**TAUB CENTER**
for Social Policy Studies in Israel

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# Press Release

**Taub Center study reveals new findings on primary factors underlying Israel's low productivity:**

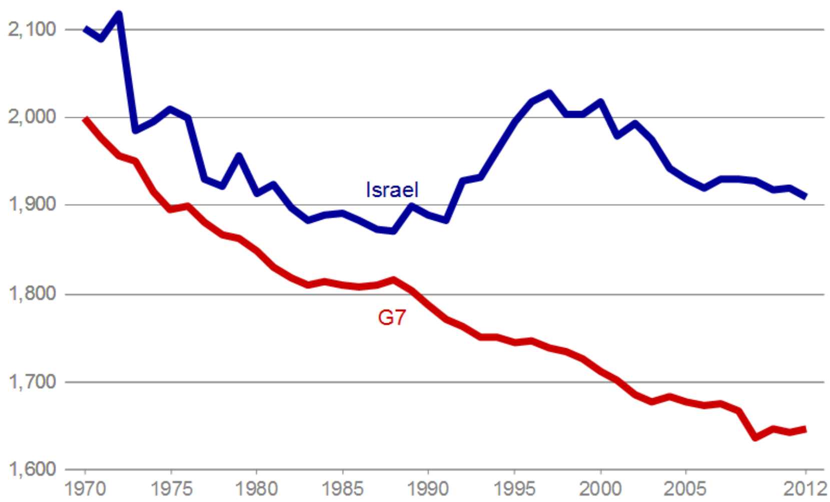
- **Israelis work many more hours than is common in developed countries,**
- **but capital investments are very low, and**
- **cumbersome bureaucracy inhibits productivity even further.**

Wages are highly dependent on the amount produced per hour – or what is commonly referred to as labor productivity. As shown in the soon to be published *State of the Nation 2013* report by the Taub Center, Israel's labor productivity is among the lowest among developed countries. In addition, a labor productivity gap has been growing between the leading Western countries and Israel – with the G7 steadily pulling away from Israel since the 1970s. In the study, Taub Center Executive Director, Prof. Dan Ben-David, looks at a host of key factors surrounding and underlying Israel's problematic productivity. For example, the number of annual hours worked per person in Israel and in the G7 fell until the mid-1970s (Figure 1).

Figure 1

Average annual hours actually worked per person

1970-2012

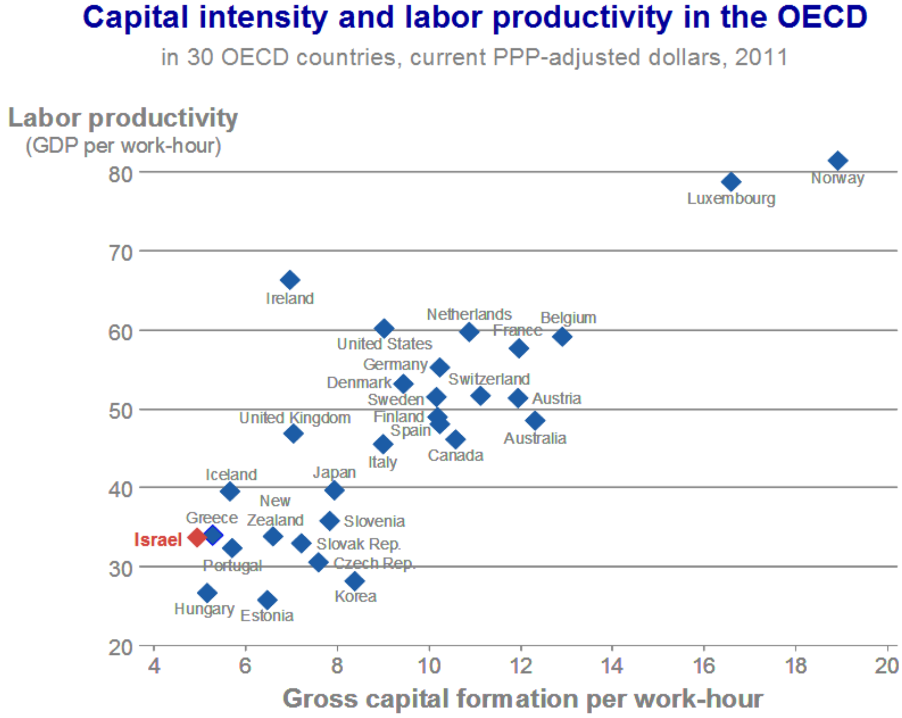



Source: Dan Ben-David, Taub Center and Tel Aviv University

"While fewer Israeli's participate in the labor force than is common in the leading western countries, those who do work many more hours each year," says Prof. Ben-David. "In fact, employed Israelis work have worked more hours than employed workers in the G7 countries since the mid-1970s, and the gaps in work hours have only grown: the number of hours worked in the G7 has fallen steadily for four straight decades while the number of annual hours worked by the average Israeli in 2012 – which fluctuated broadly in recent decades and has been falling since the late 1990s – roughly equaled the number of hours worked over three decades earlier. Though Israelis who do participate in the labor force work more hours than workers in the leading western countries, their productivity per hour worked is considerably less, and falling further and further behind (in relative terms) the G7 labor productivity."

