

Neutralizing Israel's Ticking Social Bomb

Public Private Partnership



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Up until the end of the 1960s, the State of Israel was considered one of the leaders in social equality among both the developed and developing countries. This was largely due to the policies in that respect that pertained among the state's founders, to the young age of the country that had prevented accumulation of wealth over the course of generations, as well as to the relatively young population in comparison to that of western countries.

Today, on the other hand, Israel ranks as one of the leading countries in the western world in terms of income gaps among the various sectors of the population.

This deterioration occurred principally due to the worldwide influence of accelerated globalization during recent decades, as well as the influence of the technological revolution in Israel and the world at large. But there are also other reasons for the yawning gaps between the social groups in Israel, characterized by misguided government policy: reduction of investment in human capital (education and professional training), relatively low investment in infrastructure, low participation in the workforce, etc.

Israel has approximately 250,000 unemployed, the majority of whom have a wife/husband and children. This results in approximately one million people pushed to the fringes of society.

Recently a drop was registered in the level of unemployment – from 10.9% at the beginning of 2004 to 9.8% at the year's end, down to 9.1% at the start of 2005. In addition, last year saw the beginning of a rise in the rate of participation in the workforce, from 54.5% to 54.9%.

Despite this, the unemployment rate is still high compared to many advanced countries, and the rate of participation in the workforce is about 8% lower than that in western countries.

In light of the existing situation, I have proposed that the government establish goals for unemployment and rate of participation in the workforce. For the year 2007, I proposed an unemployment goal of 7% (as against 10.4% in 2004). In order to meet this target, I further suggested setting a goal of 5% for average annual growth, and the creation of around 270,000 jobs within three years.

However, this in itself is not sufficient. Economic growth of the past few years, rather than solving Israel's social problems, in fact aggravated them. Growth, which is dependent largely on exports and hi-tech, accentuated the social gaps between those with higher education and those with minimal education; between areas in the center of the country and those on the periphery, and between workers in traditional industries and

those in hi-tech industries. This is not surprising, as it has been a well-known phenomenon throughout the world since the beginning of the 1980s.

The extreme wage gaps in Israel may be viewed as a ticking bomb, and regrettably it would seem that from a geographic viewpoint the country is divided into two different societies: one situated between Hadera and Gedera, with the other to the north and south of these two points. Very great differences in unemployment rates exist between these two groups (e.g. unemployment rates in Tel Aviv in 2004 stood at around 9%, as against more than 15% in developing areas in the north and south of the country). For this reason I proposed to the government that, in addition to the overall national unemployment goal, a goal also be set for the periphery. This goal should aim at a drop in unemployment rates on the periphery by 4.5 cumulative percentage points within three years (a steeper drop than that of the national unemployment rate!), alongside a rise in the rate of participation of that area's population in the workforce.

In order to attain the goals of reducing unemployment and narrowing the social gap, I believe that we must forge a social-economic policy that will include the following points, amongst others:

Increased Participation in the Workforce and Creation of Quality Jobs

- **Negative income tax** – This could serve as an impetus to encourage those receiving income support to enter the workforce. I therefore welcome initiatives by the Prime Minister and the Finance Minister to introduce negative income tax – the sooner the better.
- **Reducing incentives for remaining outside the workforce** (income support, unemployment benefits and other types of support). It is clear beyond all doubt that the policy of allowances that had been the norm until recent years was among the most significant factors that ultimately led to the wide social gaps. Thus, a policy of reducing incentives for staying outside the workforce is a correct one, even if this is unpopular and causes short-term harm to the population that depends on these incentives.
- **Encouraging absorption of workers** – under present conditions, it is not possible to solve the problem of high unemployment in the periphery solely by means of reducing allowances to individuals, and it is imperative in parallel to create quality and steady jobs. The new Law for the

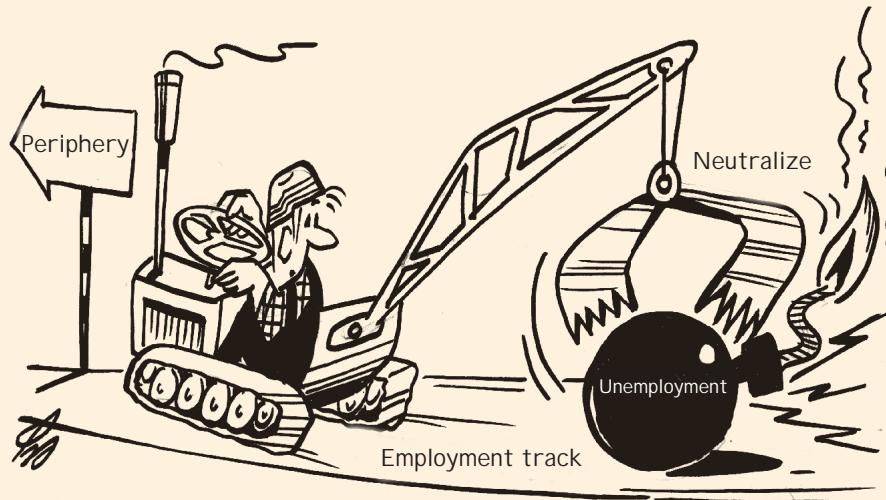
Encouragement of Capital Investments, accompanied by the Employment Grants Program, constitutes positive and important incentives for employers to create jobs in the periphery.

At the same time, in order to create real change, we must act more vigorously to create jobs in the periphery. For this reason I am presently leading a plan to move about 60 industrial plants to the nearby periphery. This could solve the problem of employment for around 10,000 people (in industry and complementary services). In this way we would ensure development of the industrial plants on the one hand, and create much-needed local jobs on the other. The government has given its blessing to this plan, and we will thus begin implementation in the very near future.

