

**מכון ראות**

THE REUT INSTITUTE



# **ISRAEL 15 Vision**

## **Principles and Guidelines for Achieving a Socioeconomic Leapfrog**

**Version B**

**Shvat 5769  
February 2009**



**To become one of the fifteen leading countries**

126 Yigal Alon St., Tel Aviv 67443, Israel ▪ **67443 תל אביב** ▪

(580419513 (ע"ר +972-(0)3-6950090 ▪ [office@reut-institute.org](mailto:office@reut-institute.org) ▪ [www.reut-institute.org](http://www.reut-institute.org)

**"Where there is no vision,  
the people perish."**

**Poverbs 29:18**



**To become one of the fifteen leading countries**

---

126 Yigal Alon St., Tel Aviv 67443, Israel ▪ **תל אביב 67443**

(580419513 (ע"ר +972-(0)3-6950090 ▪ [office@reut-institute.org](mailto:office@reut-institute.org) ▪ [www.reut-institute.org](http://www.reut-institute.org)

## Table of contents

<b>Guidelines for Quick Read</b> .....	<b>3</b>
<b>Executive Summary</b> .....	<b>3</b>
<b>Background: The Reut Institute and the ISRAEL 15 Vision</b> .....	<b>7</b>
<b>Introduction: Purpose and Structure of this Document</b> .....	<b>8</b>
<b>Chapter 1: The Phenomenon of Leapfrogging</b> .....	<b>10</b>
Definitions.....	10
General Characteristics .....	11
Public sphere that enables leapfrog .....	12
Vision, Values and Trust.....	13
Institutions that Enable Transformations .....	15
Leadership: Elite Committed to Deep Changes .....	17
Politics: Inter-Party Contract and National Mobilization .....	18
Policy: Unique Path. Public Sector Sets the Stage .....	18
Unique & Global Development Policy .....	21
Labor Market Policy: Protecting Workers, not Jobs .....	23
<b>Chapter 2: Israel Needs a Leapfrog, but still desires Growth</b> .....	<b>25</b>
Leapfrog in Israel: not a luxury .....	25
The Starting Point: Strong Economy on Weak Legs .....	27
The Current Perception: Growth and not Leapfrogging .....	28
<b>Chapter 3: Guidelines and Principles for a Leapfrog in Israel</b> .....	<b>31</b>
Vision, Values, Leadership and Politics .....	31
Macroeconomic Goals .....	31
Institutions.....	31
Policy: Strengthening Israel's Weak Legs and Creating New Horizons .....	33
<b>Appendix A The Reut Institute and the 'ISRAEL 15' vision</b> .....	<b>35</b>
What is the Reut Institute's mission? .....	35
What is the Reut Institute's unique added value? .....	35
What is the Reut Institute's vision? .....	36
What is the ISRAEL 15 Vision? .....	36
How was the ISRAEL 15 Vision conceived? .....	36
What's the difference: 'Quality of Life' or 'Per Capita Income'? .....	37
How to evaluate Quality of Life? .....	37
What Is Israel's current ranking? .....	38
Why 'ISRAEL 15' and not 'ISRAEL 10' or 'ISRAEL 20'? .....	39
What is the meaning of 'Quality of Life in Israel'? .....	39
Reut's role in promoting the ISRAEL 15 Vision: To Be a Catalyst.....	40
<b>Appendix B The 'ISRAEL 15' vision and the 'ISRAEL 2028' plan</b> .....	<b>41</b>
<b>Appendix C Bibliography</b> .....	<b>44</b>



To become one of the fifteen leading countries

## ISRAEL 15 Vision Principles and Guidelines for Achieving a Socioeconomic Leapfrogging

### Guidelines for Quick Read

**Each paragraph contains a single idea that is captured in a bolded sentence.** Footnotes do not include additional ideas but rather provide further elaboration, examples or sources. This document is a translation from Hebrew, which has been adapted to non-Israeli readers.

### Executive Summary

1. **Israel's inferior position in the global competition for human capital may cause the collapse of its social and economic foundations** – There is a disparity between Israel's excellent human capital and the quality of its private sector, on the one hand, and the mediocre quality of life Israel offers its citizens in comparison to the leading developed countries, on the other hand. Hence, currently, Israel is one of the world's leading exporters of human capital. If this disparity grows, Israel may be vulnerable to emigration of a critical mass of its qualified and educated members of the society, leading to erosion and even collapse of the backbone of its society.
2. **Therefore, Israel's leapfrogging – achieving sustainable high growth that would allow Israel to close the gap in quality of life with most developed nations – is not a luxury. It is a necessity.**
3. **Nevertheless, Israel is not organized for leapfrogging.** Its public sphere and discourse are focused on macro-economic stability and moderate growth but not on leapfrogging.
4. **Therefore the Reut-Institute has embraced the ISRAEL 15 Vision, which calls for Israel to become one of the fifteen leading countries in terms of quality of life within fifteen years, to inspire its work in the areas of economic and social development.** In order to realize this vision, Israel's social and economic performance must leap to a point where it catches up with the most developed nations.
5. **The 'leapfrog' occurs when average annual real GDP growth exceeds 3.5% for at least eight years.** In order to be considered an 'economic miracle', average 7% real growth needs to be sustained for at least 25 years. Thirteen countries have



**To become one of the fifteen leading countries**

achieved this feat, among them: Singapore, Japan, South Korea and Brazil. Israel also leapt between 1951 and 1972. During this period we enjoyed average annual real growth of 5.5%.

6. **Sustainable high growth is a necessary condition for leapfrogging, but insufficient** – As mentioned, in order to be considered a leapfrog, growth has to be sustained at a level of 3.5% for 8 years. Another necessary condition for a leapfrog is 'inclusiveness' i.e. that it leads to an improvement in the quality of life of all citizens.
7. **There is no 'recipe' for leapfrogging.** Each country that leapt shaped its economic and social path according to its own unique history, social structure, system of government and unique assets and burdens.

#### **The Key to Leapfrogging: The Capacity to Transform**

8. **Leapfrogging entails accelerating the pace of the socioeconomic change** – Leapfrogging is characterized by an acceleration of the pace of change in the makeup of products and services, which is tantamount to acceleration of social change. Therefore it requires the establishment of institutions that allow for and support rapid change in the social and economic environment.
9. **The public sector is the engine of leapfrog.** The ability of a nation to leap is determined by its values, leadership, institutions, politics and policies.
10. **The common denominator among the countries that leapfrogged is:**
  - **Vision** – In most of the countries that leapt there was a vision of economic and social development, which mobilized all sectors of society.
  - **Leadership by committed elite** – Leapfrogging entails multiple adaptations of values, priorities and institutions and therefore requires leadership. Due to its complexity and duration (minimum of eight years), propelling a leapfrog is beyond the ability of a single leader and requires the commitment of an entire elite in positions of influence, authority or leadership. This elite must include elected officials and civil servants on the national and municipal levels, business people, leaders of nonprofits and philanthropies, academics or from the media.
  - **Inclusive growth: enlarging the pie and sharing it with the whole society** – Leapfrogging requires achieving high sustainable growth and making it inclusive.
  - **Institutions that enhance the capacity to transform** – Sustaining high growth require strengthening the capacity of a society to withstand accelerated change. Hence, institutions that effectively regulate interactions among the major sectors of society are key to leapfrogging.

- **Global and unique development policy** – 'Development policy' refers to a concerted effort to allow rapid growth of a specific industry. Such development policy may include legislation, regulation, infrastructure, training of human capital, trade relations or investments. Leapfrogging requires focusing development policy on exhausting a nation's unique assets or strong and stable global trends.
- **Labor market suited to cope with rapid growth and changes. Protecting the worker and not the job** – Another essential condition for leapfrogging is adjusting labor market to rapid growth. This requires labor, government and employers to work together to increase the flexibility in the labor market, on the one hand, while allowing workers to increase their human capital, on the other hand.
- **Growth diagnostics** – Every country faces a different mixture of constraints on its economic development. Countries that leapt effectively identified and addressed the binding constraints of their development.
- **Few elite units** – The story of leapfrogging is often propelled by a small number of highly professional and committed units in the public sector that focus on designing and implementing policy and solving problems.
- **Local and regional development** – Top-down government policy needs to be integrated with bottom-up growth generated by different regions. Therefore, it is important to allow leaderships of local governments, business, nonprofits and philanthropies design and implement policies for local and regional development.
- **National Mobilization** – Social and economic development must become a national project that transcends the traditional professional leadership in central banks or government ministries to all key sectors of society.

#### Guidelines and Principles for a Leapfrog in Israel

11. **Based on the above, in order to set in motion an Israeli socioeconomic leapfrog, the following guidelines and principles should be implemented:**
  - **Adopting the ISRAEL 15 Vision a national vision** for Israel's social and economic development.
  - **Designating a 'Central brain'** whose roles will be to assess Israel's national performance and to identify global trends and analyze their significance to Israel.
  - **Identifying and nurturing elite units in the public sector in areas that are essential for leapfrogging.** These may include, for example, units that deal with law enforcement, foreign investments or exports.

- Structural reforms in sectors that are critical for leapfrogging such as in seaports and airports, in the courts, planning and zoning and development.
- **Forging round table agreements on labor market** – These agreements should aim to increase flexibility of the labor, as well as to increase the human capital of workers.
- **Inclusion of Ultra-Orthodox and Arabs in the labor market.** Israel suffers from a particularly low level of participation in the labor force. Hence, the inclusion of the ultra orthodox community and the Arab Israeli sector into the labor force must become a national project.
- **Unique and global development policy** – In order to leapfrog, Israel must implement a development policy that will exhaust the areas that may become the engines of Israel's rapid growth.

In this context, the Reut Institute identifies the following global trends as potential engines of Israel's future development: The rise of China and India; the move towards clean energy and oil substitutes; the water crisis and the growing need for desalination, recycling and management; the effects of global warming; the growing need for homeland security; economic growth and social change in Africa; growing demand for food security; and the ageing of population in Europe and the United States.

**Exploiting Israel's unique assets and transforming them into engines of growth** such as the Jewish world and Israeli Diaspora, the Holy Land, the defense establishment and industry and Israel's unique experience in greening the desert.

- **Fostering local and regional economic development** – Israel should lay the foundations for socio-economic development at the level of local governments by measures such as integration of small local authorities; fighting corruption; empowering local leadership; and establishing a national policy to support such development.

## ISRAEL 15 Vision Principles and Guidelines for Achieving Socioeconomic Leapfrogging

### Background: The Reut Institute and the ISRAEL 15 Vision<sup>1</sup>

1. **The Reut Institute is a nonprofit organization** with the mission of sustaining significant and substantive impact on the future of the State of Israel and the Jewish world. Reut provides its services pro-bono.
2. **Reut's unique contribution stems from its specialization in identifying strategic opportunities or surprises facing Israel**, developing knowledge about them and mobilizing the relevant community to make the necessary adaptations.
3. **The ISRAEL 15 Vision focuses on placing Israel among the fifteen leading countries in terms of Quality of Life within fifteen years.**<sup>2</sup> This vision inspires Reut's work in the areas of Israel's social and economic development. Currently, Israel is ranked at the bottom of the ladder among developed countries in terms of income per capita and quality of life (according to the Economist's Quality of Life index, Israel is ranked 38<sup>th</sup> in overall quality of life).<sup>3</sup>
4. **The ISRAEL 15 Vision was conceived by Ms. Raya Strauss Ben-Dror, Mr. David Brodet and by Mr. Gidi Grinstein** in a project titled 'Israel 2020' of the Friedrich Ebert Foundation in 1996-98. In this project, representatives from different sectors of Israeli society were invited to outline scenarios for the future of the State of Israel in the year 2020. Raya, David and Gidi wrote the ISRAEL 15 Vision that called for Israel to become one of the fifteen leading nations in quality of life by 2020.

