



The Israeli Economy, 1995–2017

This book describes and analyzes developments in the Israeli economy from 1995 to 2017. During this period, inflation was vanquished, the deficit in the balance of payments turned into a surplus, the public debt to GDP ratio sharply decreased, and unemployment declined to an historical low. Nevertheless, the economy still suffers from many maladies: the productivity level is among the lowest in the developed world, and inequality has generally been on the rise. In the face of these threats to future growth and social cohesiveness, the question arises: has the reliance on market forces gone too far, and has the government retreated from its traditional tasks, tasks the private sector cannot (or does not) perform.

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Light and Shadow in a Market Economy

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Preface

This book is the third in a series of edited volumes on the Israeli economy initiated by the Maurice Falk Institute for Economic Research in Israel. Each was first published in Hebrew and then in English. The first volume, *The Israeli Economy: Maturing Through Crises*, edited by Yoram Ben-Porath (1986), covered the years 1973–1984. Coming at the heels of the Yom Kippur War, this period was characterized by slow growth and accelerating inflation. The second volume, *The Israeli Economy, 1985–1998: From Government Intervention to Market Economics*, edited by Avi Ben-Bassat (2002), covered a period characterized by the conquest of hyperinflation, improved macroeconomic performance, major structural reforms, mass immigration from the former Soviet Union, and a shift of resources from the government to the public sector.

The third volume follows this tradition. It analyzes the evolution of the Israeli economy from the mid-1990s to the mid-2010s, a period in which the economy has gone through a dramatic transformation. A key element in the transformation has been Israel's continued shift toward a more market-oriented economy, including notably the meteoric rise of the high-tech sector. It is time to take stock of the implications of this change.

Work on the Hebrew language volume started in the summer of 2016. The English language volume is based on the Hebrew language one. However, the chapters went through a major rewriting in order to make them more concise and accessible to a foreign audience. The volume contains eighteen chapters and an introduction, written by us, the editors. In keeping with tradition, most chapters contain both a description of major developments in the relevant subject area and an analytical section, which provides an empirical investigation of specific questions. The introduction provides a bird's-eye view of the evolution of the economy over this twenty-year period, highlighting major accomplishments and challenges.

Completing this project would not have been possible without the help of many individuals. We are indebted to Ronit Ashkenazi, the administrator of the Falk Institute, who has devoted countless hours in order to keep this multi-year project moving forward. We also want to thank the reviewers of the various chapters – Aamer Abu-Qarn, Claude Berrebi, Kobi Braude, Alex Cukierman, Alon Eizenberg, Yoav Friedmann, Daniel Gottlieb, Niron Hashai, Zvi Hercowitz, Leo Leiderman, Rafi Melnick, Efraim Sadka, Michael Sarel, Analia Schlosser, Amir Shmueli, Michel Strawczynski, Yishay Yafeh, and Noam Zussman – as well as audiences in the conferences where preliminary versions of the books were presented. Their comments and suggestions greatly improved the book. For their constructive criticism, we thank two anonymous reviewers who have read the book proposal and sample chapters. We thank Elhanan Helpman for his support and advice. For generous financial support, we thank the Bank of Israel, Bank Leumi, and an anonymous donor. Finally, we thank Phil Good and Toby Ginsberg at Cambridge University Press for their support and guidance throughout the work on this volume.

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