

WE HAVE done well.

If one can sum up 40 years of achievement and error by an entire nation in four words, in Israel's case one should express strong but qualified approval. Yes, we probably could and should have done not merely well, but excellently. But there were indeed mitigating circumstances to excuse the failures, and in the economic sphere, at least, the outlook is bright.

And, although the world as a whole is increasingly interlinked – and globalization affects small countries most of all – our own economic future will be what we make of it, at the national, corporate and individual level. The drab reality of making a living engages most people most of their waking hours. To glamorize it somewhat we call it economics, and encumber it with jargon. But most of the learned analyses remain exercises in beating around bushes so that, to mix the metaphor, the forest is often lost among the trees. Taking a span of 40 years allows one the luxury of seeing many things in their right perspective, and above all to isolate the truly relevant from the onrush of day-to-day events.

Thus the first thing we can do with a 1948/1988 perspective is to see how far we have come, in absolute and relative terms. Absolute comparisons are easy – they merely require a look back to what we had in May 1948. Relative comparisons are much harder, as we shall see, but only because we have chosen to make them so.

The accepted way of running these comparisons is to toss macro-economic statistics into a pot and see what turns up. But an alternative to rates of growth, trade figures, inflation rates and the like, is to look at "standards of living." This can also be done via statistics, or by the cruder – but often effective – method of walking around a country's main cities gathering impressions.

On the latter basis, Israel would seem to have done well. Traffic jams are not necessarily a measure of wealth, or Mexico City and Cairo would be in rich countries; but a large proportion of well-fed people, driving new cars to smart shopping centres where they buy items like home computers and designer clothes, are strong evidence of a wealthy society.

Many Israelis can't stand this approach to the subject; nor are they any happier with a more rigid analysis that measures the percentages of households with refrigerators, washing machines or whatever. In particular, the social-welfare lobby in Israel – a permanent growth industry in the Jewish state – will forever seek to prove that "the social gap" is widening, that poverty is increasing, and that the rich are exploiting the poor.

These arguments can be examined at many levels. For instance, if the claims are true, that may be because interventionist government policies designed to remedy problems have in fact created more, or worse, ones. But, in comparative terms, the welfarists' wailings are bilge. The simple facts are that Israel has scored two massive successes over the years: *One was the absorption of millions of refugees and their social and economic integration; the other was, and is, the avoidance of wide-scale unemployment.*

We are so used to these things that we take them for granted. But these are surely the greatest things that happened in, respectively, the first and second 20 years of independence. The "recycling" of Holocaust survivors and refugees from the Arab countries into productive citizens, although inevitably involving friction and leaving scars, has



A BIG PLUS

In 40 years, Israel has developed a sophisticated economy that is seeking to pay its way in the world. So far, of course, that attempt, known as "economic independence," has been unsuccessful. If, as is likely, it is achieved sometime in the next generation, it will be rooted in the industrialization that took place in the Fifties and Sixties, writes Pinhas Landau.

been an extraordinary accomplishment. It was done by means of industrialization and economic growth, and the result was that Israel took a path totally different from that of the Arab Middle East in which it is geographically situated.

MANY PEOPLE who talk about the political, and even military, aspects of the Arab-Israeli dispute, are totally unaware of the existence and impact of these economic disparities. By way of illustration, let's point out that Egypt and Jordan in 1985 – the last year for which they have published firm figures – had the following populations and exports: Egypt – pop: 48.4 million, exports \$3.8b. Jordan – pop: 2.7m, exports \$790m. Israel, in 1985, had a population of 4.3 million, and exports of \$6.1 billion. (By 1987, ours had risen significantly, while theirs had fallen.) Of these, Israeli exports of chemical products alone were more than Jordan's total exports; Egypt's exports are mainly oil, with raw cotton and yarn making up half of the non-oil sector. The great majority of Israeli exports are manufactured goods.

