**An Abbreviated History of Israel’s Economy**

**A Century of Economics and a Look to the Future**

Israel’s economy is one of the most remarkable success stories of the 20th-century worldwide economics. An economic event impacted by the establishment of dozens of new states. The beginning of Israel's economic bases lays in the small Jewish Yishuv (community) comprising tens of thousands of devoted pioneers that arrived to the area several decades before the establishment of the State of Israel.

The fledgling state that arose in 1948 faced both security challenges as well as the absorption of large-scale immigration amid a dearth of natural resources, a distinct lack of foreign currency, and a vulnerability in conflicts and crises. Despite all these difficulties the country was able to build a functioning, advanced economy and society that made an impact in the developed world.

In just a few decades, Israel’s economy navigated the industrial revolutions that the world had experienced in the course of two centuries. From a local and centralized public economy, it transformed itself into a post-industrial service economy, boasting a global market economy with a leading, creative technological sector.

**Aims and scope of the book**:

The book describes the crises, changes, and processes affecting Israel’s economy and society in the past century, from the start of the 1920s to the present days. Its impressive economic accomplishments, however, do not diminish the attendant shadows, some of which are unique to Israel and others that are typical of developed economies. Given the realities of a global, technological market economy, Israel’s diverse, heterogenous population generates complex challenges for the future alongside security challenges posed by Palestinian neighbors and the Middle Eastern regional conflict.

**Contents list with a detailed synopsis of each section**

**Section I: Pre-Statehood 1918-48**

Chapter 1 The National Economic Struggle

Chapter 2 The British Mandate

Chapter 3 Economic Separation

Chapter 4 From Yishuv (Community) to State

The economy of the State of Israel relied heavily on the development of the economy of the Jewish settlement on the eve of the establishment of the State, mainly in the thirty years between 1918 to1948, the years after the First World War, in which the Land of Israel passed from Ottoman rule to the British Mandate. The Jewish settlement grew from the Third Aliyah, from a population of several tens of thousands of Jews in 1918 to 650,000 in 1948. Over the course of 30 years, the developing Jewish Yishuv built a dynamic economy and society that served as the foundation for the victory of the Jewish Yishuv during the War of Independence. The economy and society of the Jewish Yishuv left their mark many years after the establishment of the State of Israel and were the basis that enabled the new sovereign state to meet the great challenges it faced, bear the burden of war and security, absorb large waves of immigration and build a modern and developed economy.

**Section II: Society and the Economy Mobilization 1948-1973**

Chapter 5: Challenges of the New State

Chapter 6: Security

Chapter 7: Economic Strategy

Chapter 8: Building an Economy

Chapter 9: The Great Constraint – Foreign Currency

Chapter 10: Factors of Growth

. The first 25 years of the State of Israel defined Israel's economy and society for many years to come. These are years of considerable growth in Israel's population, from about 800,000 to about 2.3 million in 1973. It was a period of foreign currency shortages, which caused austerity policies and were characterized by asceticism and modesty. These are the years of building the economy through the construction of large infrastructures that have led the Israeli economy to growth of about 10 percent in real terms on average per year and an increase in GDP per capita by almost 4 times. An impressive accomplishment even by international comparison. These achievements were what turned Israel into a developed country already in the 1970s, a period in which the country showed an impressive growth. Israel waged four wars during these years that empowered it to become a regional power while absorbing a large number of immigrants and building its economy and society. The economic regime of that time was led by a great deal of government involvement, which led to significant achievements. However, that massive government involvement could not become a permanent economic system for a developed country as its leaders dreamed of that time.

**Section III: The Lost Decade 1974-85**

Chapter 12: Imbalance

Chapter 13: Coping with Inflation

Chapter 14: The Stabilization Program

Chapter 15: Implications of the Stabilization Program

These chapters describe the period between the end of the Yom Kippur War (1974) and the end of the Stabilization Program (1985) including the changes in macroeconomic policy and development in the years that followed. The Yom Kippur War was a breaking point in security and in the country economy. Years of severe and complex economic crisis, partly due to the results of the war, partly due to changes in the economic policy that followed a "political upheaval" with the Likud government's rise to power, and partly due to structural problems in the management of the Israeli economy that did not internalize the changes that occurred in the size of the economy from the 1950s to the 1980s.

The crisis period extended for a decade, in the first half of the 1980s, the crisis reached great intensity with an inflationary spiral reaching hundreds of percent. A fiscal crisis of a large budget deficit, a deficit in the balance of payments, public debt, and the inflationary spiral also worried the US administration. The stabilization program established in 1985, was an overall economic move based on broad political support from the unity government, rescued the country from an existential and dangerous economic crisis that led the economy to fundamental changes in its regime and created a new period of economic life. The stabilization plan is a watershed that was followed by a big bang that significantly changed the Israeli economy. Since the implementation of the program in 1985, there has been a change in the economic regime that has gradually led to new developments for the Israeli economy.