**Since the initial project, each of these three individuals has continued to promote and serve this vision.** Ms. Strauss Ben-Dror made the ISRAEL 15 Vision a source of inspiration for her extensive philanthropic giving; Mr. Brodet led the team that prepared the "Israel 2028 – Vision and Strategy for Economy and Society in a Global World" (hereinafter "Israel 2028"), which adopted the ISRAEL 15 Vision (see appendix B);<sup>4</sup> and Gidi Grinstein established the Reut

<sup>1</sup> For more information on issues regarding the ISRAEL 15 Vision and the Reut Institute, please refer to Appendix A.

<sup>2</sup> For more information see the document: [ISRAEL 15 Vision](#).

<sup>3</sup> For different definitions of Quality of Life see The Economist Intelligence Unit, **Quality of Life Report**, 2005.

<sup>4</sup> "The State of Israel will become one of ten to fifteen leading countries in terms of income per capita, and would act in favor of all its citizens to improve the quality of their lives and the life of future generations", Brodet D. and Hurvitz E., Brodet D., [Israel 2028 – Vision and Strategy for Economy and Society in a Global World](#), (The Samuel Neaman Institute, 2008).



**To become one of the fifteen leading countries**

Institute in 2004 where the ISRAEL 15 Vision has been an integral part of the institute's vision and work.

5. **Realizing the ISRAEL 15 Vision requires a leapfrog of Israel's social and economic performance** to a point where Israel catches up with the most developed nations. This requires sustainable high growth that is inclusive i.e. that the increasing national wealth leads to improving the quality of life of the entire population (see hereinafter).
6. **The concept 'quality of life' refers to the overall wellbeing of individuals and households.** The definition of 'quality of life' is subject to debate, though there is agreement that the most important component is material wellbeing. Quality of life relates to income per capita or quality of public services that are measurable and tangible, as well as to non-tangible aspects such as political and economic freedom, quality of family and community life or even climate; to present working and living environment, as well as to future opportunities and prospects.<sup>5</sup>
7. **Israel suffers from a dangerous gap between its high human capital and its relatively low quality of life.** According to international indices, Israel is ranked among the richest nations in terms of its human capital and the quality of its business sector. At the same time, the quality of life in Israel is mediocre in comparison to other developed nations and the public sector is weak.<sup>6</sup> Therefore, many Israelis can improve their quality of life by emigration. Indeed, Israel is ranked second in the world in overall 'brain drain' and first in the world in exporting its academic talent.
8. **If present trends persist, Israel may be at risk of mass-emigration of its talented and educated to the point of eroding the backbone of its society** – In the past 35 years, the quality of life in Israel has been steadily declining relative to other developed nations. If this process continues beyond a tipping point, Israel may be at risk of a collapse of the backbone of its economy and society due to mass-emigration.
9. **Therefore, economic and social leapfrogging is not a luxury but a necessity.**

### Introduction: Purpose and Structure of this Document

10. **Purpose: this document aims to serve as a tool for people in positions of leadership, authority or influence who are willing to serve the ISRAEL 15 Vision** – It offers principles and guidelines whose implementation may lead to a social and economic leapfrog in Israel toward realizing the ISRAEL 15 Vision. The structure of this document is:

<sup>5</sup> See UNDP, **Human Development Index**, Human Development Reports, 2008. See also Reut's concept: [Quality of Life in Israel](#).

<sup>6</sup> Porter M. E., Schwab K., [The Global Competitiveness Report](#), (Geneva: World Economic Forum, 2008), p. 195.



To become one of the fifteen leading countries

- Chapter 1: The Phenomena of leapfrogging – This chapter assembles the collective wisdom regarding leapfrogging of developed nations.<sup>7</sup>
  - Chapter 2: Israel needs a leapfrog, but is organized for growth – This chapter highlights the gap between Israel's dire need for a leapfrog and its current alignment.
  - Chapter 3: Realizing the ISRAEL 15 Vision – This part offers a set of principles and guidelines for achieving Israel's leapfrog.
11. **This document is the second major milestone in the ongoing study of this issue by the Reut Institute.** Reut has been dedicated to serving the ISRAEL 15 Vision since September 2006. During the past two years, we have written numerous documents and presentations dealing with different aspects of the challenge.
- Recently, inspired by the Israel 2028 program, we began to summarize the knowledge that we have gathered in comprehensive documents titled: "ISRAEL 15 Vision: Principles and Guidelines for Achieving Socioeconomic Leapfrog." Every document builds on its predecessor and adds new fields of knowledge that are necessary for understanding the challenge of Israel's leapfrog. Version A of the document was published in August 2008 (hereinafter: "Version A").
12. **Version B elaborates on Version A in two main areas** – It outlines the public sector that is essential for achieving a socioeconomic leapfrog and defines the principles and guidelines for an Israeli leapfrog. The document relies primarily on sources such as The Growth Report – Strategies for Sustained Growth and Inclusive Development,<sup>8</sup> Israel 2028, and the research and publication of Professor Ricardo Hausmann, Dani Rodrick and Elhanan Helpman.<sup>9</sup>

<sup>7</sup> See [The Growth Report – Strategies for Sustained Growth and Inclusive Development](#) by the Commission of Growth and Development, (Washington DC: The World Bank, 2008). The Growth Report addresses the common traits of countries that have leapt.

<sup>8</sup> *ibid.*

<sup>9</sup> For the full bibliography see appendix B.

## Chapter 1: The Phenomenon of Leapfrogging

13. **This chapter summarizes the collective knowledge on the phenomenon of leapfrogging with an emphasis on the challenges of sustained growth by developed countries.** Its aim is to offer an overview of the existing literature to enrich the discussion over the principals and guidelines of Israel's leapfrog.

### Definitions

14. **In the context of socioeconomic development of nations, 'leapfrog' means accelerated development, which narrows disparities in quality of life relative to other countries** – A leapfrog requires a combination of sustainable high growth, which enlarges the pie, and inclusiveness which distributes the fruits of growth in a way that increases the quality of life of all citizens (inclusive development).<sup>10</sup>
15. **The difference between 'growth', 'growth acceleration', 'leapfrog' and 'economic miracle':**
- **Growth** is defined as a rising GDP year-on-year. Growth is a common: most countries will experience growth with the average real annual growth rate of developed countries in past decades being less than 2%. Growth cycles usually last three to five years, after which the economy slows down.<sup>11</sup>
  - **Growth Acceleration** is defined as annual real growth that exceeds 3.5% for eight years. Only one of four countries will experience accelerated growth in a given decade. Usually, after those eight years, most nations will return to the common growth pattern.<sup>12</sup>
  - **Leapfrog / catch-up episode** occurs when the growth acceleration of a minimum of 3.5% average annual real growth lasts beyond eight years.<sup>13</sup> As such development is uncommon, a nation that is able to perform at this level catches up to the developed nations, hence the name 'catch-up episode'.
  - **Economic miracle** – In rare occasions, when the average annual growth rate of a country exceeds 7% for more than 25 years, this country qualifies as an 'economic miracle' (annual growth of 7% that lasts a decade doubles

<sup>10</sup> Growth Report, pp. 1, 27.

<sup>11</sup> Hausmann R., Pritchett L., Rodrik D., "Growth Accelerations", **NBER Working Papers Series**, (Harvard University, 2004), p. 5.

<sup>12</sup> Growth Accelerations, p. 2.

<sup>13</sup> Growth Accelerations, p. 14.

the GNP).<sup>14</sup> According to the Growth Report, thirteen countries have achieved this feat since the Second World War.<sup>15</sup>

16. **Israel went through a leapfrog from 1951 to 1972.** It averaged annual growth of 5.5%.<sup>16</sup> As a result, Israel's GDP rose from 30% of US per capita GDP to 60% despite a large security burden and the growth of its population five-fold.<sup>17</sup>

### General Characteristics

17. **Every country can leapfrog, developed nations included – The economic miracles vary dramatically** in terms of size, population, location, stage of economic and social development, history, culture and religion and government. Among others, they include Singapore, Japan, South Korea, Brazil, China, Botswana and Taiwan.<sup>18</sup> Other countries that have enjoyed impressive leapfrogs, that do not qualify as economic miracles are Ireland, Germany, Finland and Chile.<sup>19</sup>

**In addition, many nations offered radically different performances in different political environments.** Examples include East and West Germany, North and South Korea, the French Fourth and Fifth Republics, Singapore and Malaysia or the performance of Israel until 1972 and afterwards.

**Hence, our conclusion is that there is no reason to assume that a nation's pace of development must be the capped at the global average.**

18. **'Economic miracles' are generated by humans** – The use of the words 'economic miracles' to describe the outstanding performance of average annual real growth of 7% for 25 years resigns many to believe that these are inexplicable and unique societal phenomenon. However, a study of the common characteristics of the 13 countries that belong to this club or states that have outperformed the global average for many years reveals a relatively broad common denominator.<sup>20</sup>
19. **Leapfrogging is a supra-economic phenomenon** – Leapfrogging is a result of a 'perfect storm' of successful economic policy; social, political and ideological

<sup>14</sup> Growth Report, p. 1.

<sup>15</sup> Growth Report, p. 19.

<sup>16</sup> Ben David D. "Israel's Socio-Economic Paths", **Economy Quarterly** (Tel Aviv University, 2003), pp. 27-104.

<sup>17</sup> See a power point [presentation](#) by Prof. Hausmann from his visit to Israel (January 2008).

<sup>18</sup> Growth Report, p. 20.

<sup>19</sup> As mentioned earlier, the definition in Growth Accelerations is less strict than in Growth Report. See: Growth Accelerations, Table 3.

<sup>20</sup> This has been the underlying logic of the Growth Report. See ch. 2. See also Rodrik D., **One Economics, Many Recipes**, (New Jersey: Princeton University Press), p. 15. This has been the logic of the work of the Reut Institute since inception.

maturity; leadership; strong global trends; and political stability.<sup>21</sup> Therefore, knowledge of economics is insufficient when trying to understand this phenomenon.

20. **There is no 'recipe' for leapfrogging** – Each country that leapt shaped its economic and social priorities and development path according to its own unique history, social structure, system of government, and unique assets and burdens.<sup>22</sup> For example, in the early 1990's, Ireland exploited the international need for a cheap English-speaking labor force to encourage high growth that lasted for over twenty years.<sup>23</sup> South Korea used the money it got from the United States after the Korean War in order to nourish the human capital and the physical infrastructure that were at the base of its leapfrog.<sup>24</sup>
21. **High, sustainable growth is a necessary condition for leapfrogging, but insufficient** – As mentioned, annual GDP growth exceeding 3.5% is a prerequisite. However, growth must be inclusive: its fruits must be translated into improvement in quality of life of the entire population.<sup>25</sup>
22. **The phenomenon of leapfrogging is yet to be sufficiently researched** – The limited research that does exist in this area focuses on the leapfrogging of developing countries. There is scant research on the leapfrogging of developed countries.<sup>26</sup>

### Public sphere that enables leapfrog

23. **While most countries will grow at an annual rate of up to 2%, and many will experience accelerated growth, few will leap** –
- **It is very easy for a country to grow** – For many, adherence to a few economic guidelines and the rising tide of global growth would yield this moderate pace of development even in times of political and institutional weaknesses.

<sup>21</sup> Growth Report, p. 2-3.

<sup>22</sup> Growth Report, p. 2.

<sup>23</sup> Department of the Taoiseach, **Ireland and the European Union: Identifying Priorities and Pursuing Goals**, (Ireland, 2005).

<sup>24</sup> Rodrik, D., Grossman, G., Norman, V., "Getting Interventions Right: How South Korea and Taiwan Grew Rich", Vol. 10, No. 20 (Apr., 1995), pp. 55-107.

<sup>25</sup> Growth Report, p.1.

<sup>26</sup> We are not aware of any book on this topic. The Growth Report, published in May 2008, was an initial attempt to amalgamate the knowledge that was accumulated about sustainable and inclusive growth. For further information, see the Commission on Growth and Development's [website](#).