These few figures – and we'll keep the statistics to a minimum – highlight how Israel has developed a sophisticated economy that is seeking

to pay its way in the world. So far, of course, that attempt, known as "economic independence," has been unsuccessful. If, as is likely, it is achieved sometime in the next generation, it will be rooted in the industrialization that took place in the Fifties and Sixties.

The second point is no less remarkable. In the past 15-20 years, unemployment has settled in as the major blight in most countries. The third world regards it as a yoke that it is doomed to bear, and that population growth will aggravate, while even Western European countries have been unable to shake off the curse. The source of the problem has been the slowing, and in many cases, the absence, of the economic growth that powered the post-1945 boom.

In Israel, too, there was no growth from 1973 onwards. Yet there was no serious unemployment. What we call serious unemployment would be considered localized pockets, not even "regional" unemployment, in most countries. How we avoided it is open to much discussion and analysis, but the facts over 15 years speak for themselves. Even when we finally got round to eliminating hyperinflation, which should inevitably have involved heavy job losses, the fallout was somehow contained.

Too many people tend to ignore the extent of our successes – and, by the same token, they misunderstand our more important failures. So before pursuing the theme of valid criticism, let's take time off to look at some standard forms of invalid criticism. First, about the "we're not as good as America" attitude.

THIS MANIA is a well-known feature of many aspects of Israeli life. The first thing that should strike one about it is its very absurdity: Why, and more importantly how, should Israel be "as good as America," in terms of efficiency, wealth, or any other socio-economic parameter? Why, to take a simple example, should Bezek work as well as Ma Bell? What basis is there for the comparison?

By any logical criteria the answer is "none." Bezek should be compared to its Egyptian or Pakistani counterparts – that is the "fair" answer. Then it would look good, instead of being doomed to never-ending criticism based on "unfair" criteria. But logic and fairness have peculiar twists in the Israeli context.

The real reason underlying the demand for "American standards" is that Israel is competing directly with the U.S. – over Jews. In practice, any Israeli with sufficient drive can emigrate to the U.S. Russian Jews, who get out, face a direct choice between Israel and America. American Jews, at least in theory, are urged to move to Israel.

Now, whether young Boaz of Ramat Gan goes to Riverdale, or whether Boris of Moscow picks Brighton Beach or Bat Yam, and even whether Bruce of L.A. switches to Kfar Sava or maybe Ariel, depends on many things. These include the relative fear of *miluim* and muggings, of education, jobs, homes, taxes and so on. But Bezek is also part of the equation. Put more grandly, "the quality of life" in Israel is measured by the highest, i.e., American, criteria because the U.S. is the competition, not Egypt or Pakistan.

Population movements can and do occur to or from Tel Aviv and New York; they are called *aliya* and *yerida*, and are still very potent factors in Israeli reality, albeit in rough balance in recent years. The options of Cairo and Karachi are not relevant to Israelis, and hence the standards in force in those places are of no concern to us.

Parenthetically, at this point, it may be noted how this extremely important existential fact is ignored in the "great debate" over the territories. Israel will continue to compete – as defined above – with the U.S., Canada, Australia, etc. – whether the territories are retained or returned.

Conversely, the Palestinian society and economy in the territories will continue to compete with, and measure itself by, the standards of, in the best case, Kuwait, or perhaps of Cairo or even Baghdad, even if it attains full independence. There is no "logical" reason why a future Palestinian state should measure itself by Israeli standards; Ahmed of Nablus will always face the choice of being an also-ran in the Israeli labour market versus trying for the best professional jobs in the Gulf, and these are the criteria that would define the standards of even the best-run Palestinian state.

THE FLIP-SIDE of the "not as good as America" mania is the "not as good as Japan" syndrome. This, at least, is a general plague in the Western world. Underlying it, in many countries, is an implicit "yellow peril" attitude that sees the 21st century as "the Pacific century,"

with the white man being overwhelmed by hordes of hard-working, super-disciplined Asiatics. In Israel, comparison with Japan takes on two forms:

Many academics and government officials, and even some industrialists, are enamoured with the myth that bureaucrats in the Japanese Ministry of Trade and Industry (MITI) directed a master-plan by which the Japanese economic giants conquered the world. Long-term planning, picking winners, and other supposedly-Japanese inventions are what we need, it is claimed.