**Section IV: A New Economic Regime 1986-2019**

Chapter 16: Crisis as Reform

Chapter 17: Wide-Reaching Reform

Chapter 18: Financial Reform

Chapter 19: Globalization

Chapter 20: Privatization

Chapter 21: Regulation

In the previous chapters, economic developments according to timeline and stabilization programs were reviewed. This chapters focuses on the "change in the economic regime" in relationship to macroeconomic changes and reforms in the economy's industries. Following the success of the suspension stabilization program the focus is now on the profound changes that moved the economy from a public, closed, and centralized economic regime to an open, competitive economy that relies on active markets. These are the years when globalization meets the recovering Israeli economy. There has been a wide range of structural changes in the economy's industries as well as institutional changes in the operation of the economy. The reforms caused a significant improvement in the level of competition; however, competition was not shared by all sectors of the economy. Increased competition coincided with a privatization process that required deep competitive reforms in those industries before privatization was carried out. The process of competition and privatization was accompanied by the establishment of strong regulatory institutions needed to enable competitiveness and consumer protection in places where competition does not. The effort to increase competition, increase efficiency, and increase productivity is an ongoing effort that requires regular and updated maintenance that should continue in the coming decades

**Section V: Civil Society**

Chapter 23: Immigration from the Former Soviet Union

Chapter 24: From Traditional Industry to Hi-Tech

Chapter 25: The Labor Market

Chapter 26: Socio-Demographic Structure

Chapter 27: Arabs and Ultra-Orthodox Jews

Chapter 28: Welfare

Chapter 29: Standard of Living

The immigration of over a million people with a diverse human composition coming from the countries of the former USSR, in the 1990s, was a significant event in the economy and society of the country. The timing of the arrival of the influx of people was unique, it happened immediately after the stabilization program in which the economy was in the process of recovering from a long-time crisis and with a fundamental change in its way of conducting itself, which generated a multiplier for a large economic change. The composition of the immigration population was combined with the development of the high-tech industry and the need for skilled manpower that suited the updated type of economic development. All this with changes in the political arena in Israel and around the world like the agreements with the Palestinians and Jordan, the fall of the Eastern bloc and the acceleration of globalization. The combination of Israelis and immigrants created advantages for the high-tech industry and the country's economy. The processes of globalization intensified the changes and created new economic opportunities. Israel needed special assistance to absorb the massive immigration, which was provided in the form of $10 billion in American guarantees, which enabled absorbing immigration and developing high-tech. These years also reflected the demographic changes, mainly the strengthening of the ultra-Orthodox community, and the creation of tribalism in Israeli society. Processes that were not always in line with the desired developments in the Israeli economy.

**Section VI: State Elements**

Chapter 31: Institutions and Governance

Chapter 32: Education and Institutions of Higher Learning

Chapter 33: Infrastructure

Chapter 34: Productivity

Chapter 35: Security and Peace

The aspiration of the country's leaders and of the public is to maintain a state that will be a reformed "kingdom" with a state agenda with strong civil state institutions, a robust economy and a fair society.

The many changes that society and the economy have undergone have necessitated the strengthening of state institutions that will enable a good coping with the changes and challenges in the economic regime and in the new demographics. An important part of the economy's success in sustaining development, growth, and coping with crises, both civilian and military, which occasionally plague Israel. All these factors lie in governance, the quality of physical infrastructure, functioning of the civilian services in the fields of health, education, higher education, and reasonable inequality as a basis for social solidarity and high productivity. Israel is located in an area that poses security and political challenges that distinguish it from most developed countries, but in order to survive, it is imperative to maintain proper and reliable governance, as well as functioning infrastructure. Good governance is part of a balance between neoliberal policies and social democratic policies. Surveys show that the majority of the public, including right-wing and ultra-Orthodox voters, are interested in social democratic principles, a combination of the private market, competition and science alongside a welfare state of public services and regulation to correct market failures. The right balance is complex and dynamic and is necessary for the well-being of the public.

