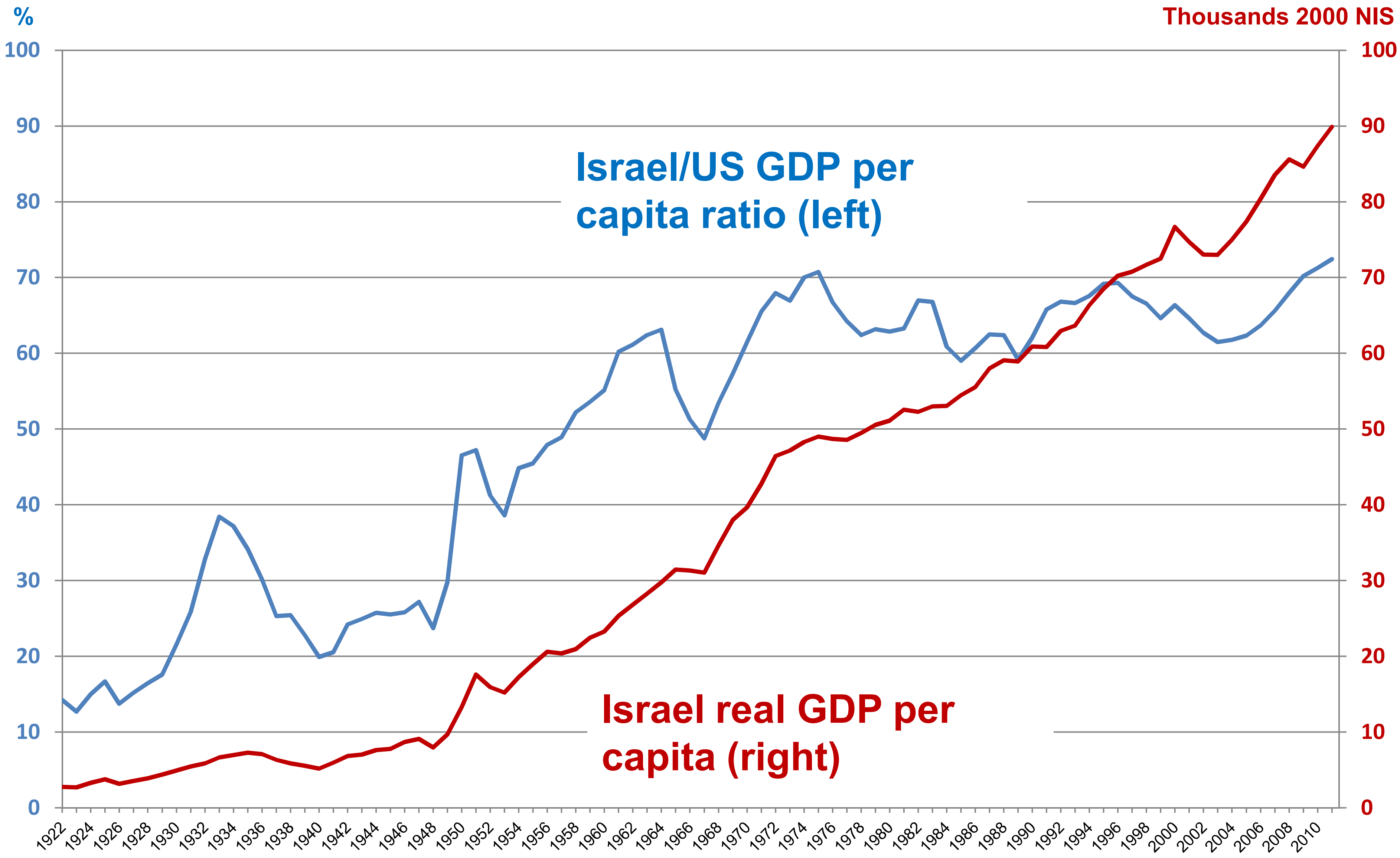
Comments on “How to Restore World Prosperity?”

