

## The 'ISRAEL 15 Vision' for Social and Economic Leapfrogging

### Background, Principles, Considerations

#### Background: The Reut Institute and the 'ISRAEL 15 Vision'

- The Reut Institute, established in January 2004, is a non-partisan nonprofit policy group with the aim of sustaining significant and substantive impact on the security and wellbeing of the State of Israel and the Jewish people.
- In pursuing this mission, the strategy of the Reut Institute is based on three pillars:
  - 1) Developing a unique ability to identify strategic opportunities or surprises, to research them and to convince decision-makers to confront them;
  - 2) Polishing a model of strategic thinking and conduct in a complex and dynamic environment with the hope that it will be emulated by the GOI;
  - 3) Training a cadre of people who specialize in strategic thinking, in preparation for a track of service in the Israeli public arena;

The Reut Institute provides its services to people in positions of authority, influence and leadership *pro bono*.

- The 'ISRAEL 15 Vision' engages in the challenge of transforming Israel into one of the fifteen leading countries in terms of the quality of life its residents.<sup>1</sup> This vision, which was framed more than a decade ago, is the vision that guides the Reut Institute in the context of its work toward social and economic development.
- **A document of principles on the challenge of 'leapfrogging'** – The goal of this document is to cluster insights, principles and considerations that Israel should have in mind when addressing the challenge of social and economic leapfrogging.

#### Leapfrogging – general background

- **Leapfrogging occurs as a result of rapid economic growth that narrows disparities in *quality of life* in comparison to other countries ('catch up').** In order to realize the 'ISRAEL 15 Vision,' a leapfrog of Israel's social and economic performance is required to the point where Israel catches up with the most developed nations. It should be noted in this context that rapid economic growth is necessary for leapfrogging, but is not sufficient for it.

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<sup>1</sup> The 'ISRAEL 15 Vision' was adopted by the 'Israel 2028 Vision and Socio-Economic Strategy in the Global World' report (hereinafter: [Israel 2028](#)), where it was framed in the following words: "The State of Israel will be one of the ten to fifteen most developed countries in the world in terms of per capita income."



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- **Leapfrogging requires a jump in quality of life and not only in average income.** "Per capita income" is the conventional index for measuring a country's wealth and standard of living. This index reflects the share of each resident in national income and is computed by dividing the country's total GDP by the number of its residents.<sup>2</sup>

On the other hand, the concept of 'quality of life' refers to a country's general well-being and includes tangible components such as health or nutrition, as well as psychological components and values such as the quality of family and community life.<sup>3</sup>

However, it is accepted that high per capita income is the central component in quality of life and, as noted, it is an essential condition for leapfrogging.<sup>4</sup>

- **Socio-economic leapfrogging is a different phenomenon than growth.** Here are the key differences:

- **The rate and duration of growth** – The conventionally expected rates of real annual growth are 1-3%. Thus, for example, the average growth in Israel during the past 20 years stands at less than 2%. A growth cycle ordinarily lasts 3-5 years, and is generally followed by a period of slowdown. Most countries grow or stagnate when the global economy grows or stagnates, respectively.

Leapfrogging develops if a country experiences growth acceleration at real annual rates of 4-6% for at least eight years – and sometimes even for fifteen or twenty years. An economy that grows at a rate of 7% annually doubles its size each decade.

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<sup>2</sup> See [Per capita income](#) in Wikipedia.

<sup>3</sup> See [Quality of life](#) in Wikipedia. According to The Economist, the quality of life is also determined – in addition to per capita income – based on the level of the health system, political stability and personal security, the quality of family and community life, weather and geography, employment security, political freedom and gender equality. See the Reut Institute's: [The Economist's Quality of Life Index](#). See also [The Economist Intelligence Unit's Quality of Life Index \(2005\)](#).

<sup>4</sup> The Economist's Quality of Life Index and the UN's Human Development Index use various indexes to assess the standard of live in all of the countries of the world. According to [The Economist's](#) index, per capita GDP accounts for 50% of the disparity in the level of satisfaction reported by people in various countries in regard to their lives. It is also clear that these variables do not necessarily reflect the elements that are important to the citizens and residents of Israel.