- **It is relatively common to experience accelerated growth using a package of reforms.**<sup>27</sup> Indeed, one out of four countries will experience accelerated growth every decade.
  - **Very few countries are able to sustain their growth acceleration beyond 6-8 years and return to the global average.** This is because they fail to cultivate the mechanisms that enable them continuously reform their economy and society to accommodate fast growth.
24. **Fast growth and global competition mandate constant change** – Countries that successfully compete in the global market must be able to update the products and services they produce. It is a constant process of destruction and creation during which new industries rise while old ones decline. The economist Joseph Schumpeter called this process "creative destruction."<sup>28</sup> Prof. Ricardo Hausmann describes this process in his article on the product space.<sup>29</sup>
25. **Thus, leapfrogging entails accelerating the pace change** – Hence, acceleration in the pace of growth is synonymous to acceleration in the pace of change in the economy's products and services, which is tantamount to acceleration in the pace of societal change.

26. **Therefore, leapfrogging requires transformative capacities** – Leapfrogging requires the ability to make deep institutional changes to cope with the economy's progress. In other words, the foundations of leapfrog are the institutions in the public sphere that allow a society to cope with change.<sup>30</sup>
27. **Hence, the quality and structure of the public sphere enable the economic and social growth** – Research shows that the ability to leap is determined by the characteristics of the public sphere. This is particularly important with regard to leaping developed nations as most of them implement the macro-economic recommendations of the IMF.

### Vision, Values and Trust

28. This chapter presents the vision, institutions, leadership and policy required for the challenges of leapfrogging.

<sup>27</sup> Growth Accelerations, p. 2.

<sup>28</sup> Growth Report, p. 44.

<sup>29</sup> Hidalgo, C., A., Klinger, B., Barabási, A., L., Hausmann, R., "The Product Space Conditions the Development of Nations", *Science*, Vol. 307, 2007.

<sup>30</sup> Growth Report, pp. 28, 30-31, 83.

29. **Vision** – Most of the countries that leapt formed a vision of economic and social development, which mobilized all sectors of society.<sup>31</sup> This vision articulated a future that was desirable for the key groups and vast majority of the members of society.
31. Values: There are common values to countries that have leapt:
- **Future orientation** ("tomorrow at the expense of today") – countries that leapt developed a culture, framed in formal and informal agreements and practices, that focused on diverting many resources from consumption to investment by increasing national savings.<sup>32</sup> A well-known example is the The National Economic and Social Council in Ireland (NESC) that forged a compromise among different sectors to pull Ireland out of its economic crisis in the 1980s and launch its leapfrog.<sup>33</sup>
  - **Inclusiveness: All citizens enjoyed the fruits of growth (even if not equally)** – In countries that leapt, citizens felt that they and their children would enjoy the fruits of future growth whether through higher income or better public services such as public education, infrastructure, welfare and personal security.<sup>34</sup> This is defined as 'inclusiveness' and is differentiated from concepts of 'justice' or 'equality'.<sup>35</sup>
  - **A variety of market economies. None identical to the U.S.** – All leading economies, and all countries that have leapt, have market economies. However, these market systems vary in key areas such as regulation, structure of the labor market or level of government intervention.<sup>36</sup> In this context, no country that leapt implemented a model that resembles the U.S

<sup>31</sup> Growth Report, p. 26.

<sup>32</sup> Growth Report, p.23, 24, 55 ;[Israel 2028](#), p.184. The rate of national saving in the countries ranged from 20% to 25% of GDP. See: Growth Report, p.3; Montiel, P., and Serven, L., [Real Exchange Rates, Saving, and Growth: Background paper](#), submitted to the Commission on Growth and Development, 2008.

<sup>33</sup> On the role of trust see Reut paper: ["Triangle of Trust as a Condition for a Leap in Quality of Life"](#). ;[Israel 2028](#) p. 17

<sup>34</sup> Growth Report, p. 27.

<sup>35</sup> There are different views when addressing the problem of distributive justice. Some argue in favor of a distribution based on need and some based on reward. Nozick justifies unequal distribution of resources when it is the outcome of an act of purchasing and the outcome of a just reallocation of resources. Rawls justifies unequal distribution of resources when the poorest individual in a world is better off in comparison to his condition in a completely equal world. See: Nozick, R., **Anarchy, State and Utopia**. (Basic Books, 1974); Rawls J., **A Theory of Justice**, (Harvard University Press, 1971).

<sup>36</sup> Growth Report p.7, 25 ;One Economics Many Recipes, p.87 ;[Israel 2028](#), p. 15.

For example the quality of life in Finland and the U.S. is considered similar,<sup>37</sup> but per capita income in the U.S. is about 50% higher than in Finland. The difference stems from the fact that in Finland the level of public health and education services are relatively higher than in the U.S. In other words, while an American would have to buy medical insurance with his income, a Fin gets this service from her government.

- **Pragmatism** – One of the most striking characteristics of countries that leapt was their ability to execute a pragmatic socio-economic policy adjusted to local context. They forged strategies that constantly assessed the outcome of their policies based on trial and error methods along with learning mechanisms.<sup>38</sup>
32. **Trust is essential for leapfrogging. At its base is the commitment to a shared vision and to the values of leapfrogging** – A common vision and shared values are an essential condition for building trust among the government, the business sector, and the workers. This trust is vital when forming 'package deals' that are necessary for diverting resources from consumption to investment. The agreements between the three main sectors in Ireland which are updated every three years are a good example for setting rules based on trust between the players.
33. **Designing a vision and building capabilities; not 'another work plan'** – The conservative and conventional approach provides that in order to leapfrog, it is necessary to prepare a 'plan' that bridges the present and the vision. The Reut Institute argues that it is impossible to 'plan' a process of leapfrogging due to its complexity and long duration. Thus, it is necessary to design and inculcate an ambitious yet attainable vision and to build capabilities and institutions that are vital for generating and coping with rapid economic and social change.

### Institutions that Enable Transformations

34. **It is relatively easy to grow, but difficult to sustain accelerated growth for a long time** – As mentioned, the pace of growth of most countries rises and falls with the global trends. A quarter of the world's countries will experience high growth for six to eight years in any given decade which will then taper off.<sup>39</sup> Few will leapfrog.
35. **Preserving high growth requires the capacity to repeatedly transform the composition of products, services and exports. Thus, it is essential to strengthen the institutions that facilitate and regulate the interactions among**

<sup>37</sup> [The Economist Intelligence Unit's Quality-of-life index, 2005](#)

<sup>38</sup> Growth Report, p.25; One Economics Many Recipes, p.88.

<sup>39</sup> Growth Accelerations, p.14.



To become one of the fifteen leading countries

**the major sectors of society.**<sup>40</sup> There is wide consent among economists that institutions are key for preserving growth.<sup>41</sup> In all countries that leapt, a set of institutions matched to local conditions existed. They regulated the following areas:

- **Protecting property rights and building effective mechanisms to solve disputes and enforce contracts;**
- **Macro-economic stability;**
- **Solving disputes between employees, workers and the government;**
- **Provision of public services such as education, health, and policing at a high standard.**<sup>42</sup>

36. **Improving the capacity to take decisions and implement them. Focusing on a few elite units in the public sector** – Not all countries that have leapt enjoy an outstandingly performing government. Some of them suffer from an overall mediocre public sector. However, all of them were able to identify a few public sector organizations that had critical systemic importance for development and to turn them into elite units that were able to design policy, take decisions or execute. There are two categories of such units:

- **Central brains** – A central brain is a body that supports decision-making in areas that are important and systemic. A 'central brain' of a leapfrog needs may be governmental or non-governmental but has to focus on identifying global trends and analysis of their relevance, potential and impact on the local economy and society; on assessment of national performance in key areas of social and economic performance; and on supporting national decision-making. In some of the countries that have leapt, the 'central brain' also served as an enabler of the institutional partnership among the sectors in the market.<sup>43</sup>
- **Units that support and promote progress and innovation** – As mentioned, a necessary condition for leapfrog is accelerating the evolution of the national 'product space' i.e. transitioning into production and export of

<sup>40</sup> An 'institution' is a mechanism that regulates a relationship, based on the definition of the mutual expectation and norms of behavior of the different actors. Scott, W. R., "Institutional theory" in **Encyclopedia of Social Theory**, George Ritzer, ed.(CA: Thousand Oaks Sage, 2004), p. 408-414.

<sup>41</sup> One Economics Many Recipes p. 184, 187; Growth Report, p.4, 29. The Mystery of Economic Growth, p.13.

<sup>42</sup> Growth Report, p.5.

<sup>43</sup> The term 'Central brain' was coined by Prof. Yehezkel Dror. Dror defines 'central brain' as organizations that engage in cognitive decision making processes and forging the future. Dror Y., **The Capacity to Govern**, (London: Frank Cass Publishers, 1994), p. 158. See Reut Institute ['Central brain'](#) (in Hebrew).

increasingly more sophisticated products and services.<sup>44</sup> Hence, nations that leapt successfully nurtured units that specialized in identifying opportunities for the national economy;<sup>45</sup> supporting innovators at the seed phase;<sup>46</sup> helping entrepreneurs work through the bureaucracy;<sup>47</sup> or promoting collaborations that advance the national development agenda.<sup>48</sup>

## Leadership: Elite Committed to Deep Changes

37. **Leadership is an action intended to initiate fundamental changes** such as in values, patterns of behavior or priorities that are required to deal with the challenges lying ahead.<sup>49</sup>
38. **Growth does not require remarkable leadership. Accelerated growth requires one episode of remarkable leadership** – As most countries experience ordinary level of economic growth, it is clear that there is no linkage between growth and leadership. Similarly, as an episode of growth acceleration is often triggered by a package of reforms, it thus requires an episode of leadership that can be led by an individual, usually the chief executive of Minister of Finance.
39. **Leapfrogging requires an ongoing agenda of reforms and entails prolonged leadership that must stem from an entire committed elite** – Leadership is an essential condition for achieving a social and economic leapfrog. The duration of leapfrog – a minimum of eight years – transcends average political tenures in most democracies. Hence, as leapfrogging requires multiple and continuous fundamental changes, it requires commitment and mobilization of an entire elite in positions of influence, leadership or authority in business, bureaucracy, nonprofit, philanthropy, academia, and national and municipal politics. Such elite must understand the vision and challenge. Its members should also acquire the ability to make a contribution, each from his or her own position. Hence,

<sup>44</sup> Hidalgo, C., A., Klinger, B., Barabási, A., L., Hausmann, R., "The Product Space Conditions the Development of Nations", *Science*, Vol. 307, 2007.

<sup>45</sup> For example the [Economic Development Board](#) in Singapore worked to attract Multi National Corporations to invest in export and labor intensive industries in Singapore. See: Schein, E. H., **Strategic Pragmatism**, The Culture of Singapore's Economic Development Board, (MIT Press, 1997), p. 47.

<sup>46</sup> Such as Israel's Technology Greenhouses.

<sup>47</sup> [Sitra](#), a public foundation in Finland, encourages competitiveness with the provision of business development services, grants and research supplies.

<sup>48</sup> For example the Industry Development Agency (IDA) in Ireland initiates science incubators that combine academic research and business initiatives. See the agency [website](#). The Economic Development Board (EDB) in Singapore provides quick and effective service to businesses interested in investing in Singapore. See Reut's concept: [The Economic Development Board](#) in Singapore.

<sup>49</sup> Based on Prof. Ron Heifetz's definition; See: Heifetz R., **Leadership without Easy Answers**, (Harvard University Press, 1998).

leadership of the heads of the labor unions is as important to achieving leapfrog as is the leadership of the Prime Minister.

40. **The uniqueness of the leadership challenge of achieving a leapfrog:**

- **Putting the challenge of leapfrogging at the center of the public debate** and focusing national resources to meet it.<sup>50</sup>
- **Fundamental institutional changes** – As mentioned, leapfrog is a phenomenon that requires significant and fast societal transformations.<sup>51</sup> To do purpose, institutions and patterns of conduct must be developed to allow for the necessary fundamental changes.<sup>52</sup>
- **National mobilization** – As mentioned, leapfrogging requires widespread mobilization and legitimacy that transcends the traditional circles of economic decision-makers in central banks of treasury departments. It must incorporate municipalities, nonprofits, philanthropies and academia. In the specific context of Israel, it must also engage the world Jewry and Israeli Diaspora.

