Original Paper

The Dual Stricture of the Israeli Economy: Is Technology the Solution?

Yaron Katz

1 Holon Institute of Technology, Holon, Israel

* Yaron Katz, Holon Institute of Technology, Holon, Israel

Received: March 30, 2019       Accepted: April 20, 2019       Online Published: April 23, 2019
doi:10.22158/ape.v2n2p146                URL: http://dx.doi.org/10.22158/ape.v2n2p146

Abstract
The main concern of this research is the conflict between technology and society. It concentrates on the in the Israeli society, which is split in half: on the one hand it is in the information era, with highly advanced technology sector, while on the other hand it is still considered a developing country in terms of social development among large segments of society. The dual structure of the economy means that despite being known as the “Start-Up Nation”, Israel has one of the highest poverty rates with the gap between the rich and the poor is widening. The research argues that the problem is the dual structure: the nation is leading the world in technological development, but the services provided to its citizens are limited to the extent that poverty is high. The research further claims that the solution is technology: the technological advantage of Israel promoted its economy, which has grown more rapidly than most other advanced economies, after the government made a strategic decision to promote technology by providing financial support for in research and development. The rise in social and sectorial media allows the poorest parts of society—the Ultra-Orthodox and the Israeli-Arabs—to adopt technology and benefit from the leading role of the country in technological development and global competition. This means that while technology created the problem of dual structure—it also allows the segments of society that are considered poor and underdeveloped to use advanced media services within their communities.

Keywords
technology, economy, society, social media, poverty

1. Introduction
What best identifies Israel’s economy is the dominance of the high-tech sector, which is its main growth engine (Unesco Science Report, 2015). The advancement of Israel in innovation demonstrates
the role of technology in promoting countries and economies. As determined by the Israel Innovation Authority (2018), Israel is the second most innovative country in the world. However, while government policy has actively promoted high-tech industries, other sectors are left out. The country is divided along ethnic, national, religious and political lines, and income and poverty rate and income gap between different segments of society are inequality is among the highest in the Western world (Keeley, 2015). According to OECD report, Israel is second only to the United States among developed nations in inequality (OECD, 2011) and has the highest percentage of people living below the poverty line (OECD, 2016). The Israeli society is experiencing the digital divide, which mainly affects Israeli-Arabs and Ultra-Orthodox-Jews (Haredim). This is where the two parts of the economy are apparent: even though technology is important, it is only one-third of Israel’s economy and therefore more than half of the economy is not advancing (Poch, 2016).

The research examines the dual structure that characterizes Israeli economy—demonstrating the counter relations between the development of technology and the stability of society. The dual structure is recognized by the Organization for Economic Co-operation (OECD) as a major social issue, as Israel’s economy is registering a remarkable performance with strong growth, but economic gaps and lack of social cohesion continue to prevail (OECD, 2018).

2. The Problem: The Dual Structure
In order to understand the causes and impact of the dual structure, the changes in the economy should be explored. The Israeli economy was transformed from the industrial age to the information society. It was initially subject to extensive government controls and was gradually converted into a fairly free market economy (Halevi, 2018). Israel has significantly transformed from a long established and monopolistic system to a more highly developed, sophisticated, and global approach (Kaplan, 2015), experiencing an economic turnaround unprecedented in character and scope (Economist, 2010). The change began in transforming from a closed and concentrated economy with a large public sector and burdensome tax regime, to an open and competitive economy that attracts foreign investments and participates in global financial markets (Kaplan, 2015a).

Israel’s economy continues to perform well both in terms of macroeconomic and fiscal outcomes. Growth has averaged 3.3% since 2000, higher than in many OECD countries (OECD, 2018), although the percentage of Israelis living under the poverty line was higher in 2016 (18.6%) than in 2000 (17%) (Sover-Heruti, 2018). According to the OECD (2018), the Israeli economy has grown faster and more consistently than nearly any other in the OECD for over a decade, but labor force participation rates, education and skill levels remain low for Israeli-Arabs and the Ultra-Orthodox, contributing to the high poverty rates and low productivity. This unique structure means that the economy performs well in terms of macroeconomic and fiscal outcomes and is very successful in global competition and technological advancement, while the division of society threatens the country’s future economic and social development (Carnegie Moscow Center, 2015). The dual structure is evident in that alongside the
dramatic growth in the economy, Israel experiences a widening of income disparities (Krugman, 2015). Former Bank of Israel Governor Karnit Flug warned that “the country’s economic locomotive technology is pulling decrepit railroad cars” (Akerman, 2018).