The Reut Institute focuses on four dimensions that are thought to be the most important dimensions of quality of life in Israel, and they are: economic security, social welfare, personal-physical security, and the Jewish added value. The development of a quality of life index relevant to Israel is an essential component in realizing the 'ISRAEL 15 Vision.' For more, see: [Quality of Life in Israel](#).



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- **Pace of change in the composition of exports** – In order for leapfrogging to occur, there usually needs to be a *rapid* change in the composition of the country's exports in the direction of products consumed by "wealthy countries." On the other hand, growth generally stems from a *gradual* change in the composition of GDP in the direction of products consumed by "wealthy countries." Moreover, an increase in labor productivity is likely to generate growth, but is not sufficient for leapfrogging.
- **There is a recipe for stability and growth but no recipe for leapfrogging** – Adopting the set of best practices for macro economic policy known as the Washington Consensus is liable to ensure macro-economic stability and moderate growth. On the other hand, leapfrogging has no recipe. Every country that leaped forward did this in a unique way.

Moreover, some of the countries that leapfrogged, while achieving impressive economic and social growth, also sustained deficits or inflation rates that were beyond the bounds recommended by the International Monetary Fund or World Bank.
- **The role of vision and leadership** – Macro-economic stability and growth do not require extraordinary vision or leadership because the powers and responsibilities wielded by the finance ministries and central banks in developed countries is usually designed to ensure them. On the other hand, leapfrogging requires profound structural changes and, therefore, demands vision and leadership.
- **Leapfrogging is a rare phenomenon** – Most of the countries of the world have experienced economic growth during the past 60 years. Some 80 countries have even experienced accelerated growth – that is, rapid growth that lasts for several years.<sup>5</sup> On the other hand, only about 15 countries have experienced leapfrogging during this period. These include Ireland, Singapore, Finland, Japan, South Korea, Chile, China and Botswana. These countries are very diverse in terms of their land, location, level of economic and social development, their past and the nature of their government.
- **The phenomenon of leapfrogging has yet to be sufficiently studied** – Leapfrogging is an economic and social phenomenon that has yet to be studied in depth. The limited research that does exist focuses on the leapfrogging of *developing* countries. There is very scant research on the leapfrogging of

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<sup>5</sup> Ricardo Hausmann, Lant Pritchett, Dani Rodrik, "Growth Accelerations," NBER Working Papers Series (Harvard University, 2004)

*developed* countries such as Ireland or Finland. So far, not a single book has been written on this phenomenon.<sup>6</sup>

- **Nonetheless, leapfrogging is not an "economic miracle." It can be studied** – Each case of leapfrogging is conventionally regarded as a unique "economic miracle." But a study of the common characteristics of countries that have experienced leapfrogging reveals a relatively broad common denominator between them.

### General principles about leapfrogging

- **Each country that leapfrogged forged its own path** – Each country that leaped forward shaped its economic and social plans and priorities based upon its own unique history, social structure, system of government, assets and burdens.
- **A common denominator among countries that leapfrogged is their agenda** – The Reut Institute has found that the common denominator between countries that leapfrogged is their agenda. The majority of these countries devoted attention and resources to most of the following issues *during any given time* during the leapfrogging and to all of the subjects at one time or another during the period:
  - Formulating a textured national vision that focuses on development and growth, and is branded as a national project;
  - Identifying growth engines and exploiting them, based on strategic investments;
  - Incorporating burdens and exploiting unique assets;
  - Enhancing the government's ability to make decisions and implement them (effective government);
  - Implementing structural changes (transformative capacity) by exercising the weight of the central government or based on collaboration between the various sectors;
  - Comparing performance to other countries (benchmarking);
  - Nurturing human capital;
  - Mobilizing the general public for the challenge of economic and social development.

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<sup>6</sup> In this context, see Jim Collins, **Good to Great: Why Some Companies Make the Leap and Other Don't**, (NY: HarperCollins Publishers, 2001). In his book, Collins tries to discover the secret of the performance of a number of companies that experienced extraordinary growth. See also: Crutchfield L., Mcleod Grant H., **Forces for Good: The Six Practices of High-Impact Nonprofits**. San Francisco: JossyBass Publishers, 2008. This book attempts to explain the growth of non-governmental organizations that have achieved exceptional success.