### Politics: Inter-Party Contract and National Mobilization

41. **Most leapfrogs occurred in authoritarian countries** where a stable and long lasting government had the ability to lead fundamental changes. Authoritarianism notwithstanding, their policy was usually based on dialogue with other key sectors of society, as it is difficult to leap in social and political unrest. No dictatorship is included among those countries considered economic miracles and few, if any, have leapt.
42. **In democratic regimes, leapfrog requires an agreement between political parties on the vision and few guiding principles** – In democratic regimes, especially in parliamentary democracies, there are frequent changes in government and policy. Therefore, in order to ensure the continuity that is essential for leapfrog, the leading parties must agree on the vision and few guiding principles of social and economic policy.<sup>53</sup>

### Policy: Unique Path. Public Sector Sets the Stage

43. **Theoretically, the set of best practices known as the Washington Consensus provides clear guidelines for responsible macro-economic conduct and development** – The Washington Consensus was created following the Second

<sup>50</sup> See: Dean Williams, **Real Leadership: Helping People and Organizations Face their Toughest Challenges**, (Berrett-Koehler Publishers, 2005), pp.89-115.

<sup>51</sup> Real Leadership, pp.163-189.

<sup>52</sup> Ibid. pp.115-141.

<sup>53</sup> Growth Report, p. 28.



To become one of the fifteen leading countries

World War to ensure macro-economic stability and moderate economic growth. It calls for, among other things, fiscal discipline, privatization, deregulation and trade liberalization. Most developed countries that follow these guidelines enjoy average real annual growth of less than 2%.

44. **However, adherence to the Washington Consensus will not lead to leapfrog. 'Something else' is required.** <sup>54</sup>Not only that there is no correlation between adherence to the guidelines of the Washington Consensus and rapid social and economic development,<sup>55</sup> but also every country that leapt breached these guidelines to a certain extent (such as large deficits or high inflation rates)<sup>56</sup> and generated policy innovations that favored sensitive response to local context over strict adherence to the internationally accepted best practices embodies in the Washington Consensus.<sup>57</sup>

45. **Leapfrogging requires a pragmatic combination of internationally accepted practices, unique policies that address the local context and strategic bets –** The unique complexity of leapfrogging requires an approach that combines due respect for and consideration of the internationally accepted practices (the 'Washington Consensus'); trial of policies that respond to local context; and strategic bets. By continuous learning, it is possible to formulate policy that promotes strategic bets that are matched to the unique context of the country.<sup>58</sup>

46. **There is need for a growth diagnostics –** Every country faces a unique set of constraints on its development that requires a strategy that is tailored to local context.<sup>59</sup> Countries that leapt excelled at identifying their binding constraints and addressing them.<sup>60</sup>

47. **It is the public sector that sets the stage for leapfrog –** The rapid development of new products and exports depends on massive investments in physical and

<sup>54</sup> Although the practices were aimed at developing countries, they were adopted in Europe and the U.S. as seen in the Maastricht Treaty. See: Williamson J. (ed.). **Latin American Adjustment: How Much Has Happened?** Institute for International Economics (Washington DC: 1990); Latin American Adjustment).

<sup>55</sup> Rodrik D., "Goodbye Washington Consensus, Hello Washington Confusion?"; **Journal of Economic Literature**, vol. 44, no. 4 (2006: 973-987).

<sup>56</sup> Growth Report pp. 2,16.

<sup>57</sup> One Economics Many Recipes, p.3, 88.

<sup>58</sup> Growth Report, p.25; One Economics Many Recipes, p.88

<sup>59</sup> For elaboration on the 10 typical social and economic barriers to development see One Economics, Many Recipes, p. 66.

<sup>60</sup> On this question, see the articles by Professors Hausmann and Rodrik of the Kennedy School of Government at Harvard University on Growth Diagnostics and the document: Hausmann R. et al., **"Final Recommendations of the International Panel on Growth,"** report submitted to the National Treasury of the Republic of South Africa.

human infrastructure and R&D as well as legislation, regulation, standardization or international agreements. In their absence, the private sector will be deterred by the risks of significant investments in new products.<sup>61</sup>

48. **Strategic bets in the form of development policy that is global and unique are key.** 'Development policy' (often referred to as 'industrial policy') represents a concerted effort of legislation, regulation, international agreements or investments that is focused on exploiting unique assets or strong and steady global trends. Thus, for example, Singapore identified the trend of growth in world trade and exploited its location as a transit point between the East and the West via seaports and airports, and excellent airlines and shipping companies.<sup>62</sup>
49. **Inclusive growth is also essential for leapfrogging** – Inclusive growth means that the fruits of growth benefit the entire population through increase of average income and improving public services. In countries where growth was not inclusive and development policy was perceived as a "social program for the rich" (as put by Prof. Hausmann), the groups that were marginalized and excluded mobilized and eventually brought development to a halt.<sup>63</sup>
50. **Investment in infrastructure** – One of the practical expressions of 'Future Orientation' is saving (averaging 25% in the economic miracles) and significant investment in infrastructure such as education, communications, and transportation.<sup>64</sup>
51. **Regional development is essential (Top-Down meets Bottom-Up)** – In countries that leapt, top-down government macroeconomic policy and reforms were compounded by bottom-up regional development generated and led by local municipal and regional governments. Hence, local authorities must be empowered to focus their energy and resources on development.<sup>65</sup>
52. **The foundations of leapfrogs: unique and global development policy and regulating labor relations** – The next section of this report will discuss two areas that are vital for leapfrogging: development policy and labor relations.

<sup>61</sup> Growth Report pp.5, 6 ;One Economics Many Recipes, p.2.

<sup>62</sup> Lee K. Y., **From Third World to First**, (U.S.A: Harper Collins Publishers, 2000), pp. 471-487.

<sup>63</sup> Helpman argues that changes in inequality hold back growth; however, it is unclear through which channels these economic and political influences function. Helpman, E., the Mystery of Economic Growth, p.118; Growth Report, p.6.

<sup>64</sup> Growth Report, p. 24.

<sup>65</sup> Growth Report, pp. 63-65.

## Unique Global Development Policy

53. **"Countries become what they export"<sup>66</sup>; Leapfrogging requires rapid development of a country's product and export composition** – Development requires consistently improving the quality and quantity of production and export. This process mandates 'constructive destruction' of industries and jobs in order to allow for progress to take place. Leapfrogging requires not only the capacity for transformation (see above), but also transition into products that wealthy countries produce and yield high returns to the society and economy.<sup>67</sup>
54. **Development policy (Industrial policy) is a policy by the government that supports market structural changes** by legislation, regulation, standards, investment in infrastructure or human capital, international agreements. **Governmental financial incentives such as subsidies or tax incentives are important but not the key to a successful development policy.**

The subject of development policies has been subject to extensive research. In the present context of providing an overview on the phenomenon of leapfrogging suffice to mention the following:

- **Development policy should focus on the public goods that are bottle necks for development** – The government can choose between providing a myriad of public goods such as a harbor, professional training or a new industrial park. However, its challenge is to provide incentives and public goods that will yield the maximum value to the country's social and economic development.<sup>68</sup>
- **Development policy should encourage economic self-discovery by the private sector** – Effective development policy is a policy that promotes economic self-discovery by the private sector through a range of incentives

<sup>66</sup> According to Prof. Hausmann countries that compete in a market of sophisticated products are pushed to improve the level of competitiveness of their products and thus in the long run, increase their countries' productivity. See: Hidalgo C.A., Klinger, B., Barabási, A.L, Hausmann R., "The Product Space Conditions the Development of Nations", *Science*, Vol. 307, July 2007.

<sup>67</sup> Imbs, J., Wacziarg, R., 2003, "Stages of Diversification", *American Economic Review*, 93.1:63-86; C. A. Hidalgo, .

<sup>68</sup> Under provision of public goods hinders efficient economic activity in an economy. The lack of public goods creates uncertainty regarding the profitability of a new economic activity and discourages entrepreneurs from investing in new projects. On the other hand, it is unlikely that a government would allocate resources without a demand by the private sector. This Catch 22 situation can be seen in the following example: an exporter of flowers wouldn't invest in this line of business unless he knows the country has aerial infrastructure to support his exports to the desired markets. And the government would not improve the aerial infrastructure without clear demand from the flowers exporters.

and public goods.<sup>69</sup> The main challenge facing a government is to develop the mechanisms that allow it to assess and update the policy.

- **Strategic coordination between the government and the private sector is critical** – In order to optimize public investments, the government needs to work together with the private sector to identify the inputs that will yield maximum economic activity.<sup>70</sup> Dani Rodrik calls this 'strategic coordination.'<sup>71</sup>
- **Guidelines for implementing development policy** – International experience in prompting development policy reveals several practical guidelines: public support should target activities, not sectors,<sup>72</sup> activities that are subsidized must have the potential to provide clear positive spillovers, there should be a clear benchmark or criteria for failure or success, and support must be limited in time.<sup>73</sup>

55. **Leapfrogging requires strategic bets in the form of development policies that significantly accelerate the pace of development over the long haul. Such a policy must focus on two areas:**

- **Systematically exploiting strong global trends based on unique added value** – In order to leap, a country should identify and exploit strong and stable global trends where it has unique added values due to its unique assets or marginal advantages. This means identifying the trends on time, developing the right capabilities in order to produce economic value, implementing these capabilities on a large scale, and abandoning the trend as it loses momentum.<sup>74</sup>
- **The country's special assets** – each country has assets or burdens that are special to it and cannot be copied or seized. Often, these unique assets stem from a nation's unique challenges. For example, in Israel's case, these assets may include its relationship with the Jewish world or Israeli Diaspora, its defense establishment, its success in greening the desert through settlement or water and agricultural technology or the Holy Land.

<sup>69</sup> Hausmann, R, Rodrik, D., "Economic Development as Self-Discovery", **Journal of Development Economics**, 72 (2003), p. 603.

<sup>70</sup> See: Growth Diagnostics. One way to identify the missing goods hindering economic activity is analyzing information that companies provide freely. For example, if a country builds an industrial park, it should identify the companies that decided not to participate and understand why.

<sup>71</sup> One Economics, Many Recipes p.101.

<sup>72</sup> For example, there is no point in investing in the textile industry specifically, but rather investing in professional training that would allow workers to choose between different industries.

<sup>73</sup> One Economics Many Recipes, p.114

<sup>74</sup> Growth Report, Ch.4.



To become one of the fifteen leading countries

## Labor Market Policy: Protecting Workers, not Jobs

56. **Rapid growth and changes in the composition of the economy require a flexible labor market of high-quality human capital** – Rapid changes in the composition of the product and services require quick adaptations in the labor markets. In this context, there is a need for a flexible labor market of rich human capital in which workers can be hired and dismissed easily while their human capital continuously rises.
57. **Theoretically, labor market flexibility comes at the expense of job security** – as the pace of change rises, the workers' uncertainty regarding their jobs grows. Moreover, some of the laid-off workers may become long-term unemployed as their skills are rendered irrelevant.
58. **Therefore, as the pace of change accelerates, so may the opposition of the labor unions** – In a reality where many workers experience insecurity in their jobs and uncertainty about their future due to rapid development, resistance to change grows. Accordingly, as the momentum of growth gains force so does resistance to it.<sup>75</sup> This may be the reason why most countries are unable to sustain growth for more than 6-8 years.

59. **Therefore, a pact and partnership in the labor market among labor unions, government and employers is a precondition for leapfrogging** – All three sectors must play a central role in the labor market so that rapid growth can be sustained. In all countries that leapt, such mechanisms played an important role.
60. **The principle: protecting the worker and not the job**<sup>76</sup> – The main principle in a labor market that allows leapfrogging is shifting the protection from the job to the worker. This means allowing greater flexibility in the labor markets in terms of ability to hire, promote or demote, compensate or fire, on the one hand, and creating opportunities for workers to improve their skills and educate themselves to remain relevant in the job market, on the other hand. This principle is crucial to ensuring rapid and inclusive growth.
61. **At the heart of the partnership: Trust** – As mentioned earlier, trust among the different players in the public sphere is essential for leapfrogging. The new framework in the labor market requires the same kind of trust among the government, the workers and the employers.