Prof. Zvi Eckstein

IDC, Herzliya and Tel Aviv University

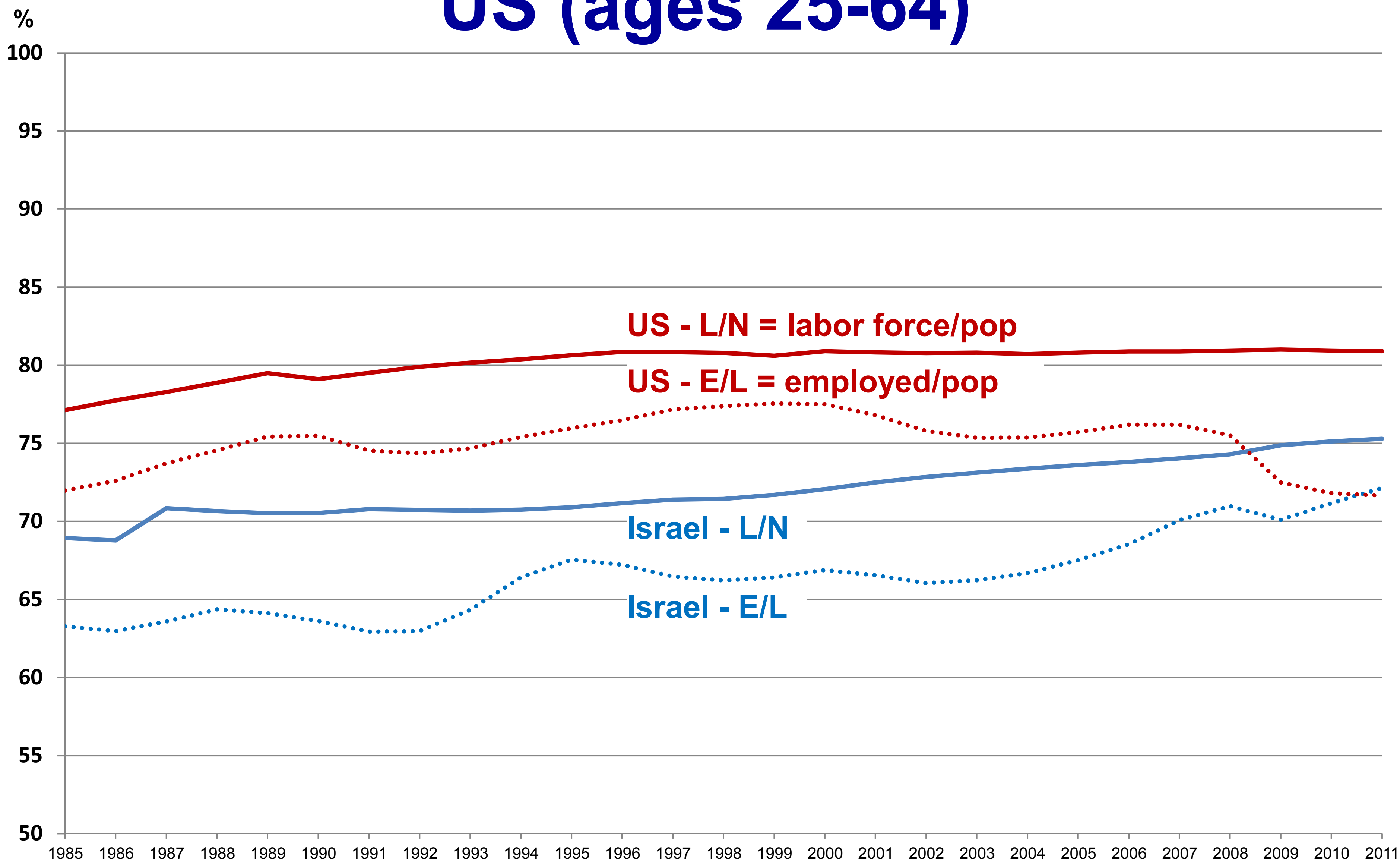
May 20 2013

GDP per capita - Israel and US



Ratio calculated from GDP per capita in constant prices, constant PPPs.

Employment and labor force - Israel and US (ages 25-64)



Source: OECD. E/L is the employment rate at ages 25-64.

GDP per capita - Israel and US

How can we explain the gap between Israel and the US?

GDP/N = [GDP/E] * [E/L] * [L/N]

Total Gap (2011) = 28% = 22% - 0.0% + 6%

Main gap due to **lower productivity** in Israel

Israeli vs. US industry - output, capital and R&D

(ratio between Israel and US, %)

	Output per worker		Capital per worker		R&D expenses as % from branch output	
	1995-2000	2003-2007	1995-2000	2003-2007	1995-2000	2003-2007
by technology intensity:						
Low Technology Industries	45	43	74	86	71	35
Medium-Low Technology Industries	55	57	135	161	62	139
Medium-High Technology Industries	60	74	114	119	38	59
High Technology Industries	78	83	116	137	85	105

Source: Applied Economics supported by OCS.

Comments: Taxes (bad) finance Government (Good?)