- **Leapfrogging must be managed, but is difficult to plan** – The conservative and conventional approach assumes that in order to generate leapfrogging, it is necessary to write a plan that bridges between the present and the vision.<sup>7</sup> The Reut Institute argues that it is not possible "to plan" a process of leapfrogging due to its complexity and long duration. Thus, it is necessary to design, present and inculcate a broad, ambitious and attainable vision, to create a feeling of urgency, to build capabilities and institutions that are vital for enhancing social and economic performance, and to manage the process.
- **Leapfrogging is a supra-economic phenomenon** – Leapfrogging is a result of a "perfect storm" that occurs when all of the following intersect: successful economic policy; social, political and ideological maturity; leadership; strong global trends and stability.
- **An essential condition for leapfrogging: exploiting strong global trends and stability** – The broadest common denominator among countries that leapfrogged is their ability to identify and exploit strong global trends. Thus, for example, Singapore identified the trend of growth in world trade and exploited its location as a transit point between the East and the West via seaports and airports, and excellent airlines and shipping companies.
- **Mobilizing important sectors (bottom up) and not just government policy (top down)** – The traditional approach expressed in the existing research reflects the assumption that the engine of leapfrogging comes from the government. According to this approach, in order to generate leapfrogging, a plan must be written for the government to implement.<sup>8</sup>

In countries that leapfrogged, on the other hand, government policy was integrated with "bottom-up" growth generated by important sectors in the society: mayors, philanthropists, business people and civil service.

- **Social contract: tomorrow at the expense of today** – In all of the countries that leapfrogged, a social contract was created that diverted many resources from consumption to investment in all sectors (an approach of "tomorrow at the expense of today"). This contract is an essential condition for fostering the ability to implement structural changes on a basis of trust.

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<sup>7</sup> "Israel 2028 is a wide-ranging plan to achieve national objectives: ... their goal is to transform the State of Israel during the next 20 years into one of the 10 to 20 leading countries in the world," [Israel 2028 Vision and Socio-Economic Strategy in the Global World](#), page 5.

<sup>8</sup> "The level of the functioning of social and economic agents in the economy, including the way this plan is implemented, if adopted, depends to a great extent on the professionalism and effectiveness of the government and the civil service," [Israel 2028 Vision and Socio-Economic Strategy in the Global World](#), page 13.



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- **The ability to implement structural changes via partnerships and package deals is essential** – The ability to carry out numerous and rapid structural changes is an essential condition for leapfrogging. In regimes in which the executive branch is accorded great power – such as in South Korea, Singapore, Britain or China – these changes are enforced by the strong arm of the government.

In an unstable and multi-party political system like Israel, this ability requires fundamental agreements between parties and partnership between the government and other important sectors, such as labor organizations and employees, based on trust.

- **A market economy in diverse forms** – There is a developed market economy in all of the countries that have leapfrogged and in all of world's leading economies. But these countries represent a range of combinations of the freedom of market forces and the power of public/social systems.

Thus, two countries might enjoy a similar quality of life but have a different average income of their citizens. Alternatively, two countries might have a similar per capita income but have significant disparities in the quality of life. These differences derive from gaps in the level of public services in the fields of education, health, environment or personal security available to the citizens at no or subsidized cost.

For example, according to The Economist's index (2005), the quality of life in Finland and the U.S. is similar, but per capita income in the U.S. is about 50% higher than per capita income in Finland. The difference stems from the fact that in Finland the level of public health and education services are relatively higher than in the United States.

- **National mobilization** – In all of the countries that leapfrogged, economic development became a national project. Without an atmosphere of urgency, it is difficult to generate the profound changes required for economic and social leapfrogging. For this purpose, the circle of participants and contributors to the leapfrogging process should be widened, and all of the important sectors noted above should be enlisted.

