

## **Israel's Transportation Infrastructure from a Socio-Economic Perspective**

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### **Abstract**

Total factor productivity (TFP) growth is an essential ingredient underlying growth in output per capita. During the years 1960-1972, TFP growth in Israel's business sector averaged 3.8% a year. Between 1973 and 2001, TFP growth fell to an annual average of just 0.7%. Severe traffic congestion, that causes labor and commodities to spend an inordinate amount of time on the road, is not particularly conducive to productivity growth. Traffic congestion in Israel has doubled over the past 15 years and has reached a level that is among the highest in the Western world. Since Israel reached this level of congestion with only half the number of vehicles per capita of wealthier industrialized countries, it is not inconceivable to assume that the number of vehicles in Israel will grow to double its current size as the country's per capita income reaches the current average income in the other countries. The fact that Israel has chronically under-invested in its transportation infrastructure over the past several decades has led to a huge investment gap (measured in the tens of billions of shekels) between Israel and the other industrialized countries.

A transportation infrastructure befitting the needs of the country could have provided a major contribution toward bringing together – both figuratively and literally – Israel's "periphery" and its primary centers of population. It would have been possible for workers in the periphery to have access to a much wider range of jobs. It would have been possible to improve the educational systems in the periphery by enabling good teachers living in the big cities to commute easily to the outlying towns. When education levels are good, and commuting times are substantially reduced, then the huge differences in real estate prices can provide an important stimulus for young, educated, families to improve their living conditions by moving to the periphery – and private companies will have a similar incentive to make such a move. The resultant integration of Israel's multi-faceted society would reduce gaps in income and in real estate prices. Reduced traffic congestion would lead to greater efficiency in production and contribute to improved productivity and faster economic growth.

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