

**מכון ראות**  
THE REUT INSTITUTE



# **ISRAEL 15 Vision**

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

**Version B - Summary**

**Complete document available at  
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**Shvat 5769  
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**"This is a very impressive document, based on clear thinking and knowledge of the recent experience and writing about growth at various stages of development."**

Professor Michael Spence, Economics Nobel Prize Laureate, and Head of the World Bank Commission on Growth and Development.

**"Leapfrog strategies, like suits, are not are not perfect per se, only perfectly suited. The particular characteristics of the country in question have to be brought to the table and used intelligently. This document captures the best international lessons and adapts them to the details of Israeli reality in order to propose a novel way forward. It explains why, given Israel's reliance on highly-mobile high-skilled individuals, it must adopt a strategy to leapfrog towards better living conditions in order to retain its source of growth. The document represents an excellent and highly needed basis for a fundamental national debate."**

Professor Ricardo Hausmann is Director of the Center for International Development and Professor of the Practice of Economic Development at Harvard University.

**"This is a fascinating and impressive document that speaks of a long term vision and solutions...I learned a great deal from it. Thank you to whoever wrote this fascinating document."**

MK Tzipi Livni, Opposition Leader and former Minister of Foreign Affairs.

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

Poverbs 29:18



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

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## 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 achieved this feat, among them: Singapore, Japan, South Korea and Brazil. Israel



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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



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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 as 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.



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- **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.



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## **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 Institute in 2004

<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).



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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 measureable 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

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<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.



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social and economic leapfrog in Israel toward realizing the ISRAEL 15 Vision. The structure of this document is:

- 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>

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<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.



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