

Warning issued by Israeli economists

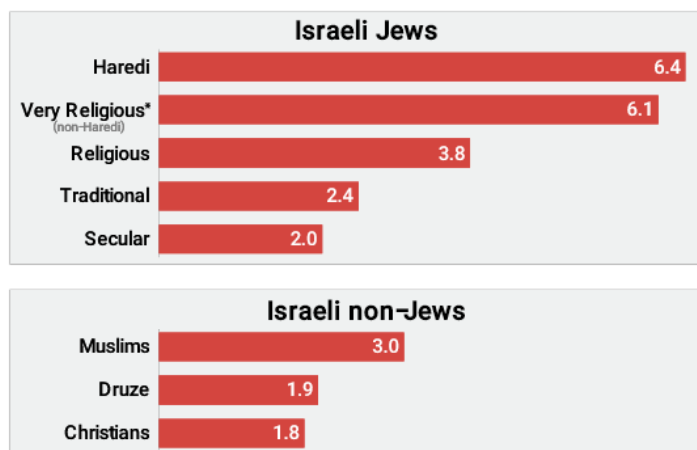
The State of Israel and its Haredi (ultra-Orthodox) society are dependent upon one other. The country's prosperity is dependent upon the Haredi community engaging in its economy, security, and society. At the same time, without a robust economy that is capable of providing security, among other necessities, to its citizenry, Israel's Haredi society will not be able to exist over time.

In light of this, we – Israeli economists – are issuing a clear and emphatic warning, that the combination of the policies of Israel's governments over time and the high growth rate of the Haredi population is leading the country towards an abyss, one that poses a very real and very grave threat to Israel's economy and society, including to the Haredi community itself.

Today, 22% of all children under working age (0-14 years old) are Haredim. By 2065, this share is expected to be roughly 50%, more than doubling the Haredi share in just four decades. Without sweeping, profound, and rapid changes in government policy, the State of Israel will face existential danger.

Fertility rates in Israel

number of children per woman, average 2020-2022



Source: Dan Ben-David, Shores Institute and Tel-Aviv University
Data: Central Bureau of Statistics, Ahmad Hleihel and Ayelet Zionov

* very religious (non-haredi) Jews living in the West Bank (comprising 22% of all religious Jews living there) in 2022 only

The policies of Israeli governments regarding Haredi society pose three fundamental challenges for the country: security, economic, and social. Each of these challenges has serious and far-reaching implications for the future. Combined, these challenges pose a severe danger to Israel's future.

The first challenge stems from the heightened security threats faced by Israel. In the aftermath of the October 7 events, conscripts to the military as well as reservists are expected to experience significant, constant, and long-term increases in their military service. According to a bill recently submitted to the Knesset and supported by the

defense establishment, the number of military reserve days is expected to increase dramatically: non-officer reservists will serve up to 42 days a year, until the age of 45 (compared to an average of 18 days and age 40 prior to the war) while officers will serve up to 55 reserve days a year, until the age of 50 (compared to 28 days and age 45 prior to the war). This increase in the military reserve burden has a direct budgetary cost to the economy estimated at approximately NIS 10 billion per year. More importantly, the heightened burden on the reservists carries substantially larger indirect costs, which will have devastating effects on Israel's society and economic activity. A functioning economy cannot exist in a reality where many workers are absent for extended periods every year. Many self-employed individuals will face financial difficulties, the employment potential of salaried reservists will be harmed as companies will avoid hiring them, the productive capacity of businesses in the economy will be severely affected, and the quality of public service will deteriorate. Moreover, in a global economy, employees and firms can relocate their base of operations from one country to another with relative ease. A substantial increase in the reserve burden will likely lead to a wave of emigration among the most educated and skilled workers and the departure of many Israeli and multinational companies, which will not be able to accommodate the prolonged absence of their employees for reserve duty every year. The State of Israel may lose significant human capital as well as the economic contribution of many businesses, substantially harming the welfare of those remaining in Israel.

The second challenge is economic in nature. For generations, Israeli governments, and the current government in particular, have been funding Haredi schools that do not provide their students with the knowledge and tools needed for integration into a modern labor market. At the same time, the governments of Israel have been channeling extensive public resources to finance lifestyles that encourages Haredi non-employment and birth rates double and triple those of other population groups in Israeli society. This public spending is manifested in a variety of ways – from funding schools that do not teach core subjects, to a vast array of welfare benefits, subsidies and exorbitant sectoral-based public spending. According to the Bank of Israel, while the average Haredi household headed by individuals aged 25-44 receives NIS 2,800 per month from the government (net amount, after deducting tax payments, etc.), the average non-Haredi Jewish household pays the government NIS 2,200 per month (net amount, after receiving subsidies). Acquiescence to a Haredi education system that deprives its students of the knowledge required to cope thrive independently in a global economy, together with huge budgetary expenditures that are expected to grow at an exponential rate, will lead to a deterioration

in Israel's living standards while seriously impairing the nation's ability to provide basic services to its citizens.