While there are undoubtedly important factors that are idiosyncratic to different business sectors, there are also a number of related economy-wide determinants. Capital plays a key role in spurring productivity – and here, as Ben-David finds, Israel has major problem. In addition to the problematic level of the country's human capital infrastructure and to the multi-decade neglect of its transportation infrastructure, Israel's capital formation is at the low end of the OECD. Capital and labor are considered substitute factors of production. An increase in the capital stock improves labor productivity, which is why it is not a coincidence that there exists such a strong positive relationship between capital formation, in general, and labor productivity – which is strongly evident in Figure 2. So, as Ben-David notes, "it should come as no surprise that a country with relatively low national levels of physical and human capital is exhibiting problematic productivity growth at the national level."

Figure 2

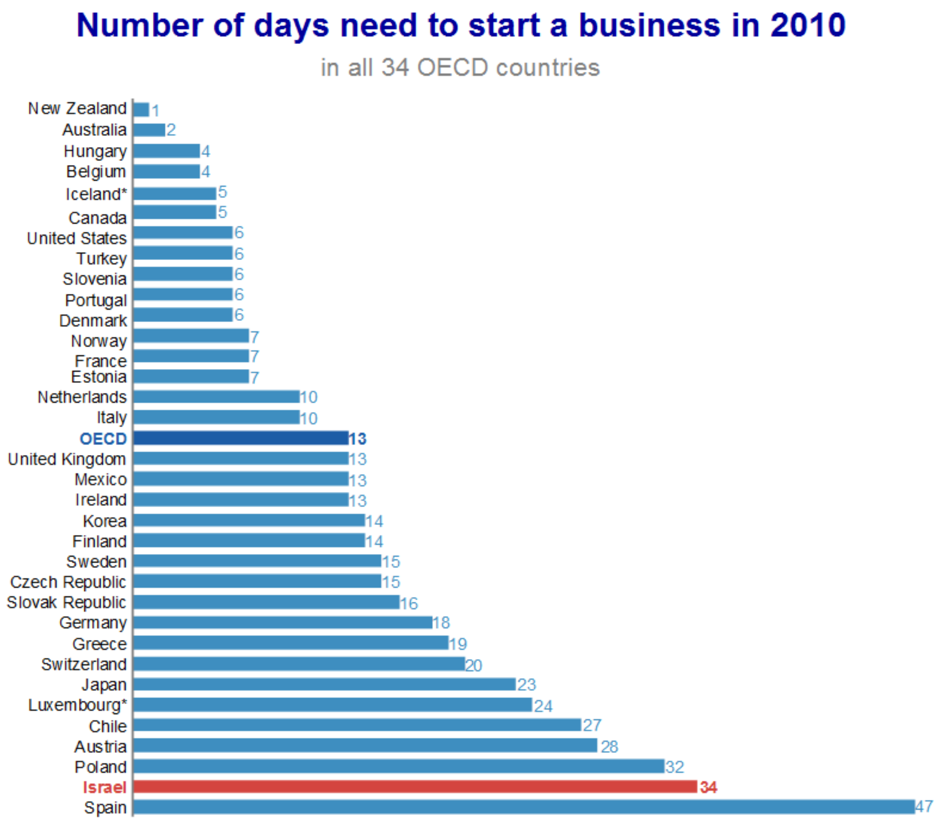



Source: Dan Ben-David, Taub Center and Tel Aviv University

In addition to all of the above factors that hinder Israel's productivity growth, there is also the country's cumbersome governmental bureaucracy, requiring the diversion of even more resources away from actual production of goods and services, lowering productivity even further. For example, Figure 3 shows that the number of days needed to start a business in Israel (34 days) is the second highest in the OECD – two and a half times the OECD average of 13 days. The high bureaucratic costs imposed on both Israeli and foreign firms interested in doing business in Israel reduce the competition so essential for creating the pressure to invest, innovate, and produce better goods and services at lower cost. Though the regulation has been somewhat reduced, it is still substantial and it continues to extracts a high price in terms of productivity.

Professor Dan Ben-David: "The country's small domestic market is concentrated in the hands of too few individuals and it

Figure 3




Source: Dan Ben-David, Taub Center and Tel Aviv University suffers from insufficient competition – a crucial factor in spurring physical and human capital investments necessary for productivity growth. All of these factors combine to yield higher domestic prices that reduce the economic viability and attractiveness of Israel's economic environment even more."

"The problems associated with relatively low rates of employment, the high number of hours worked and the labor productivity that is lagging ever further behind the leading developed countries combine together to create an increasing national burden on the shoulders of those who bear it. This is a significant issue that is worsening over time and requires systemic long term attention and treatment by Israel's policy makers."

The Taub Center for Social Policy Studies in Israel, headed by Professor Dan Ben-David, is an independent, non-partisan institution for socioeconomic research based in Jerusalem. The Center provides decision makers, as well as the public in general, with a big picture perspective on economic and social areas. The Center's interdisciplinary Policy Programs – comprising leading academic and policy making experts – as well as the Center's professional staff conduct research and provide policy recommendations in the key socioeconomic issues confronting the State.

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