

# How to Catalyze a Leapfrog in ISRAEL?





**"Our goal should be to be ranked as one of the top fifteen countries in the world by per capita income within the next fifteen years"**  
**(PM Benjamin Netanyahu at the Conference for Israeli Businesses, December 2010)**

### **A unique initiative by the TheMarker and the Reut Institute**

The Israel 2021 Conference, which will take place on Wednesday and Thursday January 12-13<sup>th</sup>, represents the culmination of an ongoing process that aims to revolutionize Israel's public sphere.

**This conference is the result of a unique initiative headed by Israel's leading economic newspaper, TheMarker, and the Reut Institute.** This partnership is rooted in a decision by TheMarker to encourage public discussion on long-term issues. TheMarker's decision itself represents a milestone in the creation of a public sphere mobilized to catalyze a socioeconomic leapfrog – high growth that is inclusive and sustained for more than eight years. To this end, the Reut Institute decided to invest its financial, intellectual, and human resources in support of TheMarker.

**The Israel 2021 Conference aims to advance the three basic conditions necessary for any leapfrog.** The first: Mobilizing Israel's "serving elite" – those individuals actively committed to improving its socioeconomic future – and providing them with the platform, knowledge, and inspiration to maximize their efforts. The second: Refocusing public discourse on long-term socioeconomic issues. The third: Improving cross-sector dialogue to leverage the unique contribution of each group – whether legislators, members of the government, business people, or philanthropists – in order to promote relevant legislation and policy to tackle those issues most important for leapfrogging. **Taken together, the Israel 2021 Conference represents a unique Israeli attempt to enrich and empower inter-sector dialogue despite the limitations of its government and its social structure.**

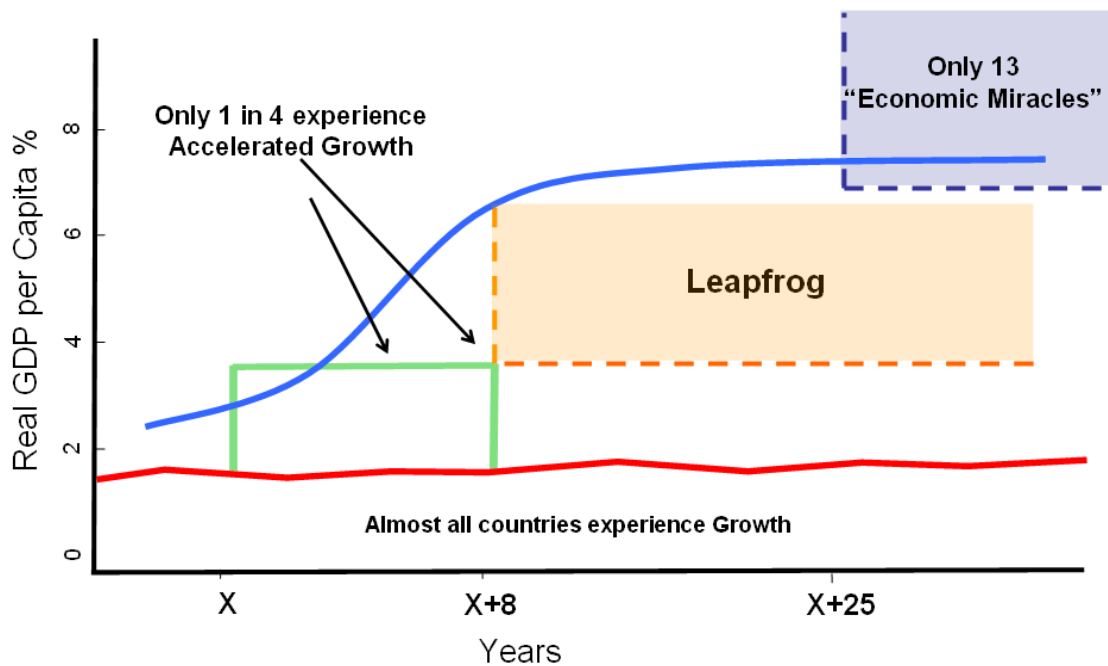
### **Leapfrogging is not a luxury. It's a necessity**

According to international indices, **Israel ranks among the richest nations in terms of its human capital and the quality of its business sector.** In a number of areas, such as innovation and research and development, it is one of the leading countries in the world. Yet in spite of this, **the quality of life experienced by its citizens is low relative to other developed countries.** Thus, it is **no surprise that Israel exports more quality talent per capita than almost any other country.** If this gap between the quality of its population and

the quality of life continues and grows it could lead to such a critical loss of educated and qualified citizens that Israel may experience a socioeconomic collapse.