### Principles and guidelines for promoting leapfrogging in Israel

Here are a number of principles for promoting economic and social leapfrogging in Israel:

- **Israel has already experienced leapfrogging.** Between the early 1950s and the early 1970s, Israel doubled its economic performance in comparison to the U.S. from 30% of the standard of living in the U.S. to about 60%. Since then, the standard of living in Israel has not changed in comparison to the U.S., despite



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continuous economic growth for over 20 years. This is because the standard of living in the U.S. has risen at similar rates during this period.

- **'ISRAEL 15 Vision' should be defined as a national objective of Israel** – This vision sets a goal that is very ambitious, yet attainable. On one hand, it is ambitious because today Israel falls between the 30<sup>th</sup> and the 40<sup>th</sup> place in the various rankings of quality of life.<sup>9</sup> Hence, in order for leapfrogging to occur, Israel must grow faster than the leading countries at a rate of at least 4-6% in real terms over an extended period of time for as long as 20 years.

On the other hand, 'ISRAEL 15 Vision' is an attainable objective because Israeli society already enjoys performance at the level of the ten leading countries in fields that are of enormous importance for leapfrogging such as the quality of the business sector, technological maturity or the level of education.<sup>10</sup> Moreover, the Israel 2028 plan demonstrated that 'ISRAEL 15 Vision' is an attainable objective within 20 years.<sup>11</sup>

- **Why 'ISRAEL 15 Vision' and not 'Israel 10 Vision' or 'Israel 20 Vision?'** – Countries can be clustered in tiers based on their level of development and quality of life. The first tier includes seven to nine countries, such as the Scandinavian countries, Luxembourg, Switzerland, Canada or Australia. The second tier includes eight to ten countries, such as Germany, Japan, France, Holland and Belgium. In the third tier, we find countries such as Greece, Spain, Portugal, the Czech Republic and South Korea. According to various assessments, Israel is at the bottom of this cluster.

Therefore, in our best judgment, the goal of transforming Israel into one of the 20 leading countries ('Israel 20') within 15 years is not ambitious enough, while the goal of 'Israel 10' does not appear attainable.

- **A 'central mind' should be established** – In all of the countries that leaped, there was a "central brain" whose role was to define national priorities and the stature to ensure that these priorities were translated into policy. In Israel, it seems that the National Economic Council is the most appropriate institution for filling this role.

The Reut Institute argues that international experience indicates that this type of central brain should perform three roles: to provide an assessment of the national socio-economic situation as a basis for making decisions; to identify global trends

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<sup>9</sup> Israel is ranked 38<sup>th</sup> in the Quality of Life report of The Economist magazine for 2005. See: ['The Economist Intelligence Unit's Quality of Life Index' \(2005\)](#).

<sup>10</sup> See the Reut Institute's document: [Index of Global Competitiveness](#).

<sup>11</sup> "The research and macro-economic assessment underlying the study indicate that the Israeli economy has the ability, if properly conducted, to finance the needs related to fulfilling the objectives ..." ['Israel 2028 Vision and Socio-Economic Strategy in the Global World'](#), page 13.



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and analyze their significance; to create a framework for discourse between sectors that is essential for implementing structural changes based on "package deals."

- **A number of elite units and reform teams** – Countries that leapfrogged were able to identify a number of units in the civil service that had systemic and strategic importance for leapfrogging, and to provide them with the resources and the power to lead the process.
- **There is a need to open bottlenecks, foster national projects and build capabilities and institutions essential for leapfrogging** – The conventional and conservative approach emphasizes the need to institute many reforms simultaneously. But international experience has shown that there is no guarantee that such conduct will drive rapid growth.

On the other hand, countries that leapfrogged excelled in simultaneously addressing a relatively small number of fields in depth – fields that were perceived at the time as most essential for leapfrogging, based on an analysis that identified the bottlenecks and focused on opening them.<sup>12</sup> An example of defining such priorities is the "Herzliya Accord" formulated at the most recent Herzliya Conference.<sup>13</sup>

The Reut Institute proposes empowering and enhancing the performance of the institutions that are supposed to identify these key fields. This group can include, for example, institutions engaged in foreign investments, the judicial system and enforcement forces in the economic and business sphere, seaports and airports, and the planning and zoning bodies. This could also entail a reorganization of the policy planning divisions in the various government ministries.