The development of technology deprives social and economic issues (Khattab, Miaari, & Stier, 2016), as the Israeli society is split in half: on the one hand it is in the information era, while on the other hand it is still considered a developing country. Israel has one of the most unequal economies in the Western world, with significant gaps between the rich and poor (US News, 2017). This proves that Israel is composed of two economies: while technology is highly developed, other sectors are left behind (Sales, 2015).

Despite technological development, the dual structure is the result of the country being one of the most unequal economies in the Western world. The Israeli economy is characterized by low productivity and low standard of living, despite being a leader in the high-tech field (Brand, 2017). Israel has fallen behind the rest of the West when it comes to investment in education, healthcare, infrastructure and transportation per capita (Schindler, 2018). A study by Taub Center shows that the problem lies in the large gap in the labor market: the high-tech sector is characterized by high wages and rapid growth, while the rest of the market has low salaries and slow growth. According to the research, the success of the high-tech sector in Israel has had little impact on the rest of the economy, with the result that low labor mobility created two separate economies—the high-tech and low-tech sectors. In light of these findings, it appears that government support of the high-tech industry had only limited impact on the rest of the market (Brand, 2017).

The dual structure is the result of technological and global processes: advancements and improvements in technology provoke differences between workers with high skills and those with lower skills, while globalization caused the adoption of new technologies in a way that workers that are not prepared or don’t know how to use new technologies are penalized (OECD, 2011). The consequence for Israel is that the economic structure persists with a small high-tech sector, but also with much larger but less efficient traditional industrial and services sectors with lower productivity levels. This structure led to a well-paid labor force living at the “core” of the country and a poorly paid labor force living primarily on the periphery (Unesco Science Report, 2015). Sales (2015) explains the problem that technology is causing in jobs, because almost 60% of jobs in Israel could be lost because they are computerized.

The dual structure demonstrates the counter relations between the development of technology and the stability of society. Denecke (2017) explains that the high-tech sector is very successful, but this success does not benefit the Israeli workforce equally. She claims that the high wages of the Israeli high-tech industry benefit only a small, overwhelmingly Jewish and highly educated elite, and contribute to the high income inequality, as the majority of the workers in the high-tech sector are highly educated and Jewish.

This situation results in that the duel structure is marked by a lack of social cohesion and significant disparities, which penalize parts of the population and threaten the longer-term sustainability of the
economy (Gerby, Levi, & Gabizon, 2000). Ultra-Orthodox and Israeli-Arabs’ average skills and remuneration levels are low, their families are large and their social transfers are limited (OECD, 2018), with weaknesses in education and participation in the labor market (Flug, 2014). As highlighted in the 2016 OECD Survey, these groups lack the skills needed for well-paid job, and these deficiencies limit the effectiveness of their employment gains for lowering poverty and perpetuate the strong disparities in formal education with the rest of the population. According to the OECD (2018), enhancing training and education for Israeli-Arabs and Ultra-Orthodox is essential to improve their economic opportunities and make future growth more sustainable, and reforms and more public investment in education would develop their skills, allowing them to find well-paid jobs in high value-added sectors.

Despite improvement among Arab Israelis and Ultra-Orthodox in education and participation in the labor market, there is still a long way to go in narrowing the gaps because of the divides in the Israeli society (Wells, 2018). 55% of Israeli Arabs are “proud citizens” of Israel, but 76% reject the definition of Israel as a “Jewish state” (Newman, 2016). Only 44.6% of Israeli-Arabs accept Israel as a state with a Jewish majority (Lynfiels, 2018) and only two-thirds of Haredim (65%) say that Israel is a Jewish state (Few Research Center, 2018). This leads not only to a country with two economies, but also to a split society, since long-term population projections anticipate that the demographic composition of Israeli society will change substantially over the next 50 years. Based on current fertility rates, Israel’s Central Bureau of Statistics (CBS) estimates that Ultra-Orthodox and Israeli-Arabs—who make up approximately one-third of the total Israeli population today—will comprise about 50% of the population in 2059 (Wells, 2018).