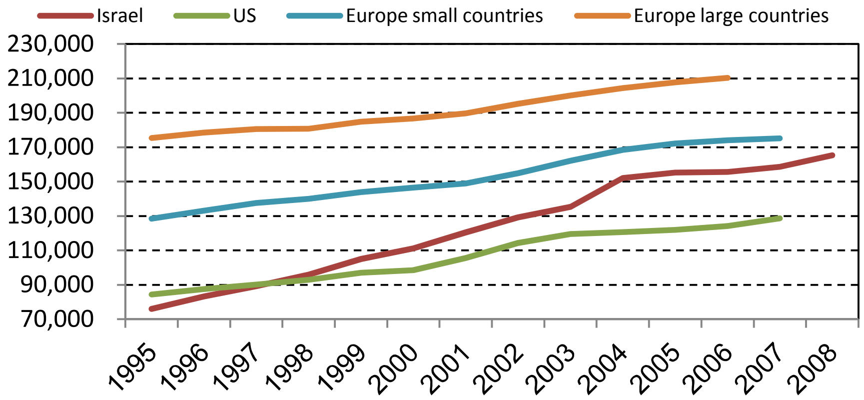
- In Prescott: **Low tax** on capital implies **high ROR** and Growth
- Aiyagari (1995) showed that capital tax is needed
- **G** includes:
  - **Security** that reduce risk
  - **Human capital and health** increase productivity and innovation
  - **Institutions, R&D, Infrastructure** increase intangible capital, stability, efficiency

Theory should connect G to capital formation

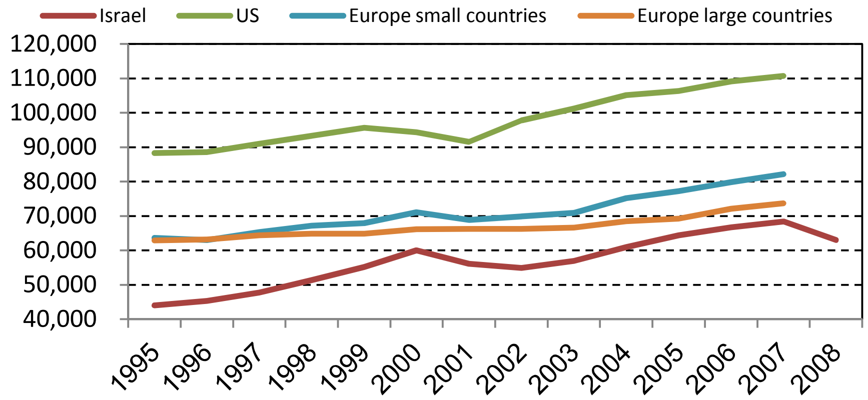
6

Israeli vs. US industry - output, capital and R&D

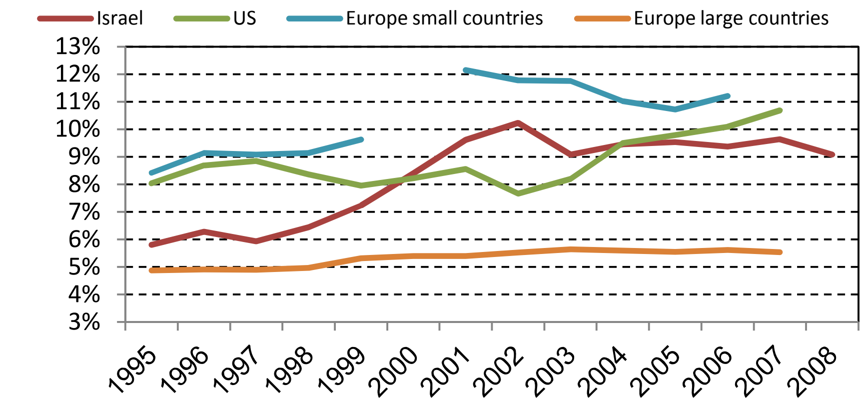
capital per worker ($, 2005 PPP)



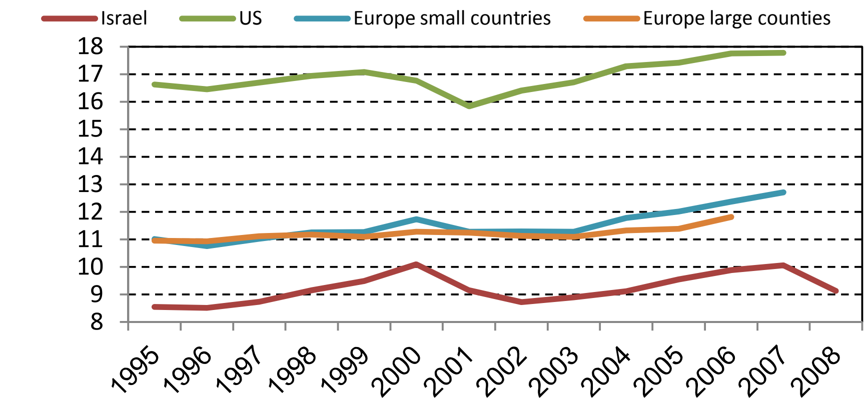
output per worker ($, 2005 PPP)



R&D expenses as % from branch output



total factor productivity



Source: Applied Economics supported by OCS.