

Executive Summary **Principles and Guidelines for Achieving Socio-economic Leapfrogging**

Leapfrogging is not a luxury, it is a necessity.

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, Israel is currently 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 citizens, leading to the erosion and even collapse of the backbone of its society.
2. **Therefore, Israel's leapfrogging – achieving sustainable high growth that would allow the country 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. **Leapfrogging occurs when the average annual real GDP growth exceeds 3.5% for at least eight years.** In order to be considered an 'economic miracle', an average of 7% real growth needs to be sustained for at least 25 years. Thirteen countries have achieved this feat, among them: Singapore, Japan, South Korea and Brazil. Israel also leapt between 1951 and 1972. During this period we enjoyed an average real growth rate of 5.5% per year.
6. **Sustainable high growth is a necessary but insufficient condition for leapfrogging** – As mentioned, in order to be considered leapfrogging, growth has to be sustained at a level of 3.5% for 8 years. Another necessary condition for leapfrogging is 'inclusiveness' i.e. that the quality of life of all citizens is improved.
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.
8. **The key to leapfrogging: The capacity to transform** - Leapfrogging requires an acceleration of the pace of change in the makeup of products and services, which is tantamount to acceleration of social change. It thus requires the establishment of institutions that allow for and support rapid change in the social and economic environment.



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8. **The 'difference that makes the difference' - The public sector's role lays the foundation for leapfrogging.**

The common denominators among countries that leapt

- **Shared vision** – In most of the countries that leapt there was a vision which shaped future attainable goals. The vision served as a source of inspiration when determining priorities and mobilized all sectors of society;
- **Leadership by a committed elite** – Leapfrogging entails fundamental changes of values, patterns of conduct and national priorities, and therefore requires leadership. Due to its complexity and duration, propelling a leapfrog is beyond the ability of a single leader and requires the commitment of an entire elite in positions of leadership, influence or authority such as political leaders, experts, academics, heads of nonprofits, philanthropists and business people;
- **'Inclusive growth': enlarging the pie and sharing it with the entire society** – The government's socio-economic policy is of chief importance. Every country that leapt maintained macro-economic stability which was credited to government policies which aimed for inclusive growth. However, in countries that leapt the inflation rate or deficit slightly deviated on occasion from the average of developed countries;
- **Institutions**– Sustaining high growth requires 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. These institutions should be shaped by each country's specific characteristics.
- **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, and monetary resources. Leapfrogging requires focusing development policy on exhausting a nation's unique assets or on 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 the labor market to rapid growth. This requires government, unions 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.
- **Leapfrogging requires growth diagnostics of the country's bottlenecks and focused reforms** – 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. An overall reform of the public sector is not necessary.
- **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 leaders of local governments, businesses, nonprofits and philanthropists to design and implement policies for local and regional development.



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- **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 Leapfrogging in Israel

Based on the above, the following guidelines and principles should be implemented in order to set in motion an Israeli socio-economic leapfrog:

- **Adopting the ISRAEL 15 Vision a national vision** for Israel's social and economic development.
- **Designating an organization as a 'central brain'** whose roles would 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 units that deal with law enforcement, foreign investments or exports.
- Structural reforms in sectors that are critical for leapfrogging such as in sea and airports, in the courts, planning and zoning and development.
- **Forging a pact between the labor unions, employers and government** – These agreements should aim to increase flexibility of 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 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 its unique assets in order to transform them into growth engines in the global arena.

In this context, the Reut Institute recommends that the following global trends should be considered 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 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 industry and Israel's unique experience in its struggle against the effects of the desert.

- **Upgrading local authorities to allow socio-economic development on the regional level** – 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



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corruption; empowering local leadership; and establishing a national policy to support such development.



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