Space does not allow a detailed rebuttal of the more extreme elements of this argument, but the basic idea of government-industrial co-operation was very successfully implemented in Israel in its early stages of growth, albeit in a different manner from the Japanese. In those days, it may be recalled, our growth rate was as rapid as that of Japan, and unrivalled elsewhere. But as a national strategy, though, it is quite obsolete today, in Israel as in Japan, where decentralization is finally under way as the economy opens up to the rest of the world.

The other comparison made with Japan – always, of course, to Israel's detriment – bases itself on the extraordinary flexibility of the Japanese economy. This trait has allowed it to go on growing through the violent swings and changes of the international economy since 1971, while the yen has soared, oil prices have gyrated, and most of the world has stagnated.

What is undeniably true in this comparison is that, whereas in 1972, the Israeli worker's productivity was higher than his Japanese counterpart, today it is a pale shadow of it. All the rest, including Japanese management techniques and lifetime employment programmes, are either irrelevant because they are non-applicable, or represent factors that we can offset in other areas.

BUT THE comparison-with-Japan idea serves to highlight another vital aspect of Israeli economic success over four decades which is generally unknown, or at least overlooked. *The Israeli manager and worker have responded phenomenally well to conditions of permanent and extreme uncertainty, involving frequent rapid change in local and foreign environments. Indeed, without this facility, the economy could never have developed to the level of sophistication that characterizes it today.*

Although the unremitting Arab hostility, expressed in formal and informal boycotts and pressures, hot and cold wars, and constant tension, have been a major factor in creating this atmosphere of uncertainty, the single biggest problem has been the Israeli government. The two trends that run through Israeli economic development, at least until very recently, have been the growing weight of central government control, and the inconsistency of policy through which that control was expressed.

The government, even if it thought it knew what it was doing, pursued so many aims in defence, social, economic and other spheres through economic tools such as the budget, taxation, and exchange rates, as to ensure that they obstructed each other and ended up producing poor results.

Starting with the rationing and the *protektzia*-based system of the Fifties, and through to the lunatic attempt to beat inflation through price rises in the early Eighties, the Israeli entrepreneur was honed in the game of staying one jump ahead in order to survive.

(Continued on page 65)

A BIG PLUS

(Continued from page 60)

In practice, this has almost always meant breaking the rules, so the Israeli entrepreneur became, and remains, a petty criminal – and some, of course, became big ones. But unlike the entrepreneurial classes of most countries, Israel's was not limited to businessmen alone. Salaried workers, pensioners – in fact every individual or group – became enmeshed in complicated rules that demanded efforts to learn, and then to take advantage of, ignore, circumvent or break them, as the circumstances dictated.

By the mid-1980s, the bulk of the population had learnt to keep ahead of the government. At that time, in the most important change of economic strategy in the country's history, the two main political parties gave up the attempt to run society through a centralized economy and began the process of decentralization that is set to carry on for years to come, unless the fascist and Bolshevik parties at the extremes of Israeli politics come to power.

THE DEGREE of consensus over economic policy between the main parties – themselves coalitions of many factions – shows that we can be as Japanese as the Japanese themselves. It also underlines a remarkable aspect of Zionist history, namely the pragmatic approach to economic and social problems. When Socialist-centralist solutions delivered the goods, very few people objected on ideological grounds – and it is dubious if any approach could have achieved as much in the Mandatory and early state period.

Conversely, today the band of committed opponents to a more



Levi Eshkol Pinhas Sapir



David Horowitz Daniel Recanatli



Ya'acov Levinson Aharon Dovrat



Eli Hurwitz Uzia Galil



Moshe Nissim Bino Zadik

market-oriented economy is dwindling steadily as it becomes ever more obvious that the answers to current social and economic problems can only be provided through a market framework.