**Therefore, a leapfrog that closes the gap in quality of life between Israel and developed countries is not a luxury, but a necessity.**

**Specifically, leapfrogging is fast and continuous annual real GDP growth of 3.5% for at least 8 years.** To be considered an 'economic miracle,' average 7% real growth needs to be sustained for at least 25 years. For example, whereas Germany and Ireland have leapfrogged, China, Singapore and South Korea have experienced 'economic miracles.' In fact, Israel also leapt between 1951- 1972 when it had an average annual real growth of 5.5%.



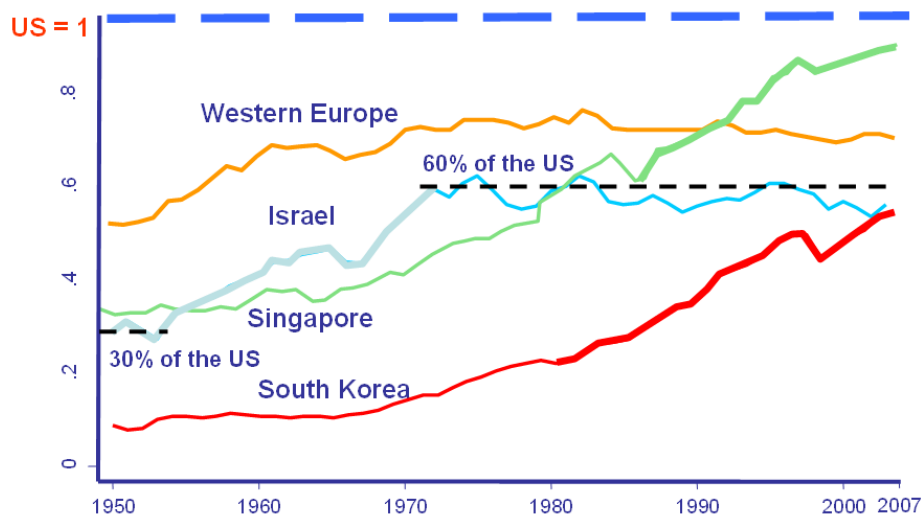
**Leapfrogging requires a combination of sustainable rapid growth** that enlarges the pie, **'inclusiveness'** that distributes the pie to improve quality of life of all the country's citizens, and **sustainability** that preserves natural resources for the benefit of future generations



**There is no single recipe for leapfrogging; it is a unique phenomenon.** Each country that leapfrogged acted out an economic and social plan relevant to its own unique history, social structure, system of government, assets, and burdens.

Nonetheless, **the key to leapfrogging is a country's ability to effectuate deep and durable changes—its 'capacity to transform.'** Since it requires accelerating the pace of socioeconomic change, leapfrogging depends on the establishment and cultivation of institutions and processes, first and foremost in the labor market, which can adapt to such change.

Countries that leapt: Relative to the US (1950-2007)



Source: Professor Ricardo Hausmann

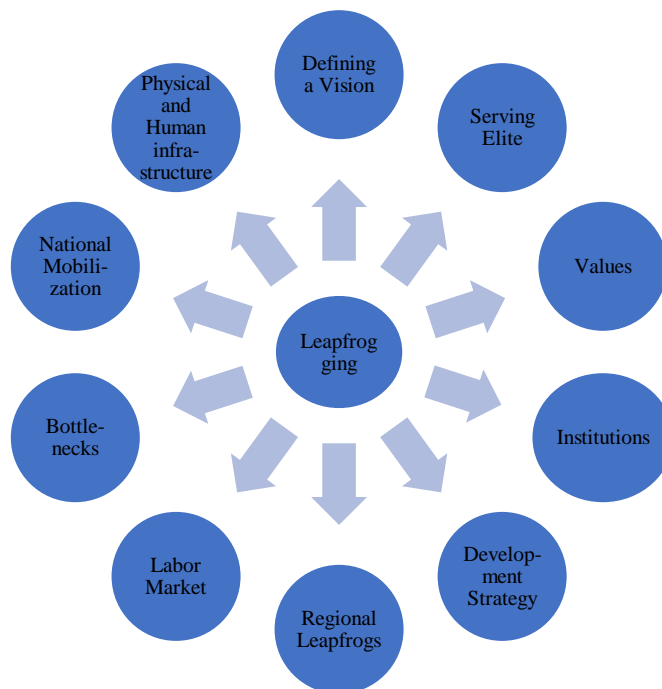
The common denominator between countries that have leapt

Throughout the past few years, knowledge and research on leapfrogging has significantly developed, with [The Growth Report: Strategies for Sustained Growth and Inclusive Development](#) representing the most significant effort. The report is written by the Commission on Growth and Development, which is chaired by Professor Michael Spence who will give a keynote speech at the Israel 2021 Conference.