The third challenge is social and it concerns Israel's future as a liberal democratic state. The increasing share of Haredim in Israel's population – in a process largely funded by the general public – is expected to yield substantial political power to the Haredim, enabling them to undermine Israel's liberal characteristics and promote sectoral legislation that will impose constraints on the non-religious sectors in Israeli society. Moreover, in light of the exponentially growing Haredi share in Israel's population, under the current system of government the Haredi leadership will be able to overturn in the future any political arrangement reached today to ensure their continued preferential privileges in the economic, security, and social spheres.

These three challenges – security, economic and social – mutually reinforce and exacerbate one another. Increasing the economic and security burden on certain parts of the Israeli public, while enabling a rapidly growing segment of the population to evade bearing their civic burdens, are not sustainable processes, particularly given the problematic and complex security threats that Israel faces. **Without a change in the current trajectory, these processes endanger the country's very existence. Many of those who bear the burden will prefer to emigrate from Israel. The first to leave will be those with opportunities abroad: physicians, engineers, high-tech workers, and scientists. Israel's remaining population will be less educated and less productive, thus increasing the burden on the remaining productive population. This, in turn, will encourage further emigration from Israel. This process of a "spiral of collapse" in which increasingly larger groups decide to emigrate, will further deteriorate the conditions of those who remain, while severely impacting populations with fewer emigration options, including the Haredi population itself.** The demographic and economic processes that the city of Jerusalem has undergone in recent decades – its rapid decline in socioeconomic indicators and its increasing abandonment by large segments of its

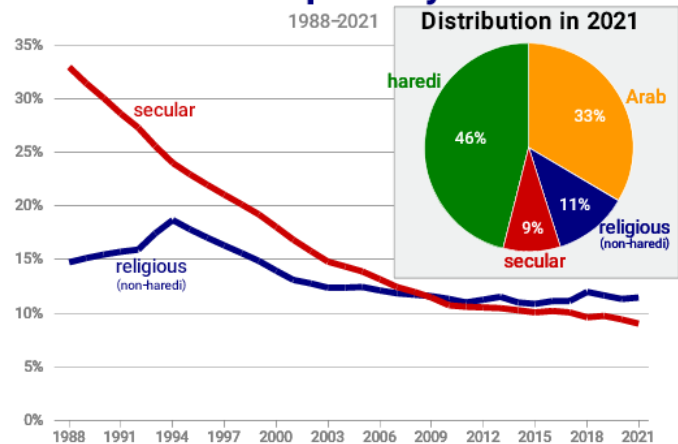
secular population – clearly illustrates this spiral of collapse phenomenon and the dangers facing the entire State of Israel. Jerusalem has Israel to support it. But Israel has only itself.

It would be a grave mistake to believe that there is much time left to implement the changes required to prevent a national collapse. Collapses do not occur when the situation has completely deteriorated, but earlier, when a sufficiently large share of individuals anticipate that the decline is irreversible. Once Israel's burden-bearing population concludes that the country is on a permanently irreparable course, the national collapse will inevitably follow. At first gradually, and then suddenly and irreversibly.

To prevent a national collapse, Israel's leaders must recognize clearly the current reality and adopt without delay a strategy that will return Israel to a sustainable trajectory by addressing the three core challenges. This strategy must include the following critical steps, which are vital for a society desiring a future:

1. A comprehensive, nationwide, education reform that will include, among other things, immediate cessation of all public funding for schools that do not provide their students with the appropriate tools to integrate into a modern labor market. This includes termination of funding for schools that do not teach the full core curriculum. At the same time, all financial aid that incentivizes non-employment must be stopped, alongside a reduction in government funding that encourages high birth rates. A steady process to eliminate these budgets will facilitate transition from the current situation to the new situation described here.
2. A more equitable distribution of the security burden across the population, while understanding that a major increase in the burden of reserve duty on persons currently serving will have devastating consequences for society and the economy, and is therefore not sustainable. Indeed, in a scenario where the entire military-age Haredi population serves in the army, the number of reserve days is expected to decrease by 50 percent – and over the years, by even more. It should also be noted

Share of pupils by education stream in Jerusalem's primary schools



Source: Dan Ben-David, Shores Institute and Tel-Aviv University
Data: Jerusalem Institute for Policy Research

that non-military national service programs will not prevent the significant increase in the security burden that will be imposed on those already serving today, with all the serious consequences that this entails.

3. Changes in the system of government and constitutional changes that will enshrine liberal rights and democratic values in a way that will prevent future infringement of them. Without such changes, the fear of future curtailment of rights will intensify the spiral of collapse that Israel is liable to be drawn into. Any new social arrangement must ensure mutual respect among all parts of society, allowing every individual to live according to their values and beliefs.

We, Israeli economists, warn in the strongest and clearest way possible of the dangers emanating from willful ignorance of processes that are steadily leading Israel towards an economic, security, and social abyss. **This is a clear and present danger to the country, one that we assess has a very high probability of realization. However, even if we are overestimating this probability, the enormous potential damage to the national security, basic risk management warrants the immediate adoption of a strategy that will return Israel to a sustainable trajectory.** We call on the general public, the senior public servants, and the political echelons to place the challenges we have raised here at the top of Israel's national priorities.

We are sounding the loudest possible alarm. History will not forgive Israel's current and future leaders – over the entire political spectrum – if they stand idly by.