

REVIEW OF “ISRAEL AND THE WORLD ECONOMY:
THE POWER OF GLOBALIZATION”

BY ASSAF RAZIN
MIT Press (2017)

Reviewer: Asaf Zussman*

Assaf Razin's *Israel and the World Economy* is part of a crop of soon-to-be-published books on the Israeli economy, including one by Joseph Zeira and another edited by Avi Ben-Bassat, Reuben Gronau and the author of this review.

What distinguishes Razin's contribution from the others is the emphasis his book puts on the role of globalization in the development of the Israeli economy. Razin's main argument is that Israel did a remarkable job in reaping the benefits of globalization, the integration of world markets in goods, services, capital, and labor (in the Israeli case, this means the absorption of waves of mass migration). The key to Israel's success, according to Razin, was the steady and gradual stream of reforms in commercial and financial institutions as well as in macroeconomic management and other fields. The embrace of globalization helped propel Israel to its current position—a thriving, high-income, high-technology-oriented country. This achievement should be viewed as particularly impressive given the major challenges the country has faced since its establishment, including scarcity of natural resources and a hostile geopolitical environment.

Razin's book relies on a combination of economic theory, empirical evidence, and narrative presentation. It is intended for a wide audience of readers interested in the development of the Israeli economy. This includes professional economists (inside and outside of academia), students, and policy-makers. The book could also prove useful to others, including researchers and students interested in the effects of globalization and those interested in international economics more generally.

The book is divided into four parts, each containing several chapters. The first part focuses on two key historical episodes: the rise of inflation in the late 1970 and early 1980s—inflation reached a peak annual rate of more than 400 percent in 1984—and its conquest following the adoption of the Economic Stabilization Plan by the national unity government in 1985; and the absorption of the mass immigration wave of Jews from the former USSR in the 1990s and its effects on income inequality. The second part of the book discusses the link between what is known as the “great moderation”—the decline in

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business-cycle volatility in advanced economies from the mid-1980s to 2007—and Israel's disinflation process, explains the robustness exhibited by the Israeli economy in the face of the 2008 global financial crisis, and finally describes Israel's emergence as a high-tech powerhouse and how this development is related to the country's openness to global financial flows, and in particular to foreign direct investment. In the third part of the book Razin discusses several important recent trends. These include the tightening of trade relations between Israel and East Asian countries, the “brain drain” problem (highly educated Israelis migrating to advanced countries), the high fertility rates of certain segments of the population that are also associated with low levels of skill acquisition (in particular the ultra-Orthodox and the Arabs), and the economic costs of the conflict with the Palestinians. The fourth and final part of the book contains a brief survey of the earlier literature on the development of the Israeli economy, and an epilogue.

Throughout the book, Razin makes many interesting and convincing arguments. Given space constraints and my own personal interests, I will illustrate this with a single example. In Chapter, 10 Razin analyzes the economic effects of the conflict with the Palestinians. One naturally wonders how this topic is related to the “globalization” theme of the book. Razin convincingly claims that the answer comes in two parts. Globalization helps to mitigate—although not completely eliminate—the negative economic effects of the violent clashes between Israel and the Palestinians. On the other hand, however, the conflict not only heightens domestic political conflicts, but may also lead to international political and economic isolation, potentially cutting Israel off from the forces of globalization that have served it so well in the past.

I have two minor complaints about the analysis in this book. First, at times Razin's theoretically oriented style of work left me, an empirically oriented economist, somewhat frustrated. An illustration of this can be found in Chapter 3, which analyzes the effect of the 1990s immigration wave from the former USSR on income inequality. In this chapter, Razin presents a sophisticated political-economy model of migration, where many factors, including the progressivity of the tax/transfer system, are endogenous. Within this model, the immigration wave is viewed as a positive shock to the supply of labor. While some of the patterns observed in the data—particularly the rise of inequality in disposable income in the 1990s—are consistent with the predictions of the model, in my mind the analysis falls quite short of establishing a credible causal link between migration and inequality during this historical episode.

My second criticism has to do with the choice of topics covered. Naturally, space constraints limit the number and the depth of the topics one can cover. It is also clear that the choice of topics is influenced by the fields of interest and expertise of the author, in this case macroeconomics, international economics, public economics and political economy. While the decisions made by Razin with respect to choice of topic are perfectly legitimate, to my taste several issues receive too much attention while others receive much less attention than they deserve.

Among the topics that receive too much attention is the struggle with inflation. While this issue was extremely important in the 1970 and the 1980s, since the 1990s it has become much less important. Moreover, the rise and conquest of inflation in Israel has already received much scholarly attention, including by Razin himself, so the analysis in the new book does not add much to existing knowledge.

One notable topic that receives too little attention is education. The education system in Israel, especially at the primary and secondary levels, suffers from many acute problems. This is manifested by, among other things, the fact that Israeli students increasingly lag behind in international standardized assessments of educational attainment. This bodes ill for the future of the Israeli economy, as the quantity and quality of education affect key measures of economic performance such productivity and growth.

These minor criticisms aside, I believe that Assaf Razin's *Israel and the World Economy* provides a timely and important contribution to the literature. I recommend this book to anyone interested in the past and future development of the Israeli economy.