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"The Israeli Economy from the Foundation of the State
through the 21st Century"**

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Review of Paul Rivlin's "The Israeli Economy from the Foundation of the State through the 21st Century"

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There are many good reasons to read Paul Rivlin's account of the recent history of the Israeli economy. But there are also many reasons to be very careful in accepting all of the analyses as established facts. The first part of the book discusses the history of the Israeli economy in terms of its broad structure. The second part focuses on individual topics in Israeli political economy. The good and the bad in the book roughly follow this division into two parts.

In the first part of the book, Rivlin nicely summarizes how between 1917 and 1948 the Jews planted the seeds of the pre-state economy under the shadow of British rule and conflict with the Arabs. The Jewish community combined a strong socialist identity with reliance on private capital for growth. The economy was dominated by agricultural collectives (Kibbutzim and Moshavim), an all powerful federation of trade and labor unions (the Histadrut) whose headquarters in Tel Aviv was nicknamed the "Kremlin", and an overbearing central government which owned all of the land.

After the War of Independence in 1948, the Israeli economy continued to be controlled by the unions and the government. But the focus of the economy began to shift away from agriculture and towards basic industries such as textiles and clothing. Economic policy also changed focus, concentrating mostly on absorbing immigrants, encouraging investment by Jewish entrepreneurs from abroad, and protecting local industries (import substitution).

Despite several praiseworthy but fleeting attempts to liberalize the economy (especially in the late 1970s), protectionism, union domination, and massive expenditures by the central government (including necessarily high Defense outlays) continued unabated. This inevitably led to an unsustainable public debt burden, monetization, and hyperinflation. By 1985, Israel had no choice but to introduce a radical and comprehensive stabilization program which shocked the economy onto a new trajectory. The need for more free trade and establishing a modern market economy finally began to be taken more seriously.

Since 1985, the struggle for economic freedom has made important but still limited inroads into the public consciousness. Israelis are just beginning to understand that enormous economic potential exists and that it is being stymied by anachronistic economic structures. For example, Israel has succeeded in becoming a world leader in hi-tech innovation, yet public and private monopolies (economic concentration), as well as vestiges of a soviet style bureaucracy, inhibit the ability of immense levels of human capital to be exploited more widely. While Rivlin does a very competent job of describing the early economic development of Israel from 1917 through the 1990s, he fails to sufficiently address this critically important Israeli economic paradox.

The second part of the book, which takes a less macroeconomic perspective, concentrates on “hot” topics in Israeli political economy. The chapter on Defense expenditures is quite good. Among other things, it discusses the role of American military aid to Israel and the need for more outsourcing and privatization of the Israeli Defense Forces. However, it’s all downhill from there. The remaining chapters suffer from exceedingly weak and incomplete economic analyses.

For example, the discussion on the economic costs of West Bank settlements completely ignores important aspects of the economic equation. Maintaining and protecting settlements is undoubtedly costly to society, but settlements may also significantly lower housing prices throughout Israel. The analysis is also blatantly myopic. It does not account for possibly higher future security costs resulting from pullouts. The uprooting of settlements in Gaza and the ensuing rocket attacks on the Israeli cities of Sderot, Ashkelon and Ashdod is a good example of future security costs that may in the end be more than offsetting.

The chapters on the ultra-orthodox, the Arab minority in Israel, and socioeconomic divisions are just as incomplete and misleading as the discussion on the economic relations between Israel and the Palestinians. In essence, the second part of the book surreptitiously eases the reader into the main arguments of the Israeli Left, couched in terms of economic cost-benefit analysis.

The first part of Rivlin’s book is a well done and useful summary of the recent history of the Israeli economy. It can serve as an excellent reference manual for students and researchers. However, the second part of the book is hardly worth reading, unless one is searching for economic arguments, weak ones at best, misleading ones at worst, to bolster an already committed leftist political leaning.