62. **The Flexicurity model in Denmark as an example** – Denmark's Flexicurity policy ensures flexibility to employers and security to workers (**Flexibility** and

<sup>75</sup> Growth Report, p. 44.

<sup>76</sup> Growth Report, p.6.

security.)<sup>77</sup> The model is based on a continuous interaction among the three sectors:

- **The workers** – Unions promise the employers flexibility in dismissing workers in return for mechanisms that ensure life-long-learning for the workers and safety nets in case they are made redundant.
- **The employers** – The employers are committed to workers' rights and to vocational training. In return they have greater flexibility.
- **The government** – The government is committed to ensure life-long-learning to the workers, to maintaining social services such as health or education, to enforcing labor laws, and to promoting competition in the markets. Moreover, the government is in charge of the implementation of this partnership. In return, national competitiveness increases and quality of life rises.

---

<sup>77</sup> This policy was first developed in Denmark in the 1990s based on past understandings between the workers unions, the employers and the government. The model's success led to its adoption in other EU countries. See: European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Unit D.2, "[Towards Common Principles of Flexicurity: More and better jobs through flexibility and security](#)," **The European Union** (2007). For more information on the model, see Reut's concept: [Flexicurity](#).

## Chapter 2: Israel Needs a Leapfrog, but still desires Growth

63. **The ISRAEL 15 Vision focuses on placing Israel among the fifteen leading countries in terms of quality of life within fifteen years.** This vision requires achieving a social and economic leapfrog that would close the gap in quality of life between Israel and developed countries.
64. **Israel has already leapt** – Between 1951 and 1972, Israel averaged annual growth of 5.5%.<sup>78</sup> As a result, Israel's GDP rose from 30% of US per capita GDP to 60% despite a large security burden and the five-fold population growth.<sup>79</sup>

### Leaping Israel: A vital necessity, not a luxury

65. **Competition for human capital, technology and investments is intensifying in a globalized 'flat world'** – Human capital, technology and investments are essential resources for development and their quality has a significant impact on the future of countries. In the globalized 'flat world', these resources are increasingly mobile in terms of education, skills or languages and therefore subject to growing competition among nations.
66. **Israel's human capital is outstanding** – According to different international economic indices, Israel is ranked tenth in the world in inventiveness, fifth in quantity of practicable innovations and ninth in supply of scientists and engineers. Its human capital is outstanding even among developed nations.<sup>80</sup>
67. **At the same time, Israel offers mediocre quality of life to its citizens** – The quality of life Israel offers its citizens is inferior in comparison to the leading developed countries. According to the Economist Quality of Life Index, Israel is ranked low 38<sup>th</sup> in the world in terms of overall quality of life, which represents the bottom of the ladder among developed nations.<sup>81</sup>
- (See below on the weakness of the public sector and our electoral system, which are the root cause for Israel's underperformance in terms of quality of life)
68. **Therefore, Israel's ability to attract and retain its human capital is compromised** – The combination of low quality of life relative to other developed countries, on the one hand, and the high quality of Israel's human capital, on the other hand, Israel is vulnerable to losing its 'best and brightest'.

<sup>78</sup> Ben David D. "Israel's Socio-Economic Paths", *Economy Quarterly* (Tel Aviv University, 2003), pp. 27-104.

<sup>79</sup> See a power point [presentation](#) by Prof. Hausmann from his visit to Israel (January 2008).

<sup>80</sup> GCI, p. 195.

<sup>81</sup> The Economist Quality of Life Index.



To become one of the fifteen leading countries

69. **Indeed, Israel is one of the world's leading exporters of talent** – Israel is ranked second to Ireland in export of university graduates to the United States.<sup>82</sup> Israel is ranked first in the world in exporting university faculty, far ahead of second place.<sup>83</sup>
77. **Israel's situation is becoming exacerbated as it is steadily regressing relative to other developed countries** – While the average GDP growth rate in OECD countries from 1980 to 2004 was 2% in real terms, average GDP growth rate in Israel stood at 1.6%.<sup>84</sup> If these trends persist, Israel may decline to 26<sup>th</sup> or 30<sup>th</sup> in GDP per capita and even lower in quality of life over the coming two decades.<sup>85</sup>
78. **Simultaneously, willingness of Israelis to compromise on their quality of life for ideology has been decreasing** – The willingness of Israelis to compromise their quality of life and personal aspirations or to undertake collective efforts in the service of ideology, Zionism, has been decreasing as well.<sup>86</sup>
79. **In the medium to long term, Israel may face departure of a critical mass of human capital that might cause a collapse of its social and economic foundations** – If such trends persist, Israel risks the departure of a critical mass of high qualified and educated members of the society. Every such person that leaves increases the burden on those that stay. Hence, beyond a tipping point, the trickle may become a flood that may lead to a collapse of the foundations of Israel's economy, society and security.<sup>87</sup>
80. **Therefore, achieving a socioeconomic leapfrog that will help to close the gaps in life quality is a necessity for Israel.** It is no luxury.

<sup>82</sup> Gould E. and Moav O., **The Israeli Brain Drain from Israel**, (Jerusalem: The Shalem Center, May 2006). The number of Israeli Academics who migrate annually to US is measured at 41.45 per 10,000 persons.

<sup>83</sup> Ben David D., "Soaring Minds: The Flight of Israel's Economists", **Tel-Aviv University, And Centre for Economic Policy Research (CEPR)**, 2008.

<sup>84</sup> Growth rates were calculated on the basis of data taken from Penn World Table: Heston A., Summers R. and Aten B., **Penn World Table Version 6.2**, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, 2006.

<sup>85</sup> Israel 2028 p.180.

<sup>86</sup> More than 24% of the highly educated and 25% of the wealthy are thinking of leaving Israel. Ya'ar E., Lipsky Y., [IDB Survey on Patriotism in Israel's 60th Year](#), (Herzliya: The Institute for Policy and Strategy, IDC, 2008).

<sup>87</sup> Similar collapse occurs in many cities around the world. It also occurred in East Germany before and after its union with West Germany (see **The Economist**, "Cradle Snatching", 16/05/2006).

For other pessimistic scenarios of Israel's future see Dror Y., Epistel to an Israeli Jewish-Zionist Leader, (Jerusalem: Carmel Publishers, 2005), pp.40, 77-89.

On the dynamics of tipping points see Gladwell M., **The Tipping Point** (USA: Little, Brown and Company, 2000), Ch. 2.

## Departure Point: Strong Economy on Weak Legs<sup>88</sup>

81. **On the one hand, good performance and great promise** – Israel's human and technological potential is unique and exceptionally promising. Furthermore, Israel's performance in recent years and during the economic crisis has been stronger than many developed nations. Hence, the foundation for realizing the ISRAEL 15 Vision seems strong.
82. **On the other hand, Israel suffers from basic weaknesses in its society and economy:**<sup>89</sup>
- **A weak government that provides poor services** (see below);
  - **Security burden** that requires many resources and increases personal insecurity;
  - **Insufficient infrastructure** – Israel infrastructure falls short of other developed nations due to continued underinvestment. It does not meet the requirements of rapid development.<sup>90</sup> For example, electricity supply barely outpaces demand, ports are a constant bottle-neck, roads are packed, and the water infrastructure is insufficient.<sup>91</sup>
  - **A deteriorating education system** – The performance of the education system is low according to international standards and on a steady decline.<sup>92</sup> Simultaneously, the performance of academic institutions and scientific research is declining as well.<sup>93</sup>
  - **A small productive sector that carries the entire economy; A low participation rate in the labor force** – During 2007, Israel's participation rate in the labor force was 56.7%, while during 2001, the OECD's countries participation rate was 69.8%.<sup>94</sup> The ultra orthodox and Arab sectors – the two fastest growing sectors of the society – have especially low participation.<sup>95</sup>
  - **A low productivity rate in traditional industries** – Israeli innovation is concentrated in the hi-tech industries, and particularly in communications

<sup>88</sup> Taken from **The Economist**, "Miracles and Mirages" (3/04/2008)

<sup>89</sup> **The Economist**, "Miracles and Mirages" (3/04/2008)

<sup>90</sup> Israel 2028, Ch. 11.

<sup>91</sup> The quality of infrastructure in Israel was ranked 42<sup>nd</sup>, GCI, p. 195.

<sup>92</sup> For example, in 2007 Israeli 8<sup>th</sup> grade pupils were ranked 24<sup>th</sup> out of 48 in TINSS math tests. In 2003, they were ranked 19<sup>th</sup> out of 45. Trends in International Mathematics and Science Studies, 2007, table 1; Trends in International Mathematics and Science Studies, 2003, table 5.

<sup>93</sup> Ben David D. , "A Fiddler Called brain drain", [Ha'aretz](#), (11/03/2008); Israel 2028 p.31.

<sup>94</sup> [OECD Employment Outlook 2002](#), the data indicates the participation rates of ages 15-64.

<sup>95</sup> Table 11: Central Bureau of Statistics, Selected Economic Statistics. [Table 11](#): Participation in the Labour Force, Unemployment, Employee Posts, Seekers and Immigrants (December, 2008).

and electronics, and not in traditional industries. Consequently, productivity in traditional industries is low and stands at a quarter of the average of that in the U.S.A.<sup>96</sup>

■ **A sharp increase in inequality.**

83. **The underperformance of Israel's public sector underlies most of Israel's weaknesses and its overall relatively low quality of life.** Many Israelis are frustrated with the performance of their public sector i.e. the *Knesset*, the government, local authorities or public corporations. This feeling is substantiated by international indices that quantify the weakness of the Israeli sector relative to Israel's private sector, on the one hand, and to public sectors in other developed countries, on the other hand.<sup>97</sup>

**The root cause of the weakness of Israel's public sector is the electoral system.** Our electoral system generates short and unstable tenures of *Knesset* and government and their fragmentation among and within many factions, as well as powerful incentives for short-term, sectarian and populist conduct that inhibit long term planning, decision making and effective policy execution.<sup>98</sup>

**Israel lip serves leapfrogging. It is organized for ordinary growth**

84. **Every government pays lip service to the objective of achieving fast growth.** Most prominent among top Israeli politicians that have articulated these objectives are Prime Minister Netanyahu and President Peres.<sup>99</sup>
85. **However, Israel has not taken the necessary steps in order to achieve leapfrog** – Israel's public sector and public discourse are focused on achieving ordinary rates of growth but not on leapfrog:
- **There is no vision** that is accepted by multiple parties and factions – as well as by many people in positions of authority, leadership or influence – and served by them. Most of the public discourse focuses on modest goals of

<sup>96</sup> **The Economist**, "Miracles and Mirages" (3/04/2008); Israel 2028, p.99.

<sup>97</sup> GCI p. 195, For example Israel is ranked 43<sup>rd</sup> in the cost to business of crime, 80<sup>th</sup> in time it takes to open a business, and 48<sup>th</sup> in the legal-system's efficiency.

<sup>98</sup> A Postcard for a Leader p. 118; Israel 2028 p. 31.

<sup>99</sup> President Peres about achieving economic growth, taken from Benjamin Netanyahu's [blog](#): "The Israeli president, Shimon Peres: The plan is based on the provision of grants from the state, which in its framework; benefits will be given to ten Israeli economic branches that will be defined by the government as a driving force behind comprehensive economic growth."; Benjamin Netanyahu about achieving economic growth, taken from his [blog](#): " Taxes in Israel are still too high. Considering our geopolitical situation, we have to make ourselves more attractive than the competition, and over the last five years, we have shown that reducing the tax burden has produced economic growth."

stability and growth where expectations are set by the performance of other countries and not by an ambitious vision.

- **The focus is on policy, but the key to leapfrog is institutions** – The public discourse in Israel reveals a perception that the key to accelerating growth is in macroeconomic changes within such as tax policy, deficit or trade liberalization.<sup>100</sup> The discourse does not focus on the institutions that are essential for leapfrogging.
- **Israel's discourse dominated by economists and economics. Leapfrogging is supra-economic** – Since growth is an economic concept, the discussion of economic development is dominated by economics and economists. This is also the case in Israel. However, leapfrogging is an interdisciplinary phenomenon that requires expertise from multiple disciplines such as sociology, geography and labor studies.
- **The government needs to provide economic leadership, but leapfrogging requires mobilizing all sectors** – The prevailing perception is that leadership for economic development must come from the government. However, leapfrogging requires leadership on behalf of other key sectors of society including philanthropies, nonprofits, academia, business, and, in Israel's case, also world Jewry and Israeli Diaspora.
- **The focus is on dividing the pie. Leapfrogging requires focusing on expanding the pie** – In recent elections, all economic plans that were presented by the candidates dealt with macro-economic plans and minor structural reforms. There was no reference to development policy, regional development or to reorganization of the labor market that are central to leapfrog.

