

MICHA MICHAELY (1928–2023)

KOBI METZER AND JOSEPH ZEIRA

At the annual conference of the Israel Economic Association, held on June 22, 2023, at Tel Aviv University, the Association awarded, for the first time, the newly established David Horowitz Lifetime Achievement Award in Economics. This award is named after David Horowitz, the founding Governor of the Bank of Israel.

It is no surprise that the inaugural Lifetime Achievement Award was presented to Micha Michaely. Upon receiving the award he expressed heartfelt gratitude in a moving and insightful speech during the festive ceremony at the conference. Here, we provide the highlights of his remarks.

Micha, who was the Association's third president, began by emphasizing how honored and proud he felt to receive the award bearing the name of David Horowitz, whom he had known in the late 1950s while serving as an advisor to the Bank of Israel alongside his work at the Hebrew University. From this vantage point, Micha came to deeply appreciate Horowitz, who, due to his talents and life story, had significant influence in both the domestic and international economic arenas, far exceeding the influence stemming merely from his position as Governor.

Furthermore, Micha offered an intriguing insight into Israel's economic regime during its early years. He characterized it as a market economy—albeit neither free nor open—with extensive government involvement. Despite these constraints the market played a substantial allocative role in the Israeli economy, thereby distinguishing it significantly from the centrally planned economies inspired by Soviet-style five-year plans, adopted by many post-colonial nations, including India, following World War II.

Micha added that the two key figures leading Israel's economic policy in those years were Finance Minister Levi Eshkol and Bank of Israel Governor David Horowitz. Together, they played a key role in establishing Israel's market economy, flawed as it may have been in those early years. Micha highlighted their leadership in creating the organizational-institutional infrastructure for economic policymaking. Notably, he mentioned the Budget Department at the Ministry of Finance, led by Yaakov Arnon, and the Research Department at the Bank of Israel, headed by David Kochav. Micha stressed that these two units formed the basis for shaping economic policy at the time, and remain central pillars of Israel's economic policymaking to this day.

The latter part of Michaely's remarks was devoted to "*words of Torah*", namely, economic research, focusing on the role of intuition in economic research. He recalled the advice of Arnold Harberger, one of his esteemed teachers at Johns Hopkins University in the early 1950s, who told his students: "*With all refinements, don't forget intuition.*"

Micha noted that, despite recognizing the problematic nature of relying on intuition as a guiding principle in research—which could hinder scientific progress—he took Harberger’s advice seriously and did not abandon it in his empirical studies. To illustrate this, he discussed the relationship between geographic distance and trade volume, a key issue in empirical research on international trade.

Prevailing studies on this subject typically found a significant negative elasticity (approximately -1) between distance, in terms of transportation costs, and trade volume. Michaely found these findings at odds with intuition. The results, which suggested that doubling transportation costs would halve trade volumes, did not align with the low share of transportation costs in the prices of traded goods, which rarely exceeded 5 percent. Through alternative methodologies, Micha’s research estimated a much lower elasticity, at most -0.1. This finding reinforced his unconventional stance, one he pledged to maintain as long as his intuition supported it.

On December 22, 2023, exactly six months after delivering his speech at the award ceremony, Micha Michaely passed away at the age of 94. His life and achievements remain a testament to a remarkable career in economics. Below is the full text of the article we wrote for the *Economic Quarterly* to commemorate his receipt of the award, which now also serves as a eulogy to a distinguished individual and his contributions.

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Micha Michaely, Professor Emeritus of Economics at the Hebrew University, had a prolific and distinguished career spanning nearly seven decades, with significant contributions to international economics and the analysis of economic policy in trade and international finance. Noteworthy among these are his pioneering studies on the concentration of international trade and the relationship between exports and economic growth.

Michaely’s seminal work on trade concentration was published in his 1962 book, *Concentration in International Trade* (North-Holland). The book provided the first systematic analysis of trade concentration in goods after World War II, based on data from 44 countries at varying levels of economic development in 1954. Among its findings, Michaely identified socioeconomic and geographic characteristics of countries with highly concentrated trade patterns and proposed explanations for these relationships.

Another influential study, published in 1977, examined the correlation between export share and economic growth in developing countries from 1950 to 1973. While the study found no direct correlation between export share and growth rates, it did identify positive relationships between increase in the rates of export growth and economic growth. This groundbreaking research paved the way for numerous subsequent studies on international comparisons of economic growth, particularly after 1990 with the establishment of cross-country data on GDP which were indexed by estimates of purchasing power parity.

Other works by Michaely which advanced significantly the research and the academic discourse included comprehensive studies on exchange rate policies, balance of payments, customs unions, trade liberalization, and the geographic determinants of trade volumes. His research output was published in books and in top-tier international journals such as *American Economic Review*, *Journal of Political Economy*, and *Quarterly Journal of Economics*.

One of Michaely's notable collaborative projects with the World Bank resulted in the *Liberalizing Foreign Trade* series, a seven-volume study which he coedited with two of his colleagues in the bank and published in 1991. This monumental work analyzed trade liberalization in 19 developing countries in the post-World War II era and offered policy recommendations for effective trade strategies.

Domestically, Michaely devoted considerable efforts to study the Israeli economy, addressing issues such as economic independence, capital imports, exchange rates, and economic policy. He understood well that to reach policy makers with these economic insights, he needed to reach public opinion. Indeed he was instrumental in the efforts of economic academics to reach the press in the 1970s.

This description will not be full without stressing Michaely's pivotal role in shaping economics education in Israel. As is well known, the modern study of Economics began in Israel in 1949, with the arrival of Don Patinkin to the Hebrew University. Michaely began his studies in the university in fall 1947, after serving two years in the Palmach, but was recruited after a month and served for two more years during the War of Independence. In 1949, he joined the first class of Patinkin, and like many of his cohort, 'fell in love' with Analytical Economics. In 1952 he graduated and went to Ph.D. studies at Johns Hopkins University in the US. Patinkin encouraged his outstanding students to study for their doctoral degrees at top international universities, hoping that they would return later with wider knowledge to the Hebrew University.

Indeed, in the fall of 1955 Michaely returned to the Hebrew University as a young faculty member. He became Patinkin's partner in shaping the Economics program at the university, and especially when he served as chairman of the young department in 1961–1965. His main contribution was establishing the course of intermediate macroeconomics in the department, which was offered for the first time in the year 1963/64. It became part of the core courses in economics at the Hebrew University and soon also in all the other new universities in Israel.

Michaely's enduring legacy lies in his extraordinary research contributions, his mentorship of generations of economists, and his unwavering commitment to integrating academic insights into public policy. He was the ideal recipient of the first David Horowitz Lifetime Achievement Award.