- **Israel's growth engines should be identified and exploited** – The Reut Institute defines as a growth engine any area in society or in the economy whose improvement would lead to a significant increase in GDP or in quality of life. This includes various business, economic or industrial sectors that are likely to yield many fruits if nurtured, as well as areas in which Israel suffers from unsatisfactory economic performance, such as the ultra-Orthodox and Arab sectors, and the fields of tourism and infrastructure.
- **Strong and stable global trends should be exploited** – In order to leapfrog, Israel must identify strong and stable global trends that offer great economic promise, and must formulate a national strategy for fully benefiting from them.

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<sup>12</sup> On this question, see the articles by Professor Ricardo Hausmann and Professor Dani Rodrik of the Kennedy School of Government at Harvard University on Growth Diagnostics and the document: Hausmann R. et al., "**Final Recommendations of the International Panel on Growth**," report submitted to the National Treasury of the Republic of South Africa.

<sup>13</sup> "[Herzliya Accord](#)" session, 8<sup>th</sup> Herzliya Conference, 2008.

Examples of such trends include global warming, the energy crisis and the emergence of China and India.

- **The focus should be on Israel's relative advantages and on "the difference that will make the difference"** – Many plans propose measures in the fields of education, infrastructure and competitiveness that would contribute to Israel's economic growth if implemented;<sup>14</sup> however, all of the countries competing with Israel are expected to invest in these fields also.

Therefore, a plan that aims to facilitate leapfrogging should also focus on the unique characteristics that constitute an exclusive relative advantage that would contribute to Israel's leapfrogging. For example, the Reut Institute notes the following fields:

- **Leveraging the investment in security** – The security burden is undoubtedly a heavy and unique burden that Israel bears. The Reut Institute argues that special attention should be placed on incorporating this unique burden and leveraging the many resources that the State of Israel invests in security in any case. Among other things, the IDF manages the largest array of training and education in Israel, generates research and development of unparalleled scope and installs infrastructure. The Reut Institute believes that the State of Israel can derive very substantial economic value from this investment.

Moreover, it is now possible to assess the frequency of crises in national security. Additional thought should be devoted to dealing with the economic aspect of these crises.

- **The Jewish world and Israeli Diaspora as an asset for Israel's economic development** – Israel is the heart of the economic network of the Jewish people. In addition, many of the hundreds of thousands of Israelis living abroad have ascended to key positions in the world of technology, business, academic and the arts. The connection to these communities is an asset whose worth is difficult to measure. The Reut Institute contends that the Jewish world and the Israeli diaspora offer the greatest promise for Israel's economic development.

### What leadership is needed for leapfrogging?

- **Leadership that promotes "adaptive" processes** – The leadership needed for leapfrogging must lead "adaptive" processes that demand a fundamental change in the country's fabric of values, patterns of behavior and national priorities. For this purpose, the leadership must create a climate in which the public is gradually

<sup>14</sup> ['Israel 2028 Vision and Socio-Economic Strategy in the Global World,'](#) and The Growth Report, [Strategies for Sustained Growth and Inclusive Development](#)



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mobilized based on careful experimentation while ensuring that the fruits of growth are widely shared.<sup>15</sup>

### What is Reut's Role in promoting the 'ISRAEL 15 Vision?'

- The role of the Reut Institute is to serve as a catalyst for realizing the 'ISRAEL 15 Vision.' In this framework, the Reut Institute has taken upon itself the following tasks: (1) to match people and organizations committed to building capabilities and institutions essential for leapfrogging; (2) to enlarge the pie of resources available to the community of people and organizations serving this mission; (3) to 'brand' the ISRAEL 15 Vision; (4) to study the phenomenon of Israel's leapfrogging and to generate the new knowledge essential for this; (5) to create a sense of urgency for the structural changes required; (6) to build and foster capabilities and organizations that are essential for leapfrogging; (7) to identify or create models of success that can be emulated and studied, and to disseminate the knowledge that promotes leapfrogging.

End.

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<sup>15</sup> Leadership that leads to "adaptive" processes is described by Professor Ron Heifetz of Harvard University in: Ron Heifetz, **Leadership without Easy Answers**, Harvard University Press, 2003.



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