Furthermore, a remarkable feature of the economic recovery that has taken place in the past three years has been the extent of tripartite cooperation between the government, the Histadrut and employers' (and self-employed) organizations. Again, to realize how successful this has been, one need only compare the Israeli experience to that of Brazil or Argentina.

The roots of this attack of common sense probably lie in the painful memories of the disastrous attempt by Yoram Aridor to run the economy single-handedly. Fear of over-centralization and of inflation are the twin legacies of the Likud years in government, and have probably immunized the economy from these diseases for many years to come. The behaviour of the Likud itself, under both Moda'i and Nissim, tends to confirm this.

It remains true that the Japanese do the consensus thing better and more naturally – but Jews are not Japanese, and cultural differences make many comparisons rather simplistic. For this reason, the other elements of the Japanese success formula are unlikely to work here.

But we have other advantages which the Japanese don't have, and which compensate for the regimentation and discipline that characterize the Japanese work force. Prominent among these are imagination and innovativeness – the main factors in Israel's successes so far, especially in high-tech.

Thus it may be argued that, at least in recent years, Israel has begun to master the art of consensus economics. That would explain both the recent success and the earlier

failure, and suggest parameters for future policy, based on the idea that there must be input from all the main players in the economy, and that any government attempt to dictate the rules is doomed to failure.

Other well-known ills that have afflicted the Israeli economy, and that seem far from resolution – but that will have to be resolved sooner or later – centre on the mechanisms that allocate the traditional "factors of production," namely land, labour and capital. Of the three, capital market reform has begun, and there exists a fairly good understanding of what needs to be done.

The labour market structure is under overwhelming pressure, largely because it is too rigid to adapt to a non-inflationary economy, but even in the best case it will be a long and tough campaign before the decades of distortions built up by the Histadrut are rooted out, or at least scaled back. But it now seems likely that the events in the occupied territories in the last few months will cause great changes in the labour market, although they will take years to work through.

Land reform, so vital if aliya is ever to be properly promoted, is a subject most people are only vaguely aware of. But here, too, the catalysing force may have emerged in the shape of the *intifada* and what it may yet do to "Israeli Arabs," especially in the Galilee.

Modern economics regards management in general as a fourth part of production, and marketing in particular as the crucial element for the success of any enterprise. The Israeli experience seems to bear out this approach, because our management is usually thought to be backward, short-sighted and incompetent, while our marketing is pathetic.

We have already argued that Israeli managers have done a fantastic job overall, and are in fact the un-

sung heroes of the last 40 years. There is no contradiction between the two ideas: The successes have been scored in overcoming the problems posed by hostile Arabs abroad and the hostile (to business) Jewish government at home, with its bossy, interventionist ideology.

The failure is therefore relative – there were not enough resources and time left for management to succeed in developing businesses on professional lines. As for the marketing complaint, there is unquestionably a good deal of truth to it, but the fact that so many itchy-bitsy Israeli companies manage to sell their products abroad, while similar-sized companies in most countries wouldn't dream of doing so, shows that the failure is far from unmitigated.

THE REAL reason why it is easier to discuss the Israeli economy and its prospects today, compared to three years ago, is not because the official statistics are better. It is because the main problems have mostly been correctly diagnosed, and treatment has begun. That the figures are better merely confirms that the treatment is proving effective.

The belief that the government can and should have all the answers, and that spending money is the same as providing solutions to problems, is dead. The realization that aid can be detrimental to the health of the recipient has dawned on the government and on corporations alike.

In the years from 1973 to 1985, Israel succeeded in surviving the age of Arab oil power and its own lunatic attempt to destroy its well-being by gross economic mismanagement. Even with that dark patch, most of the last 40 years have been successful ones, and there is no objective reason why the next 40 should not see an even larger majority in the plus column. □