The Growth Report and other research clearly demonstrate that the **public sphere provides the critical foundation for any leapfrog**. Although every country that leapt had a market economy that encouraged private innovation, investment, and competition; each also had unique and pragmatic means of leveraging such forces in the local context. In other words, market forces alone did not generate a socioeconomic leapfrog.

Moreover, rapid socioeconomic development requires dialogue and partnership between the business, government, and nongovernmental sectors that can help determine policy and legislation. Because such a dialogue and partnership require special institutions or processes, the Israel 2021 Conference aims to gather the relevant Israeli actors to discuss solutions to best fit the unique circumstances.

### The common denominator between countries that leapfrogged



- **Vision** – In most of the countries that leapfrogged there was a socioeconomic vision that aimed toward a desired future and was ambitious yet achievable. Such a vision guided national priorities and inspired mobilization.
- **Leadership by a “serving elite”** – Leapfrogging requires deep changes in values, priorities, and institutions; therefore it requires leadership. Due to its complexity and duration, sustaining a leapfrog beyond the ability of a single leader requires the commitment of an entire elite in positions of influence, authority, or leadership. This elite should include elected officials, civil servants on the national and municipal

levels, business people, leaders of nonprofits and philanthropies, academics, and members of the media.

- **Values: pragmatism, investment, inclusiveness, economic liberalism** – Countries that have leapt share four core values: One, a pragmatic approach to economic growth rather than an ideological debate between socialism and capitalism. Two, the prioritization of investment and saving for the future benefit over present consumption. Three, including the entire population in the fruits of growth. And four, ensuring a liberal economic market that encourages competition and innovation.
- **Institutions: A central brain with a macro-perspective and several elite units** – Leapfrogging often stems from an institutional infrastructure comprised of a small number of highly professional and committed units in the public sector. Each country that leapfrogged had a central agency that assessed social and economic performance, prioritized accordingly, and advanced macro-initiatives. Put simply, the engines of leapfrogging will be a small number of elite units entrusted with growth engines, such as exports, research and development, and investment promotion.
- **Unique and global development policy** – A development policy targeted to ensure the rapid growth any given industry through legislation, incentives, infrastructure, human-resources, or international ties.
  - **A unique development policy** focused on Israel's unique assets, its local character or expertise that cannot be easily moved and that can be transformed into competitive growth engines. Such unique assets include the defense establishment and industry, Israel's experience in combating desertification, the connections with the Jewish world and Israeli Diaspora, and the history of the Holy Land.
  - **A global development policy** focused on those industries likely to grow due to powerful and stable global trends such as the rise of emerging markets, the aging of Europe's populations, or the change in the climate.
- **Regional leapfrogging** – Any national leapfrog results from several regional leapfrogs across the country. Achieving regional leapfrogs requires investing in human and physical infrastructure, bolstering local leadership, and **identifying unique regional assets that offer a competitive advantage due to global trends.**
- **Labor market: Protecting the worker and not the job** – Another essential condition for leapfrogging is adjusting labor market to rapid growth. This requires labor, government, and employer cooperation to increase the flexibility in the labor market, on the one hand, while allowing workers to increase their human capital, on the other hand.
- **Eliminating bottlenecks** – Leapfrogging requires identifying and eliminating bottlenecks in the public sector. It does not require a general reform.
- **National mobilization** – In countries that leapfrogged, socioeconomic development became a central goal share by the entire population beyond the limited group of economists, civil servants, and researchers. Oftentimes local leaders, members of the media, trade unions, nonprofits, businessmen, and others took a significant role in the process.

- **Disciplined investment in physical and human infrastructure.** Every country that leapfrogged demonstrated discipline in its public investment. When they did invest, these countries put money in human infrastructure, such as training and education, and in physical infrastructure, such as trains, harbors, and airports. In doing so these countries often absorbed above average inflation rates or deficits.

The Israel 2021 Conference provides a unique opportunity to mobilize the serving elite of Israel to make an impact on the public sphere and improve cross sector dialogue. These goals represent necessary conditions for Israel to leapfrog and become one of the top fifteen countries in terms of its quality of life. We hope to see you there!

To read more please see [Principles and Guidelines for Achieving a Socioeconomic Leapfrog \(Version B\)](#).

**End.**