**Section VII: The Covid-19 Crisis and Future Challenges**

Chapter 36: Covid-19 and Opportunity

Chapter 37: The Difficulties of Calculating a Course

The covid-19 crisis that has hit the world, including Israel, is a health crisis with severe economic and social consequences. The crisis has exposed the advantages and weaknesses of the Israeli economy and society. Like any crisis in the past, it requires lessons to be learned and opportunities to improve the economy and society. Despite the advantages and strengths that emerged during the crisis, attention should be given precisely to the weaknesses that have emerged in which the strength of the economy depends on the weak links, which determine the degree of strength of the economy and the resilience of Israeli society. The crisis has highlighted weaknesses, most of which were known even before the crisis, lack of infrastructure, issues of governance and enforcement combined with aspects of tribalism and autonomy of large communities such as ultra-Orthodox, Arabs, and Bedouins. The challenges of the future are the result of the dual development of the economy and society since the 2000's. The split between a global, technological economy that earns according to international rewards, centred on the high-tech industry, and a traditional and local economy that is less competitive and whose employees earn less than those employed in the global economy.

**Section VIII: The Palestinian Economy**

Chapter 38: From the Six-Day War to the Rise of the Palestinian Authority

Chapter 39: The Palestinian Authority

Chapter 40: The Gaza Strip

The Palestinian economy is located near Israeli population centers and affects economic activities in Israel: in the labor market, water, infrastructure, the construction and agriculture sectors, the environment, and defense spending. In the period after the War of Independence and until the Six-Day War, some 19 years, there was a rift between the West Bank and the Gaza Strip and between Israel and there were no economic relations. Following the Six-Day War (1967), Israel took control of the West Bank and the Gaza Strip and assumed overall responsibility for the Occupied Territories, including the Palestinian economy and its relations with Israel. From 1967 to 1994, Israel and the occupied territories were a single economic unit, with preferences for the Israeli economy over the economy of the territories. The Paris Agreement of 1994 regulated a new relationship on economic issues with the Palestinians with the establishment of the Palestinian Authority as an autonomous authority, which was given powers for autonomous management, including the economic sphere over part of the West Bank and the Gaza Strip. New economic relations were established between the Occupied Territories and Israel, but Israel's dominance remained clear. The gaps between the Israeli and Palestinian economies have increased, and the economy of the Occupied Territories is weak and dependent on Israel. The 2007 Hamas takeover of Gaza has had an impact on economic ties between Israel and Gaza.

**About the author**

The author is an economist who for more than fifty years was involved in Israel’s economy at senior government levels, in the business sector, in civil society and in the third sector.

My long-standing engagement with the government mostly in the realm of macro-economics, my lectures in academia on Israel’s economy in the 1950s, the articles I have published, my involvement in the Palestinian economy since managing the economic negotiations for the Paris Protocol – based on my access to primary sources. My participation in public committees in the business and third sectors both enriched me personally and informed my authorship with additional, multi-faceted perspectives on Israel’s economy.

My professional focus in the economic sphere allowed me a presence, close-up view, and involvement in the key junctures of the Israeli economy. I was fortunate to be an active partner in the Stabilization Program (1985), responsible (as project manager) for its “non-orthodox” portion – price supervision; a formative period that equipped me for crisis management. Following a four-year respite as financial deputy-director (CFO) for Israel Aircraft Industries (1987-91) after the cancellation of the Lavi jet-fighter project, I returned to the Finance Ministry as State Budget Director and Director General of the Ministry of Finance (1991-97). This was a fascinating period of large-scale immigration from the former Soviet Union, the introduction of essential economic reform and changes, the transition from a centralized public economic regime to an open, competitive market-based economy. It was also a period of political processes undertaken with the Palestinians, and the peace treaty with Jordan. I was privileged to conduct the negotiations with the Palestinians on the economic agreement of Paris, 1993-94. For the Israeli economy, these were important, formative years.

My experience outside of the government system lent me diverse perspectives on the economic activities of Israel’s economy and society. I served as chairman of the executive committee of the Ben-Gurion University of the Negev, the Hadassah Academic College, and Hadassah Hospital. I was involved in the area of economy and security, serving, among other things, as chairman of the public committee examining the security budget. My years as chairman of the Bank Leumi from 2010 to 2019 coincided with significant changes in technology and regulation worldwide, including in Israel. My lectures in academia were a pleasant and professional way for me to remain updated on the processes and data of Israel’s economy. In the senior positions that I filled, I saw the economy in periods of change and transformations that introduced me to broad areas of the economy and society, allowing me to both observe and be involved in the exciting processes of Israel’s economic development.

This book presents the significant economic events that occurred, mainly the weighty decisions taken at crucial junctures of Israel’s socio-economic policy. I learned and noted the institutional system, its basics anchored in the pre-state period. This system constituted a major foundation of the economic development and secret of success of both the state economy, and that of the Jewish Yishuv in pre-state Israel.