• **Foreign workers** – at the same time as creating incentives for encouraging Israelis to join the workforce, it is important to step

Taasiyeda Educational Non-profit Association. This association aims to create cooperation between industry and the education system by translating know-how and values from the world of industry into a language of education, suited to students in Israel.

• **Future Hi-tech Generation in Industry:** This project, which has been in operation for eight years, comprises intense involvement in junior high schools, with the aim of steering pupils in general and girls in particular, to choose science and technology based subjects in high school, as a first step in training towards future participation in hi-tech fields in the army and in industry. Partners in this project are the MAI's Women Industrialists Forum, the Science and Technology Administration at the Ministry of Education, the Israel Defense Forces, and of course industrial companies and industrialists who have answered the call and enlisted to the cause.



up enforcement of the law against employing illegal workers, and to simultaneously reduce to nil the number of foreign workers (apart from exceptions) and to replace them with Israeli workers.

Investment in Education

The long-term economic and social strength of the Israeli economy depends to a large extent also on a strong, effective and efficient system of education that produces new generations of good and qualified citizens.

Education is very important to us as a nation. For this reason investment in education would guarantee our continued future existence as a flourishing and growing society and industry.

The Manufacturers' Association of Israel (MAI) is at the forefront of involvement in education, being active in a number of spheres.

• **“Taasiyeda”:** For the past 16 years the MAI has operated the

• **Ongoing Activity to Strengthen Technical Education:** In addition, the MAI is active in strengthening institutions for technical education and preventing their closure. It is also strives to strengthen the ties between industry and academia in order to ensure training in sought after fields, as well as practical training at places of work. It is also necessary for the government to act in the areas of technical education and professional training, in two time periods:

• **In the short term** – Increasing frameworks for professional training of adults, and for training unskilled workers in areas for which there is demand.

• **In the long term** – strengthening technological education. Regrettably, the character of budgeting for educational institutions as proposed in the Dovrat Report, does not differentiate between technical education and theoretical education. Adopting this system of budgeting effectively blocks technical education.

Consequently, the government must act to create appropriate budgeting for institutions of technical education, to expand and deepen their study programs, and to raise their level of prestige in the eyes of the public. Moreover, the government should institute changes in educational programs, in order to make them more relevant to the needs of industry. For this purpose it is advisable to refer to proposals made by a public committee (chaired by Prof. Kenny Price) that was set up to examine trends and technical subjects.

There is no doubt that appropriate training can solve manpower problems in plants, while at the same time providing solutions to the unemployed, who lack the training that would enable them to enter the workforce.

Developing a Transport Infrastructure

It is of the utmost importance to develop a transport infrastructure that would bring the periphery nearer to the center. This would

enable people living on the periphery to work in the center of the country, while owners of businesses in the center could develop business activities in the periphery and create additional job opportunities in these areas.

Conclusion

The social gaps in Israel may be considered as a ticking bomb. In order to neutralize this bomb, it is necessary for the government to take immediate steps to narrow these gaps. In this article I have proposed a number of ways in which the government could deal with this issue.

The business sector also has an important part to play. However, the employer cannot be expected to contribute if this would mean a loss to his business. The government should thus assist employers to develop their business activities in the periphery, and in this way to reduce the level of unemployment in these areas.

Israeli Industry in the 21st Century

From Growth to Recession

As Israeli industry entered the 21st century, the future looked promising. There were first signs of an accelerated exit from the recession that had prevailed in the economy at the end of the 90s, supported by extremely rapid growth in world economies and world trade, which led to a leap forward in the extent of industrial exports. Simultaneously, there was progress on the political front, accompanied by geopolitical stability, all of which significantly contributed to a flourishing of tourism in the year 2000, at the time of the Pope's visit to Israel.

Parallel to this, the flowering of Israel's hi-tech industries was particularly prominent, including the sale of start-up companies to the value of billions of dollars. All this resulted in the growth of Israeli exports, the GDP and work opportunities, and contributed indirectly to economic activity in ancillary branches as well as increased openness of the economy. It seemed as though a window of opportunity had opened for the Israeli economy.

However, the forces that had led to economic growth and which had contributed so much to the development of Israeli industry, in fact caused great damage to the economy. This rapidly became apparent in 2001, when Israel entered a recession, the likes of which had not been known for a very long time. The sharp downswing in the security and geopolitical situation, which followed the outbreak of the intifida in October 2000, the slowdown in world economies headed by the USA, and the collapse of hi-tech companies and their shares that were traded

on NASDAQ, resulted in a marked slowdown in Israel's economic activity and severely harmed industry.

Thus, between the years 2001-2003 there was a reduction in industrial output at a cumulative rate of 7%, while the number of employees in industry dropped by 9% (layoffs of around 40,000 workers). These drops effectively erased a significant part of the impressive growth (10%) that had been registered in 2000. At the same time, the continuing worldwide crisis in the hi-tech industries resulted in a sharp decrease in industrial exports. Between 2001-2003 industrial exports dropped in real terms at a cumulative rate of approximately 7%, with most of the drop resulting from the drastic decline in exports of the hi-tech branches (-18%).

The difficult market conditions forced this industry, which was one of the economy's most negotiable branches, to adapt itself to the recession and to take steps to introduce significantly greater efficiency: between 2001-2003 real wages dropped by 2%, working hours were reduced by 10.5%, and productivity rose by 4%. Companies were forced to reduce budgets for welfare, marketing, management and general expenses. In addition they cut down on a long line of growth-generating expenses.



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