### The gap between Israel's current mindset and the requirements of leapfrogging

	<b>Current Mindset Stability and Growth</b>	<b>Required Mindset Leapfrog</b>
<b>Vision</b>	Vision is not important. Therefore it is absent from public discourse.	A vision is required. It needs to be ISRAEL 15
<b>Policy or Institutions?</b>	Focus on macroeconomic policies and on improving institutions.	The focus needs to be on improving institutions that enhance the capacity to transform (mainly in the labor market)
<b>Terminology</b>	The knowledge and concepts are	The knowledge transcends

<sup>100</sup> See the speeches of the candidates for the Prime Minister before the elections: the head of the Likud party spoke about the need for reduction in taxes and the head of the Labor party spoke about the need for expansion of the budget for investments in infrastructure, employment and loans to the private sector. [The Marker, 1.23.09.](#)



To become one of the fifteen leading countries

	<b>Current Mindset Stability and Growth</b>	<b>Required Mindset Leapfrog</b>
	economic, and the specialists are economists.	economics. It is an interdisciplinary challenge.
<b>Engine of Growth</b>	The private sector is the engine of growth. The foundations for economic development are provided for by the central government.	The public sector creates the foundations for leapfrogging. Leadership for development must also come from municipal authorities and other key sectors.
<b>The Discourse</b>	Primarily macro-economic policy (taxes, inflation and deficit) + privatization, liberalization, etc. (Washington Consensus).	Same + development policy + partnership in the labor market + regional development.

## Chapter 3: Guidelines and Principles for a Leapfrog in Israel

### Vision, Values, Leadership and Politics

85. **Making the ISRAEL 15 Vision a national mission** – The ISRAEL 15 Vision may be ambitious yet is attainable. As mentioned, Israel's launching pad benefits from its outstanding business sector and human capital, as well as from leadership in technology and innovation.<sup>101</sup>
86. **Mobilizing committed elite** – Realizing the ISRAEL 15 Vision and achieving a socioeconomic leapfrog requires mobilizing people in positions of authority, leadership or influence to serve this vision each from his or her own position in the Israeli public sphere. This elite must be identified, educated about the vision and its requirements, provided with tools to serve this vision and encouraged to do so.
87. **Encouraging a culture of saving instead of a culture of consumption** through legislation and incentives and to allow these funds to support development.
88. **A multi-party consensus on the principles and guidelines** – In a multi-party democratic state like Israel, consensus is necessary to guarantee continuity through changing governments. It should be based on the following principles.

### Macroeconomic Goals

89. **Average annual real growth of 4% is possible and will enable attainment of leapfrog** – "The Israeli market has a high growth potential that enables a trend of accelerated growth of 6% per year [with population growth of 1.8% annually, this represents approximately 4% growth per capita – The RI]. This trend will enable Israel to become one of the 10-15 most developed countries in the world in terms of GDP per capita according to the goals presented in the vision. This trend is possible in light of the capital inputs, labor, investments in education, the balance of payments limitation and the state's budget."<sup>102</sup>

### Institutions

90. **Forging a round-table agreement on labor market policy based on the Flexicurity model** – As mentioned before, a regulation of the labor market based on agreement among Government, labor unions and employers is essential for accelerating growth and achieving leapfrog. In the best case, this roundtable will serve as a framework and platform for implementing structural changes based on

<sup>101</sup> The 'Israel 2028' plan has also shown that a similar vision is attainable within the next fifteen years: "The macroeconomic evaluation in this paper indicates that with good management, Israel will be able to finance the needs emerging from attaining those goals...", 'Israel 2028', p.13.

<sup>102</sup> 'Israel 2028', p. 180.

'package deals'. This is the most important institutional challenge for the ISRAEL 15 Vision.

91. **Establishing a 'Central Brain' (The National Economic Council?)** – All countries that leapt had a 'central brain' whose role was to impact national priorities based on analysis of:
- Assessment of national socio-economic situation in key areas such as education, transportation, infrastructure, technology or innovation;
  - Identify global trends, analyzing their significance and suggesting strategies for seizing them;
  - Preserve organizational knowledge and continuity in the face of changing political terms in the public sphere.<sup>103</sup>

**The Reut Institute argues that the National Economic Council seems to be the most appropriate institution for becoming the 'central brain'.** However, other institutions such as the Budget Division in the Ministry of Finance or the Research Department of the Bank of Israel can fill this role as well if they attain the necessary recognition, resources and human capital.

92. **Structural reforms of underperforming institutions that are essential for leapfrogging** – Some of Israel's institutions are underperforming compared to other developed countries. It is imperative to identify these weak institutions based on surveys and indices and to improve their performance. Among others, these institutions probably include Israel's ports and airports, the tax and customs authority, courts and law enforcement authorities in areas relating to business, trade and commerce, planning and zoning committees or other regulators.
93. **Identify and strengthen the units in the public sector that are essential for leapfrogging** – As mentioned, achieving a leapfrog does not require across-the-board excellence in the public sector, but rather exceptional performance by units that are critical for accelerating development.

Hence, Israel too must identify such units strengthen them. For example, these units may include institutions that deal with foreign investors and investments, departments of policy planning at the various government ministries or the Israel Export and International Cooperation Institute.

94. **Several Knesset Committees are vital as well** as they can fulfill a crucial role in advancing legislation and oversight in areas that are critical for leapfrogging. In this context, it is important to highlight the roles of the Economic Affairs

<sup>103</sup> Growth Report, p.3; See document: [Israel 2028](#), pp. 17, 64, 212; see Reut document, '[Socio-economic central mind](#)' (in Hebrew); [NESC – Ireland's National Economic-Social Council](#) (in Hebrew), [the Economic Council of Finland](#) (in Hebrew), [the Economic Council of Denmark](#) (in Hebrew).

Committee, the Finance Committee, the Constitution, Law and Justice Committee, and the Internal Affairs and Environment Committee.

### Policy: Strengthening Israel's Weak Legs and Creating New Horizons

95. **Growth diagnostic of Israel's economy** – A diagnostic project of Israel's economy should be implemented to identify the most serious obstacles to leapfrogging.
96. **Global development policy to exploit strong and stable global trends** – Israel needs to identify the stable global trends that offer great economic promise due to Israel's unique value and marginal advantages and to formulate a national strategy to exploit them.

**In this context, the Reut Institute identifies the following trends:** the rise of China and India as economic and political powers, as well as the foreseen economic growth and social change in Africa; the move towards clean energy and oil substitutes; the water crisis and the growing need for desalination; the growing need for homeland security technologies; growing need for food security; and the ageing population in Europe and the United States. It may well be that there are additional global trends.

**Israel should establish special task forces in order to tap the potential of these trends.** These task forces should identify the unique value proposition that Israel has to offer in this context and propose the means to take advantage of the trends. The Industrial policy means may include legislation, standardization, regulation, international agreements, infrastructure or training as well as budgeting.

97. **Unique development policy to exploit Israel's unique assets** – Many plans exist to promote Israel's performance in the areas of education, infrastructure or traditional industries.<sup>104</sup> However, many other nations are expected to invest in those sectors as well. Therefore, a plan that aims at leapfrogging must focus on Israel's unique assets. The Reut institute suggests four such assets:

- **The Holy Land** which carries inspired Jews, Christians and Muslims offers a massive potential which is untapped as is evident based on the scope of incoming tourism.<sup>105</sup>
- **Jewish world and Israeli Diaspora** – Israel is a significant part of the global Jewish economic network. Many Israelis living abroad hold key positions in the technology, business, academia and the arts. Systematically tapping into the economic potential of this relationship may offer significant economic opportunities.

<sup>104</sup> See for example Israel 2028.

<sup>105</sup> See: Sheinin Y., Zvi N., The Economic Potential of Christian Tourism, (Herzliya: The Institute for Policy and Strategy, IDC, 2008), [power point presentation](#) – presented at the 8<sup>th</sup> Herzliya conference, 2008. (in Hebrew).

- **Defense establishment** – Israel has been facing continuous challenges to its existence and security that mandate uniquely large defense establishment which includes a military, secrete services, industry and bureaucracy. However, there are economic opportunities to the country's investments in defense. Amongst others, the IDF builds infrastructure, manages the biggest training and educational system in Israel and operates a massive R&D system.
- **Water technologies and greening the desert** – Israel has been uniquely successful in greening the desert and in making the wilderness bloom through water and agricultural technologies and settlements. This is a special asset of our geographical location.

**In these areas as well, task forces should be established** in order to shape, plan and implement development policy to turn them into an engine of growth.

98. **Investment in infrastructure, education, traditional industry and in full inclusion of the ultra orthodox community and Arab citizens in the labor force**<sup>106</sup> – These issues have been thoroughly discussed by other committees, and therefore we will not expand on them in this paper.<sup>107</sup> Each of these areas can be turned into a powerful engine of growth of Israel's economy, reduce poverty and inequality, and decrease the burden carried by the productive elements of society.
99. **Fostering regional economic development** – As stated, regional development is essential for leapfrogging. Israel should establish the institutional foundations for local authorities to join together in regional development policies by merging small local authorities, legislation and incentives that promote local economic development, fighting municipal corruption or promoting small and medium businesses.

End.

<sup>106</sup> For more on this subject, see Reut document (in Hebrew): [Inclusion of the Arab Citizens of Israel in the Israel 15 Vision](#).

<sup>107</sup> See the [Or Commission Report](#), the [Committee](#) for Developing the Periphery and Improving Traditional Industry, headed by Israel Makov (in Hebrew); [Israel 2028 report](#): the globalization group headed by Yoram Yahav, the Public Service Institutional Change group headed by Sami Friedrich, the Leveraging Traditional Industries & Service Sectors group headed by Prof. Dan Peled, the Higher Education & Scientific Research group headed by Prof. Zeev Tadmor, the Physical Infrastructures group headed by Prof. Yehuda Hayuth.

## Appendix A

### Reut Institute and the ISRAEL 15 Vision Frequently Asked Questions<sup>108</sup>

#### What is the Reut Institute's mission?

The Reut Institute's charter defines its mission as: "sustaining significant and substantive impact on the future of the State of Israel and the Jewish people and to leave an indelibly Israeli and Jewish imprint on the future of the world."

In addition, the Reut Institute trains its team members in strategy and policy analysis in preparation for lifelong service in the Israeli public sphere. Moreover, we believe that the Reut institute represents a unique organization that may suit the Israeli government and we strive to make it a model for emulation.

#### What is the Reut Institute's unique added value?

In addition to the three planks of the Reut Institute's strategy, each of which is unique to the Israeli and Jewish public sphere, The Reut Institute:

- **Identifies strategic surprises and opportunities<sup>109</sup>** – The Reut Institute focuses on the fundamental level of policy. Reut specializes in highlighting working assumptions and checking their relevance to uncover potential strategic surprises;
- **Asks questions in order to leverage already existing resources** – The Reut Institute provides decision-support services, which focus on *how* to think and not on *what* to think or do; We focus attention on issues that had been ignored and aim to turn them into the subject of detailed research by government, academia and other think tanks;
- **Integrates strategy and operation** – The Reut Institute specializes in integrating strategic level decision makers concerned with systemic and long-term policy design with front-line workers implementing and learning in the field;
- **Provides quick turnaround** – The Reut Institute provides inputs to decision making processes in very short time-frames;
- **Is interdisciplinary** – The Reut Institute specializes in addressing interdisciplinary fields that integrate varied fields of knowledge.

<sup>108</sup> See: the Reut Institute [website](#).

