

A Decent Emergency Plan, Nothing More

20/11/2008, Merav Arlozorov

What do Botswana, Brazil, China, Singapore, Korea, Oman, Malta, Ireland, Japan and Israel have in common? They have all leapfrogged economically. Over the past 60 years, 20 countries in total have experienced this extraordinary economic phenomenon.

Nearly every modern country will experience economic growth, meaning an annual growth rate of 1-3% in its GDP. Most of these countries will also experience phases of accelerated growth at 4-6% per year, over several years. Only certain countries however, have managed to go beyond that and have succeeded in growing at a rate of 5-10% per capita, over a period of 15-25 consecutive years thus fundamentally transforming their country and society. These countries have become international success stories, which every country tries to imitate.

In other words, while the history of international economy teaches us that it is very easy to grow, and also fairly easy to realize accelerated growth over several years, leaping economically is much more complicated. It requires extraordinary determination and perseverance. It requires the courage to undertake things which other countries have not thought to do. It requires “deviating from the group,” in other words deviating from the economic norm, which characterizes all other countries in the world. This is exactly what is lacking in the Finance Ministry’s Economic Emergency Plan, presented yesterday.

Gidi Grinstein is the President of the Reut Institute, which aims to help Israel achieve an economic leapfrog. To be precise: to achieve it *again*. Israel is one of those twenty countries that succeeded in leaping economically – for the first two decades following its establishment. So what is common to all the countries that have 'leapfrogged'? According to Grinstein, very little. Some of these states are authoritarian, such as China and Singapore, where the governments have absolute control. Others are democratic, such as Ireland or Japan, where society’s consent is necessary. Although they all maintain a market economy, some of them are considered to be social-democratic and others are seen as conservative capitalists, à la the US.

By the way, the US is not included in the group of countries that have leapfrogged – it leaped sometime during the 19th Century and ever since, has been busy maintaining its position by continuing its moderate growth. Therefore, the economic policy designed by the US and the International Monetary Fund is a policy that only aims at achieving this modest objective – preserving moderate growth. Any country seeking to leapfrog needs to transgress this policy.

According to Grinstein, countries that have leapfrogged have not done so in the same fashion, nor in the same field. Every country is a unique case, and has found a unique way to become a world leader in a specific field. However, all of them share one

important characteristic: their determination to leapfrog their social and economic performance.

“The most important ability for leapfrogging,” says Grinstein, “is the ability to implement incremental structural changes.” In authoritarian states, this ability derives from government coercion. In democratic states, this requires broad societal consent. This is exactly why the current timing, in the midst of the profound economic crisis, is most appropriate for leapfrogging: it is the *crisis*, which creates the opportunity for inter-sector dialogue and cooperation.

This is how Ireland began its leapfrog twenty years ago: a deep economic crisis forced the government, employers and labor unions to communicate and reach agreements over significant compromises concerning wages and dismissals – in return for increased governmental investments in Ireland.

“The secret of economic leapfrogging,” says Grinstein, “lies in institutional organization. Countries cannot leapfrog just by trying harder. They need to implement far-reaching changes, do things that no other country in the world is doing, and accept significant concessions today in order to reap the benefits tomorrow. Firm leadership is required for reaching these objectives. The process needs to be led by the Prime Minister, not the Ministry of Finance, and depends on broad consent. A state of crisis creates such a basis.”

What, out of all of the above, can be found in the Finance Ministry’s economic emergency program? Nothing. The Ministry’s Emergency Plan goes along the same lines as all other countries and thus it will not provide Israel any kind of unique relative value. At best, it will stop economic deceleration. It might even be very successful and generate several years of accelerated growth. Over these years, opponents of economic changes will erode them and curb the acceleration, just as is happening today.

It could very well be that the Emergency Plan was actually sufficient to extricate ourselves from the worldwide recession. Nevertheless, one should remember two important points: firstly, the ability to implement a plan for leapfrogging is virtually only possible in times of crisis, due to the readiness for concessions and cooperation (see the stabilization plan in 1985). Missing the opportunity that currently presents itself may mean missing it for many years to come. Secondly, more than any other country, Israel is particularly vulnerable to its own inefficiency. Israel’s potential for leapfrog in the high level of education, technological openness and globalization is also Israel’s greatest threat. In the context of a global, mobile and ‘flat’ world, the large gap between Israel’s potential and its low-to-mediocre quality of life exacerbates its brain-drain. Many Israelis can dramatically improve their quality of life at the mere price of an airplane ticket – and it is not surprising that Israel is one of the world’s leading exporters of brains and talent.

The right to grow like anyone else is not reserved for Israel. Thus, Israel cannot afford to miss an opportunity like the current one to improve its methods. What should be done? Stop with the trivial solutions such as more tax reductions or further infrastructure

investments. Everyone is doing that. Against this backdrop, Israel should devote itself to the national mission of leaping forward.

This requires dialogue between the Ministry of Finance, the labor unions, employers and representatives of all different sectors. It requires reaching agreements on wage concessions, relaxing job security, and implementing far-reaching reforms in Israel's known 'bottlenecks' – bureaucracy, sea and air ports, schools and universities (as well as the periphery, Orthodox and Arab sectors). Israel has to identify its potential engines of growth, such as the relative backwardness of the periphery or the Orthodox and Arab sectors, and focus on their development in order to leapfrog Israel's entire economy.

This also requires identifying worldwide trends where Israel has unique added value. There should be governmental units solely focusing on this: identifying Israel's unique added value and developing it. This objective does not even require improving the entire governmental apparatus – China's government is not exactly a role model in terms of efficiency. It involves only a few governmental units and a Prime Minister devoted to this aim, inter-sector cooperation and the promise that everyone will enjoy the benefits of the increased pie.

This is what Israel needs today, and none of all this can be found in the economic emergency plan. What a shame.