**A Brief History of Israel’s Economy**

**100 Years of Economic Development—and Perspectives for the Future**

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**Author’s Foreword**

This book explores the first hundred years of the development of the economy of the Land of Israel and the State of Israel as an integral part of the epic story of the Jewish struggle to establish and maintain an independent homeland. During this century of economic activity and development, the foundations were laid for Israel to become what it is today—a developed economy and one of the most advanced countries in the world.

My decades of work in the Israeli government, the many lectures I have given on the Israeli economy at different academic institutions over the past 50 years, the articles I have written for various newspapers and journals, and my involvement in the Palestinian economy through my role in managing the economic negotiations between Israel and the Palestinian Liberation Organization (PLO) that resulted in the Protocol on Economic Relations (the Paris Protocol) in 1994—are but some of the many hands-on experiences that have fueled the writing of this book. In addition, my various roles on government-appointed committees and in the private and the third sectors have also enriched this book, providing me with a unique, multifaceted perspective on Israel’s economic history and development. Undoubtedly, my professional life has given me a front-row seat with many opportunities for direct involvement in a number of formative and defining moments in the development of Israel’s economy. I lived through Israel’s rampant inflation and economic crisis in the 1980s, a dark period that became known as the country’s “lost decade.” During this turbulent period, I was privileged to play a role in implementing the government’s far-reaching 1985 Economic Stabilization Plan, serving as project manager for the most “unorthodox” element of these reforms—the implementation of price controls. This period taught me a great deal about how to handle economic crises.

I took a break from government service for about four years (1987–1991) to serve as Vice President of Finance at Israel Aerospace Industries. In the wake of the decision by the Israeli government on August 30, 1987 to cancel the Lavi fighter plane program, I returned to the Ministry of Finance, where I was responsible for budgets. I served as the Ministry’s Director General between 1991 and 1997, fascinating years that saw the mass Aliyah (immigration) to Israel of Jews from the former Soviet Union, and a series of far-reaching, essential reforms and changes to the Israeli economy that transformed it from a centralized public regime to an open and competitive market economy. This period also saw key political developments with the Palestinians and Israel’s neighbors, including the Oslo Accords of 1993 and 1995, and the Israel-Jordan peace treaty in 1994. During 1993–1994, I was responsible for managing Israel’s negotiations with the Palestinians, which resulted in the signing of the Protocol on Economic Relations on 29 April 1994. This was a vital, formative period for Israel’s economy.

My experiences outside the government have provided me with a rich and diverse perspective on various aspects of Israel’s economy and society. In addition to having served as chair of the board at Ben-Gurion University, Hadassah Academic College, and Hadassah Hospital. I also served as chair on several government-appointed public committees, including the committee to assess Israel’s defense budget (in the wake of its second war with Lebanon in 2006), and the committee on capital market reform. During my decade as chairman of Bank Leumi during 2010–2019, the global and Israeli banking industry underwent dramatic changes in technology and regulation. The numerous lectures I gave in academia during this period were an engaging and professional way to keep abreast of these processes and informed about the Israeli economy.

In all my senior roles, I experienced the dramatic changes and transformations that unfoled across broad swathes of Israel’s economy and its society, and was involved, often directly, in many fascinating processes that that helped shape and develop the Israeli market.

Economics is not about numbers and data. Neither do economists undertake controlled research in laboratories to test their theories and ideas. Rather, economics is about decision-making in complex, highly-constrained situations. It is about providing people and businesses with incentives to help them achieve their goals in various areas of life. All this requires considerable deliberation and responsibility. Economic policy is about values, not just cost-benefit calculations.

This book discusses the key events in Israel’s economic history, in particular the major decisions taken at crucial stages in the development of the country’s economic and social policies. I have studied, and seen firsthand, the institutional systems whose foundations were rooted in the pre-state Jewish Yishuv. These institutions served as an important bedrock for Israel’s economic development and were the secret of the success of the Jewish economy in the pre-state Land of Israel.

In writing about past events, we are influenced by our awareness of the present. Writing history allows one to better see what is taking place in the here-and-now—and to look ahead and consider the future. The past one hundred years of Israel’s history have been filled with economic activity and have witnessed rapid, dramatic shifts from one reality to another. Writing about over a century of this history has enabled me to take a long perspective and gain a deeper understanding of the lengthy processes that have taken place within, and shaped, Israel’s economy.

The history of Israel’s economy is a compelling story about the building of a national economy and the development of a country. Founded with the aspiration to become a leading country like any other, and to shake off the “not-so-normal” aspects of its existence, Israel and its economy have frequently developed in unconventional ways, sometimes making it difficult for Israel to rid itself of unwanted aspects the past. From the early days of the Jewish Yishuv, Israel has been rooted in entrepreneurship, invention, and creativity, qualities that have helped it make impressive achievements. However, these achievements should not blind us to the “shadows” of Israel’s continuing challenges, some of which are typical of any developed nation, which will accompany Israel for the foreseeable future.

The Israeli economy faces a complex reality over the coming years—including, among other issues, external security, the Palestinian threat, as most dramatically seen in the 2023 Gaza War, and demographic challenges from the country’s rapidly growing populations which have yet to fully share in efforts to acquire the basic education needed to move forward in a technological and global world. Without this training for all its citizens, the trajectory of Israel’s economy could change course, from an impressive success toward a slowdown—or in an extreme case, even a crisis.

Also in 2023, Israel faced a constitutional crisis as its government expressed the intention to take steps to weaken its independent judiciary. These moves also posed a serious threat to Israel’s entrepreneurship and creativity. Over the last hundred years, Israel has demonstrated a great ability to cope with many sorts of threats and challenges. The question now arises—will this ability be enough to allow Israel to tackle these, and other, threats and challenges in the future?

This book is intended for anyone —not just professional economists or economics students—interested in learning more about the development of Israel’s economy and experiencing the successes and setbacks of this unique nation’s fascinating economic journey, with a view to understanding the challenges it faces in the future.

David Brodet, Jerusalem, November 2023

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