This contradiction of the dual structure of the economy, and consequently the dual structure of society too, is embedded so deep into the country that its citizens accept it and live with it (Azran, 2013). Even the Prime Minister, Benjamin Netanyahu, has accepted this contradicting policy and the role of technology in combating the digital divide. While addressing the economic forum in Hungary, he said: “What come first are markets. If you have great technology without markets, without a market-friendly economy, you’ll get nowhere. But if you have a market-friendly economy, sooner or later the market forces will give you the technology you want” (Netanyahu, 2017).

3. The Solution: Technology

The dual structure of the economy is evident in that the growth of the technology sector has been counter to the social difficulties of the Ultra-Orthodox and Israeli Arabs—although it seems that technology is the solution for the dual structure of the economy and society. The rise in social and sectorial media allows these groups to bypass the traditional and main-stream channels to improve their socio-economic status. The swift development of technology has been a catalyst in that process. It is amazing in that respect that the segments of society that are considered poor and underdeveloped are also the ones that use social media best. This is becoming a significant factor in Israel due to technology advancement, which enables a widespread use of alternative media (alternative to the
official ones) and alternative advertising tools (to bypass the limitations of the media, which prevent sectional groups from acting freely and reach their audiences). The segmentation of the target groups enables the utilization of technological improvements and changes in the media, mainly among the Ultra-Orthodox and Israeli-Arab sectors.

The pluralistic makeup of Israeli society is reflected in the use of social media: Israel has high rates of internet usage. More than half of all internet users take active part in social media sites, and a vast number of online news and information websites have sprung up (Freedom House, 2016). This can explain the rise of sectorial media, since Israel is composed of different ethnic groups. This is where technology can be a solution to the dual structure. Israel can benefit from social media since the use of technology is widespread and Israelis are leading consumers, serving the different sections of society (Hallams, 2010). The impact of social media is particularly notable, since the time spent on Facebook per visitor per month among Israelis is one of the highest in the world. According to a report published by comScore, an American marketing research company, Israel is ranking seventh globally with around 68% of all Israeli internet users active on social media. Israelis spend an average of eleven hours daily on social networks, almost double the world average of six hours, and ahead of countries like England (seven hours) and America (seven hours). Only 6% of Israelis have never used Facebook, according to Universal McCann’s social media research study (Goldenberg, 2015).

The advent of the digital age has led to significant changes to sectorial groups (Wolfsfeld, 2017). A growing number of researches suggests that social media alter traditional political uses by democratizing access to media sources, speeding the circulation of information, which in turn can facilitate and spread collective action (Laursen & Muntean, 2015). Social media provide enormous opportunities and challenges to engage with new policy spaces developing around the internet (Adesina, 2017), and despite the high rate of poverty, Israel can be considered a developed country because of the extensive use of its people in social media (Hallams, 2010).

The Ultra-Orthodox have benefited from the development of technology, despite the fact that the community distance itself from the Israeli society. The Haredi society is extreme about religious faith and distinguish themselves from the general public in major aspects, including clothing, education and sectorial (Cohen, 2006). The segregation of the community weights on the economy since the number of Haredim reached one million in 2017, representing 12% of the population (Elis, 2017). The situation could become more difficult, since the sector is projected to comprise 16% of the total population by 2030 and will constitute a third of all citizens and 40% of the Jewish population in 2065.

Although as mentioned earlier, Israel’s poverty rate is the highest among OECD countries, Kasir and Tsachor-Shai (2017) claim that the official poverty index presents only one view of poverty, which does not necessarily reflect the unofficial and unreported poverty of the Haredim community. The bright side is that social media allows integration of the Ultra-Orthodox into mainstream Israeli society alongside sustained cultural isolationism. According to the Israel Democracy Institute (2017), there is increase in the numbers of Ultra-Orthodox students in the higher education system, a rise in the number of those
taking high-school matriculation exams, and positive trends in employment—despite the continued existence of gaps in income.

The Haredi way of communication is one of the oldest among the sectorial communications factors in Israel, and it places itself as a counter-culture to the other groups that make the Israeli society. In contrast, new media enables the creation of alternative means to the general communications as a service to the religious public, which rejects any expression forms that stands against its values. The sectional society of the Haredi public employs in a focused way the new communications technology, yet technological innovation creates cultural conflicts between traditional society and social media.