<sup>109</sup> The Reut Institute has developed a unique application of the [PRAXIS](#)® (www.praxis.co.il) Systemic Policy Design platform. This package of design processes, methods, and software tools helps track policy conditions of a dynamic and uncertain nature.



To become one of the fifteen leading countries

- **Develops new knowledge** – The Reut Institute specializes in developing new knowledge in fields that require the design and implementation of a new strategic perspective.

### What is the Reut Institute's vision?

The Reut Institute's charter defines the vision as: "a secure, prosperous State of Israel; a state whose existence is secured and citizens are safe; a prosperous state that is a leading nation in terms of its quality of living; a state that is predominantly Jewish, offering Jewish added value at the heart of the Jewish world and providing a significant contribution to the existence and prosperity of global Jewish peoplehood; a democratic state, which embraces universal humanistic values and aspires to create a society which sets an example for the family of nations."

This is the vision of "21<sup>st</sup> Century Zionism." Currently, the issues that require immediate attention are:

- National security;
- The ISRAEL 15 Vision: A social and economic leapfrog in Israel;
- Creating a society which sets an example for the family of nations;
- Enriching the Jewish nature of the public sphere of the Jewish society in Israel;
- Effective governance in Israel.

### What is the ISRAEL 15 Vision?

The ISRAEL 15 Vision focuses on placing Israel among the fifteen leading countries in terms of Quality of Life within fifteen years. This vision requires a social and economic leapfrog that would close the gap in Quality of Life between Israel and developed countries. This vision is the organizing idea of the Reut Institute in the context of its work toward Israel's social and economic development.

The ISRAEL 15 Vision was adopted by the team of experts, which prepared "Israel 2028: Vision and Socio-Economic Strategy in a Globalized World" in the following form: "Israel will be one of ten to fifteen leading countries in the world in terms of income per capita."<sup>110</sup>

### How was the ISRAEL 15 Vision conceived?

The ISRAEL 15 Vision was conceived during a project of the Friedrich Ebert Foundation that took place between 1997 and 1999. Representatives from different

<sup>110</sup> See: Brodet, Hurvitz, *et. al.* [Israel 2028: Vision & Strategy](#), March 2008, p. 12. The plan was written by a team of experts headed by Mr. Eli Hurvitz and Mr. David Brodet. It was subsequently presented to ministers and general directors of the government offices.



To become one of the fifteen leading countries

sectors of Israeli society were invited to outline scenarios for the future of the State of Israel in the year 2020. Within this framework, Ms. Raya Strauss Ben-Dror, one of Israel's leading industrialists, Mr. David Brodet, former Director General of the Ministry of Finance, and Gidi Grinstein joined together to develop a scenario which they titled "the ISRAEL 15 Vision".

Since the initial project, each of these three individuals has continued to promote this vision. Ms. Strauss Ben-Dror made the ISRAEL 15 Vision a source of inspiration in her philanthropic giving. Mr. Brodet led the 'Israel 2028' team. Gidi Grinstein devoted his studies at the Harvard Kennedy School of Government to the question of how to implement the ISRAEL 15 Vision. Following his return to Israel, he established the Reut Institute in 2004 where the ISRAEL 15 Vision has been an integral part of the institute's vision and work.<sup>111</sup>

### What's the difference: 'Quality of Life' or 'Per Capita Income'?

'Per Capita Income' measures a country's wealth and standard of living. To calculate the Per Capita Income, the gross domestic product is divided by the population.<sup>112</sup>

The concept of 'Quality of Life' refers to the general welfare of the state. Whereas a high 'Per Capita Income' is the central component of 'Quality of Life', the latter concept also appreciates areas such as health, nutrition and community and family life.<sup>113</sup>

For example, according to the Economist's Quality of Life Survey, 'Quality of Life' is appreciated by health, political stability, personal security, family and community life, climate and geography, economic well-being, political freedom and gender equality.<sup>114</sup>

Hence, two countries may have similar 'Per Capita Income' but different 'Quality of Life', and *vice versa*. These differences may result from the quality of education or health services, the environment, or personal security. For example, according to the Economist's 2005 Quality of Life Survey, the 'Quality of Life' in Denmark and in the United States is similar, but 'Per Capita Income' in the United State is 50% higher than in Denmark. The difference is a result of the relatively high quality of public health and education systems in Denmark.

### How to evaluate Quality of Life?

Quality of Life is a complex concept and therefore hard to measure or evaluate.<sup>115</sup> Some of the variables included in the concept 'Quality of Life', such as per capita income and

<sup>111</sup> See Gidi Grinstein's Blog Entry: 'Launch of the ISRAEL 15 Vision: A Milestone and the Coming of a Full Circle', at: [www.blogidi.com](http://www.blogidi.com)

<sup>112</sup> See Wikipedia Entry: 'Income Per Capita'.

<sup>113</sup> See Wikipedia Entry: 'Quality of Life'.

<sup>114</sup> See the Reut Institute's document: 'The Economist Quality of Life Index'; see also: 'The Economist Intelligence Unit's Quality of Life Index' (2005).



To become one of the fifteen leading countries

personal security can be evaluated by indices. Others, less tangible concepts such as social and communal cohesion or life satisfaction, are more difficult to appreciate because they are influenced by perceptions and values.

Various indices compare Quality of Life across different countries over time.

- **The Economist's Quality of Life Index** evaluates Quality of Life based on income per capita, health, political stability and security, family life, community life, climate and geography, job security, political freedom and gender equality.<sup>116</sup>
- **The UN Human Development Index** provides a composite measure of well-being based on three main features: Life expectancy at birth; GDP per capita calculated at purchasing power parity; and adult literacy based on school enrolment at the primary, secondary and tertiary level.<sup>117</sup>
- **The OECD Factbook** incorporates data on various topics related to society, the environment, and the economy of OECD member countries. The digest does not rank countries. It includes data on demographics, macro-economics, globalization, energy, employment, information, environment, education, quality of life and fertility.<sup>118</sup>

### What Is Israel's current ranking?

Israel is ranked at the bottom of the ladder among developed countries in terms of income per capita and Quality of Life. However, Israel suffers from the largest variance in performance of different segments of the Israeli society and economy compared to other developed countries. Whereas the business sector excels and Israel's population is among the most educated and technologically savvy, the Israeli public sector receives exceedingly low scores and some segments in the population suffer from extreme poverty and lack education and needed abilities to integrate into the labor market.<sup>119</sup>

- According to the Economist's Quality of Life index, Israel is ranked 38<sup>th</sup> in overall quality of life and 33<sup>rd</sup> in per capita income at purchasing power parity.<sup>120</sup>

<sup>115</sup> See footnote 4.

<sup>116</sup> See footnote 5.

<sup>117</sup> See the Reut Institute's concept: 'Human Development Index'.

<sup>118</sup> See: <http://lysander.sourceoecd.org/vl=5715467/cl=15/nw=1/rpsv/factbook/>

<sup>119</sup> See: Prime Minister's Office, The National Economic Council, [Socio-Economic Agenda, Israel 2008-2010](#), April 2007.

See: Brodet, Hurvitz, *et. al.* [Israel 2028: Vision & Strategy](#), March 2008.

See: Bank of Israel, [Bank of Israel Annual Report 2007](#), April 2008.

<sup>120</sup> See IMF Data (2008):

<http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

- According to the 2008 UN Human Development Report (based on 2005 data), Israel is ranked 23<sup>rd</sup> in the world.
- Analysis of the 2008 Global Competitiveness Index indicated that Israel's business sector rank among the fifteen leading countries while the public sector lags behind.<sup>121</sup>

### Why 'ISRAEL 15' and not 'ISRAEL 10' or 'ISRAEL 20'?

The ISRAEL 15 Vision calls for Israel to become one of the fifteen leading nations within fifteen years. We believe that this objective is ambitious yet attainable.

Countries can be clustered into tiers on the basis of their level of development and quality of life. There are 7 to 9 members in the leading tier of nations including the Scandinavian countries, Luxembourg, Canada and Australia. The second tier comprises of 8 to 10 countries including Germany, Japan, France, the Netherlands and Belgium. Finally, in the third tier there are countries like Greece, Spain, Portugal, the Czech Republic and South Korea. According to some favorable estimations, Israel's quality of life is among lower part of this cluster.

Therefore, we believe that for Israel to set the objective of becoming twentieth in the world in terms of quality of life may not be ambitious enough. At the same time, embracing the 'ISRAEL 10' may be unachievable at this stage.

There is no significance to the exact ranking. There is no doubt that a social and economic leapfrog from Israel's current position to the top fifteen will have a strong and positive impact on the life of many Israelis, the improvement will be equally meaningful whether Israel is ranked 16<sup>th</sup> or 14<sup>th</sup>.

### What is the meaning of 'Quality of Life in Israel'?

The Economist Quality of Life index and the UN Human Development Report use a variety of parameters to estimate Quality of Life. However, these parameters are not necessarily indicative of Israelis' preferences. Consequently, the Reut Institute focuses on four dimensions it holds critical to Quality of Life in Israel:

- **Personal and Physical Security** – This dimension refers to an individual's safety from harm to one's life and property. It is determined by the quality of health services, the quality of the environment, and the protection from criminal violence, war and terrorism that the state provides;
- **Social Well-being** – This dimension refers to a person's desire and ability to identify with society and to be an active member of it. It is determined by the amount of trust placed in the government's ability to design and execute policy,

<sup>121</sup> See the Reut Institute's document: 'Case Study: Incorporating the Global Competitiveness Index in Policy Planning'.



To become one of the fifteen leading countries

the scope of an individual's rights and liberties, and the sense of belonging to one's community and nation;

- **Economic Security** – This dimension refers to a person's ability to financially support oneself and one's family. It is determined by material wellbeing, human capital, and an environment supporting growth.
- **Jewish Added Value** – This dimension refers to the amount of satisfaction an Israeli Jew draws from being part of the fulfillment of the Zionist vision or from being a part of the State of Israel.

### Reut's role in promoting the ISRAEL 15 Vision: To Be a Catalyst

The role of the Reut Institute's in the context of the ISRAEL 15 Vision is to catalyze the fulfillment of the ISRAEL 15 Vision. Therefore, the Reut Institute will: (1) match up people and organizations that are committed to fulfilling the ISRAEL 15 Vision, (2) enrich the resources of this community, (3) brand the ISRAEL 15 Vision, (4) research the Israeli socio-economic leapfrog, (5) generate a sense of urgency to motivate structural changes that are essential to fulfilling the ISRAEL 15 Vision; (6) build capacities and institutions essential for leapfrogging; (7) identify models of success, research and disseminate them.

Socio-economic leapfrogging requires a combination of government initiative and grassroots mobilization. Yet, because the existing discourse is focused mainly on the required government initiatives, the Reut Institute is concentrating on the bottom-up civic oriented organizations.



To become one of the fifteen leading countries

## Appendix B

### 'ISRAEL 15 Vision and the ISRAEL 2028 Plan

1. **'Israel 2028: Vision and Socio-Economic Strategy in the Global World' ('Israel 2028') deals with the challenge of making Israel one of the 10 to 15 leading countries in the world in terms of its economic achievement and its citizens' quality of life (the ISRAEL 15 Vision).**<sup>122</sup> The plan was written by a team of experts led by Eli Hurvitz and David Brodet and has made a significant contribution to promoting the ISRAEL 15 Vision. It was subsequently presented to ministers and director generals of governmental offices.
2. **The Reut Institute calls on the government to adopt the ISRAEL 15 Vision presented in 'Israel 2028'** and to establish a framework for discussing the vision and its implementation by representatives of leading sectors: government offices, local government, employers and workers, NGO's, academia, philanthropy and businessmen.
3. **The Reut Institute is committed to the Vision presented in Israel 2028 and endorses many of its recommendations.**
4. **However, the Reut Institute offers a different approach and in some cases even takes the opposite approach to that presented by Israel 2028.** The differences stem from our answers to the following questions:
  - What are the differences between 'growth' and 'leapfrogging' and what can we learn from countries that leapt?
  - How can leapfrogging be promoted in Israel and what should be the priorities?
  - What is the unique contribution that nonprofits can make to such an ambitious national vision?