There is an academic book on the Israeli economy written by Prof. Yossi Zeira. My book is different in a number of ways, it describes the Israeli economy based on my many years of experience in the Israeli economy – in senior positions in the government, the business sector, and civil society activities. The above personal engagement allowed me to get valuable insight concerning some of Israel's policy making and government activities.  In addition, I write about current economic issues and combine social and political issues as a necessary background for economic issues. The book also points to major issues in Israel's economy that are forward-looking.

The book takes an integrated approach to economics, politics, crisis management, governance, demography, sociology and technology; all of which explain the transformation of a tiny, undeveloped economy into an advanced, modern economy. It will hopefully enrich the discourse of an interest in Israel’s economy and/or in the adoption of broad policy in developing economies wishing to become developed economies.

The book is aimed at professional academics and students, as well as the general public: at anyone interested in Israel’s economic development, in reliving the successes and errors of an impressive, exciting economic journey, and in understanding the challenges of the future.

For those who interested in international development and growth processes, for those interested in the State of Israel and the Israeli economy. There is no book in English that describes in detail the economic developments of Israel during such a long period of time that describes the special development of the Israeli economy and the connections of the Israeli economy in global economic development.

**Brief education and employment history**

***Education***

Hebrew University – B.A. Economics and Political Science*:* 1968

Hebrew University – M.A. Economics *1972*

**Supplementary Education**

1979: International Monetary Fund, Washington Macro Economic Policy and Financial Policy (5 months)

1983: Salzburg seminar for economics International Financial Development (Weeks)

1987: Guest of the U.S. government – Re Tax Reform (One month)

**Current public positions**

Chairman of the Executive committee of the Jerusalem Foundation (from 1998)

Chairman of the Board of Governors of the Hadassah Academic College (from 2019)

Member of the director of the Jerusalem Institute for Israel Studies (from 2007)

**State Service**

Approximately 30 years in the State service:

1995-1997: Director General, Ministry of Finance

1991-1995: State Budget Director, Ministry of Finance

Head of Israeli Delegation and Chief negotiator of the Paris Protocol Economic Agreement with the Palestinians (P.L.O) 1993-1994

1984-1987: Head of supervising prices of the Economic Stabilization Program, Ministry of Industry and Trade

1986-1987: Senior Deputy Director for Finance, Planning and Economics, Ministry of Industry and Trade

Deputy Director General – Planning economics, Ministry of Industry and

Chief Economist, Ministry of Industry and Trade :1982-1983

Deputy director' Economic Planning Authority' Ministry of Finance :1979-1982

1972-1979: Macro-Economic Planning Department, Economic Planning, Ministry of Finance

**Chairman of Governmental and public Committees**

2007: Defense Budget Committee

2005: Social Security status Committee

1999: Medical malpractice (With Tami Ben David)

1998: Dual listing in Tel Aviv Stock Exchange Committee

1998-99: Post Service Committee

1996: Capital Market committee

1995: Banks Committee Real Corporate holdings by the

1996: Competition in Tel communication Sector Committee

1995: Privatization Trough Option to the Public Committee

1994: Criteria for Public Buildings Committee

1989 Flour Mills committee

**Business Sector**

Chairman of the Board El-Al – Israel Airline, 2020-2021

Chairman of the Board Bank Leumi 2010-2019

2012 - 2015: Chairman of the Board, Bank Leumi USA

1999-2004: chairman of the Board YES (DBS Satellite Service)

1999-2001: Chairman Advisory Board, APAX Funds (Equity Fund)

1998 - 2001: Chairman of the Board, (Imagesat Space)

1998 – 2002: Chairman of the Board, Atlantium (Optic Fibbers)

1997-1998: Chairman of the Board, United Mizrahi Bank

1997-1998: Chairman of the Board, Tefaot (The largest mortgage bank in Israel)

1987-1991 Vice President (CFO) Israel Aircraft Industries (IAI)

Member of the Anti-trust Authority

1983-1987; Board o Israeli Management Centre

1984-1987: Board of The Council for Statistics

**Board Memberships**

Board of Directors of Camery Theatre, 1998-2022

1998-2010, Chairman of The Executive committee. Ben Gurion University

1998-2010: Chairman of Falk Institute (Economic Affairs)

1999-2001 Board of Directors of TEVA

1986-2019: Chairman of the executive Board, Hadassah Academic College

1995-1998: Chairman of the Board, Karnit (State insurance company)

1981-1987: Board of Directors of Israel Aircraft Industry (IAI)

1991-1994: Board of Directors of Israel Aircraft Industry (IAI)

**Teaching in Higher education Institutions**

1972-2006: Lecturer in Economics – Ruppin Academic College

1998-2008: Lecturer in Hebrew University, School of Business Administration

1998-2007: Ben Gurion University, Public Policy Reforms in Israel

2006-2019: National Defence College, Economics for Haifa University

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