In recent years, there has been a significant increase in internet use among Ultra-Orthodox Israelis, from 28% in 2009 to 43% in 2016. Ultra-Orthodox women use the Internet more than men—47% versus 39% (Cahaner, Malach, & Choshen, 2017). While using the internet, a number of filters serve orthodox homes, schools, and businesses, obstructing certain words, images, or pages within a site that’s allowed. In many communities, recreational internet usage is banned, with special exceptions granted only to individuals whose work absolutely requires an internet connection. Nevertheless, members of the community connect to the internet despite the rabbinic prohibitions that strictly limit internet usage. The number of Haredi internet users has dramatically increased in the last decade (Levi, 2016). 49% of Haredim use the internet with 40% use both a computer and smartphone to access the internet. 56% use only a computer and 4% use only a smartphone (Rosenberg, 2016).

Social and sectorial media also benefit the Arab population living in Israel. The term “Israeli Arab” refers to the Arab minority citizens (Muslim or Christian), which are about 20% of the population. Although they share a common identity with the Palestinian people and feel discriminated by Israeli Jews, they seek remedies within the framework of the State of Israel (Bard, 2018). The Arab minority - one fifth of Israel’s population - have the right to vote and have representatives in the parliament, but have traditionally faced discrimination in planning, land use, employment and government budgets (Lynfield, 2018).

Unlike ultra-Orthodox Jews, the Arab sector is eager to acquire education and integrates into modern labor market. The proportion of Arab students in universities and colleges currently stands at 17 percent and is rapidly approaching the proportion of Arab citizens in the population (London, 2018). Arabs are more likely to name economic problems (42%) than security issues (30%) as the biggest long-term problem facing Israel. One-in-five Israeli Arabs (20%) point toward social, religious or political problems as the biggest challenge facing the country and most of them describe their personal situation as “good” or “very good” (Few Research Center, 2016). However, relations between Jewish Israelis and citizens of the Arab minority are plummeting, with each side losing faith in coexistence and becoming less tolerant of the other (Lynfield, 2018). The main problem is integration in the Israeli society. Israeli Jews are divided when it comes to the status of the country’s Arab minority: half say Arabs should be expelled or transferred from Israel, while the other half disagree (Few Research Center, 2016).
In recent years there is improvement among Arab Israelis on indicators like international test scores, matriculation rates and participation in the labor market (Wells, 2018), as new media and social media allow them to maintain their culture and identity while befitting from the growing economy of Israel. The influence of the internet and Facebook revolution on the Arab society is felt mainly among the younger generation since the majority of young Arab adults use the internet as a source of news and information (90%) and most (64%) are open to receiving information in any language, with no preference for Arabic or Hebrew (the Israel Internet Society, 2016).

4. Conclusion

In examining the impact of technology over society, we need to examine the benefits of technological advancement on sectors with high poverty rate and inequality compared to more advanced sectors. Israel is a perfect example of the impact of technology, being a developed country in terms of technology and developing country in terms of social development on the other. The Israeli case is unique, because of divisions between different parts of the Israeli society—the Ultra-Orthodox and the Israeli-Arabs on the one hand, and the other sectors of the Jewish population on the other. These divisions create a unique situation in which the economy and society are split into a dual structure of highly advanced economy and a leading global position in all that relates to technology, and in contrast communities which are poor and not considered part of the economy and technological boom.

As the research maintains, the problem of the dual structure developed as a result of the supremacy of technology in the Israeli economy and the consequent reality that the parts of society which did not adapt to the technological revolution are left behind. The research also claims that technology is not only the problem, but also the solution. Social and sectorial media allow these communities to maintain their culture and identity while benefiting from the technological advancement. The use of social media is very high in Israel, in society as a whole and in the poor communities as well, allowing Israel to transform from a controlled economy to a free-market economy where all segments of the population can benefit from technology, and particularly the less advanced communities which did not get a fair chance in the environment of traditional media.

References


Retrieved from http://www.jewishagency.org/society-and-politics/content/36171
Retrieved from http://www.jewishagency.org/society-and-politics/content/36576/

Goldenberg, R. (2015). Universal McCann’s 2015 social media study found Israelis spend more time on the Internet and smart phones than the global average.
Retrieved from https://en.globes.co.il/en/article-only-6-of-israelis-have-never-used-facebook-1001044443


Sales, B. (2015, December 29). *6 (largely sad) numbers that describe Israel’s economy*. Times of Israel.
Retrieved from http://www.timesofisrael.com/6-numbers-that-describe-israels-economy/