Differences notwithstanding, both approaches are necessary and complementary.

5. **'Israel 2028' cannot be implemented in its entirety. Furthermore, while its implementation may help accelerate growth, it is not likely to achieve a leapfrog and the closing of gaps in quality of life in comparison to the developed countries.** Below are the Reut Institute's main comments:
6. **What is the 'Difference that makes the Difference'** – Israel 2028 discusses areas such as education or infrastructure where most developed countries are expected to invest their resources. While investing in those areas is clearly vital

<sup>122</sup> The ISRAEL 15 Vision was adopted by 'Israel 2028: Vision and Socio-Economic Strategy in a Globalized World' in the following form: "Israel will be one of ten to fifteen leading countries in the world in terms of income per capita."

for Israel to maintain growth that is similar to developed countries, Israel 2028 does *not* deal with unique factors that would help Israel grow *faster* than those countries. Examples of such areas could be utilizing the Jewish world and Israeli Diaspora or further exploiting the defense industry. The Reut Institute argues that these topics should be at the center of research and policy.

7. **What should the priorities be?** *Israel 2028* does not provide a set of priorities and ignores the connection between its different recommendations, some of which may even contradict each other. *Reut* contends that international examples suggest that the focal point should be on indentifying few binding constrains rather than undertaking complete reform of the public sector. Moreover, there is a need to build institutions with capacity to deal with the acceleration of changes that characterizes leapfrogging.
8. **'Central brain' is required** – Establishing a 'central brain' – an institution that would provide an assessment of the national socio-economic situation, identify global trends and analyze their significance – is essential for leapfrogging. The Reut Institute argues that the National Economic Council is the most appropriate institution for becoming the 'central mind.' Although 'Israel 2028' calls for establishing similar institutions, it refrains from going into detail regarding their specific roles.
9. **Leapfrogging requires mobilizing entire segments within society** – The underlining assumption of *Israel 2028* is that the government is the main address for the discussion of leapfrogging. However, the plan does not divert resources to understanding how other sectors could contribute to 'bottom-up' growth. *Reut* argues that mobilizing these sectors is essential for leapfrogging and served as an integral aspect in countries that have leapt.
10. **An ongoing process of policy design and implementing lessons** – *Israel 2028* is based on a traditional approach that a group of experts possess the knowledge to plan socio-economic growth, and policy recommendations can be summarized in a report and presented to the government. *Reut* argues that the knowledge needed to leapfrog has to be acquired in a prolonged process of planning, implantation and debriefing. In addition, leapfrogging requires combining knowledge from different realms such as sociology, labor studies, law and psychology. Reut thus believes that leapfrogging cannot be planned and instead recommends identifying unique growth engines and improving specific units in the public sphere. Finally, although the government has a crucial role to play, leapfrogging requires mobilization of other sectors of the society as well.
11. **What is the role and potential contribution of nonprofits in promoting the ISRAEL 15 vision?** – *Israel 2028* assumes that their contribution should be done by assembling a group of experts around one table, in order to write a plan that will later be presented to the government for implementation.

Reut believes that such contribution should be made by: (1) matching people and organizations that are committed to fulfilling the ISRAEL 15 Vision (2) enriching the resources of this community (3) branding the ISRAEL 15 Vision (4) focused research on the challenge of leapfrogging for Israel (5) generating a sense of urgency in order to motivate essential structural changes to the fulfillment of the ISRAEL 15 Vision and (6) building capacities and organizations essential for leapfrogging.

	<b>Reut Approach</b>	<b>Israel 2028 Approach</b>
What is the challenge? <sup>123</sup>	Primarily 'adaptive' requiring creating new knowledge and effectuating fundamental changes in values, priorities and conduct.	Primarily 'technical' requiring transforming existing knowledge into a plan. The main challenge is implementation.
What is the difference between 'growth' and 'leapfrogging'?	Two distinct phenomena. While both entail expansion of GNP, 'growth' is common while leapfrogging is relatively rare. Differences lie not only in the pace and length of expansion but also in the type of challenge and the required institutions.	No fundamental difference between the two phenomena. A plan aiming to stimulate leapfrogging is no different to one focusing on growth.
How should the vision be implemented?	A variety of events to mobilize important sectors in society into adopting the vision and fulfilling it. This is an ongoing process that lasts years.	Publishing a report and presenting it to the political and economic elites.
Does the required knowledge exist?	No. Leapfrogging requires fundamental changes in Israeli society and thus requires an ongoing process of creating new knowledge based on the lessons learnt from designing and implementing policy.	Yes. Leading experts in Israel know what is required in order to instigate socio-economic leapfrogging and can therefore design a plan.
Can leapfrogging be planned?	No, due to its complexity, duration and systemic nature. However, what <i>can</i> be planned is a series of actions that have clear time frame and logic.	Yes, as the required knowledge already exists (see above).
What is the connection between planning (strategy) and	Integrative tools. Leapfrogging requires ongoing feed-back loops between planning, research, implementation and learning lessons.	Sequential: First, planning and later precise implementation. Israel 2028 reflects the first step. What remains is implementing it (p13 in the plan)

123

For a discussion regarding the differences between 'technical' and 'adaptive' challenges, see Ron Heifetz, Leadership without Easy Answers p35.

	<b>Reut Approach</b>	<b>Israel 2028 Approach</b>
implementation?		
Who promotes the Vision?	A combination of forces including the Government and different sectors within society that should adopt the vision and mobilize themselves towards fulfilling it.	The Government, which should formally adopt the vision and then take decisions and implement them.
What is the role of leadership?	Leadership for leapfrogging is a unique phenomenon. It consists of an elite group that needs to encourage adaptive change (see above) <sup>124</sup>	Leadership for leapfrogging is no different from other types of leadership. Its main aspect is in making decisions and implementing them.
What is the unique added value of NGOs?	Raising public awareness, branding the vision, research, increasing resources, matching relevant people and creating a sense of urgency.	Replacing government by bringing experts together to write a plan that the government should have prepared and then pushing for its implementation.

<sup>124</sup> See Dean Williams, Real Leadership, Chapters 4, 5 and 7.



To become one of the fifteen leading countries

## Appendix C Bibliography

### Articles, Reports and Policy Papers:

- Ben-Bassat, A., Dahan, M., **The Balance of Power in the Budgeting Process**, The Israeli Democracy Institute, 2006; (Hebrew Only).
- Ben David, D. "Israel's Socio-Economic Paths", **Economy Quarterly**, Tel Aviv University, 2003; (Hebrew Only).
- Ben David D., "Soaring Minds: The Flight of Israel's Economists", **Tel-Aviv University, And Centre for Economic Policy Research (CEPR)**, 2008.
- Ben David, D., "A Fiddler Called Brain Drain", [Ha'aretz](#), (11/03/2008); (Hebrew Only).
- Central Bureau of Statistics, [Statistical Abstract of Israel](#), Jerusalem: 2008.
- Central Bureau of statistics, [Selected Economic Indicators](#), December, 2008.
- [Commission on Growth and Development, The Growth Report, Washington DC: World Bank, 2008.](#)
- **Department of the Taoiseach**, "Ireland and the European Union: Identifying Priorities and Pursuing Goals", Ireland, 2005.
- [Economist Intelligence Unit's Quality-of-life index, 2005.](#)
- [European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Unit D.2, "Towards Common Principles of Flexicurity: More and better jobs through flexibility and security", The European Union \(2007\).](#)
- Gal, R., Enhancing Coexistence through Multiple Channels of Influence: A Strategic Scheme to Change the Quality of Arab-Jewish Relationships in Israel, May 2006.
- Gould, E. and Moav, O., **The Brain Drain from Israel**, (Jerusalem: Shalem Center, May 2006).
- Hausmann, R., Rodrik, D., "Economic Development as Self-Discovery" **Journal of Development Economics**, vol. 72, 2003.
- Hausmann, R., Pritchett, L., Rodrik, D., **Growth Accelerations**. NBER Working Papers Series, Harvard University, 2004.
- Hausmann, R., Rodrik, D., Valesco, A., **Growth Diagnostics**, Inter-American Development Bank, 2005.

- Heston, A., Summers, R. and Aten, B., **Penn World Table Version 6.2**, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, 2006.
- Hidalgo, C., A., Klinger, B., Barabási, A., L., Hausmann, R., "The Product Space Conditions the Development of Nations", **Science**, Vol. 307, 2007.
- Hurvitz, E., Brodet, D., [Israel 2028 – Vision and Strategy for Economy and Society in a Global World](#), The Samuel Neaman Institute, 2008.
- Imbs, J., Wacziarg, R., "Stages of Diversification.", **American Economic Review**, 93.1, 2003.
- Montiel, P., and Servén, L., **Real Exchange Rates, Saving, and Growth**: Background paper, submitted to the Commission on Growth and Development, 2008.
- O'Donnell, R., NESC, paper prepared for UN Economic Commission for Latin America, 2007.
- Organization for Economic Co-operation and Development, [OECD Employment Outlook 2002](#).
- Porter, M., E., Schwab, K., **The Global Competitiveness Report**, World Economic Forum, Geneva, Switzerland, 2008.
- Ricigliano, R., "Networks of Effective Action, Implementing an Integrated Approach to Peace building", **Security Dialogue**, Vol. 34, No. 4, (2003), p. 445-462.
- Rodrik, D., "Goodbye Washington Consensus, Hello Washington Confusion?" **Journal of Economic Literature**, vol. 44, no. 4, 2006.
- Scott, W., R., "Institutional theory" in **Encyclopedia of Social Theory**, Ritzer, G., (ed.), CA: Thousand Oaks Sage, 2004.
- UN, **Human Development Index**, Human Development Reports, 2008.
- Williamson, J., (ed.). **Latin American Adjustment: How Much Has Happened?** Institute for International Economics, Washington DC: 1990.
- Ya'ar E., Lipsky Y., [IDB Survey on Patriotism in Israel's 60<sup>th</sup> Year](#), Herzliya: The Institute for Policy and Strategy, IDC, 2008.

#### Books:

- Barabasi, A.L, **Linked: The new Science of Networks**, Perseus Publishing, 2002.
- Dror, Y., **The Capacity to Govern**, London: Frank Cass Publishers, 1994.
- Dror, Y., **Epistel to an Israeli Jewish-Zionist Leader**, Jerusalem: Carmel Publishers, 2005; (Hebrew Only).

- Gladwell, M., **The Tipping Point**, USA, Little, Brown and Company, 2000.
- Heifetz, R., **Leadership without Easy Answers**, Harvard University Press, 1998.
- Helpman, E., **The Mystery of Economic Growth**, Cambridge, MA: Harvard University Press, 2004.
- Lew, K., Y., **From Third World to First**, U.S.A: Harper Collins Publishers, 2000.
- Nozick, R., **Anarchy, State and Utopia**, Basic Books, 1974.
- Rawls, J., **A Theory of Justice**, Harvard University Press, 1971.
- Rodrik, D., **One Economics Many Recipes**, New Jersey: Princeton University Press, 2007.
- Schein, E., H., **Strategic Pragmatism**, The Culture of Singapore's Economic Development Board, MIT Press, 1997.
- Williams, D., **Real Leadership – Helping People and Organizations Face their Toughest Challenges**, Berrett-Koehler Publishers, 2005.

#### Websites:

- EDB ([Economic Development Board](#)) Singapore.
- IDA ([Industrial Development Agency](#)) Ireland.
- The Finnish Innovation Fund ([Sitra](#)).
- [Trends in International Mathematics and Science Studies, 2007, table 1.](#)
- Praxis [www.praxis.co.il](http://www.praxis.co.il)

#### Other Articles:

- **The Economist**, "Cradle Snatching", 05/16/2006.
- **The Economist**, "Miracles and Mirages" 04/3/2008.

#### Presentations:

[Israel 15](#) – Prof. Hausmann's presentation in his visit to Israel, January 2008.

Sheinin, Y., Zvi, N., [The Economic Potential of Christian Tourism](#), Herzliya: The Institute for Policy and Strategy, IDC, 2008.

Trajtenberg, M., **Innovation Policy for Development**, Mt. Veritas Conference, 2007.