dramatically, and the standard of living has declined relative to the rest of the developed world. Professor Dan Ben David of Tel Aviv University in Israel has spent much of the last decade researching the causes of this economic downturn and positing structural solutions to bring conditions back into par with the rest of the Western world. Actually, much of the real and relative declines in labor productivity and thus in labor incomes have been offset by generous government spending on social welfare programs. Government expenditures now total 54% of gross domestic product, a number driven largely by generous social services. According to Ben David, upwards of 80% of both Orthodox Jewish males and 80% of Arab women do not participate in Israel's labor market and instead rely heavily on these government transfers. Though this rate of subsidization may be sustainable in the short-term, Prof. Ben David noted that almost half of elementary school aged children are enrolled in either Orthodox or Arab schools, signaling a long-run problem if these populations continue their virtual non-participation at the same rates. Thus, Israel must implement serious reforms aimed at restructuring the incentives for people to work, and furthermore to work more productively. In the short run, the government should reduce the overall tax burden and decrease the availability of welfare transfers.

One way to approach the problem is to examine how the Israeli bureaucracy operates. Each Ministry has an independent budget and is largely free to set its own policies and implement its own programs. As a result, almost all Ministries have some form of a welfare or distributional program to give to the constituents of the party that controls the particular Ministry. Not only does this account for the generosity of government expenditures on these transfers, but it also makes it almost impossible to determine precisely how much money is being spent nationally on social services.

In response to Ben David's presentation, Washington University Economist Robert Pollack noted that first we must ask how much welfare spending is desirable in a society and then we can figure out how to achieve that level in the most efficient way. Thus, passing some form of financial disclosure requirements for Ministries remains a short-term priority. Once it is known how much is actually being spent, then policymakers can determine where to cut expenditures. Furthermore, knowing where the money is going will allow policymakers to reorganize the bureaucracy to avoid running similar programs in multiple Ministries. This not only will make government more efficient, but will reduce the size of government in order to encourage more private sector activities to enhance economic growth.

In general, Israel needs to reduce the tax burden on the middle class, increase government efficiency and reduce welfare transfers to select sectors. This will help sure-up investor confidence and save public money. In addition, more money should be spent in education and workforce placement programs, encouraging the young to look forward to working and ensuring that the incentives to work are positive and overwhelm the incentives to live off the numerous welfare programs now in place.