



Israel and the world economy: the power of globalisation

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BOOK REVIEW

Israel and the world economy: the power of globalisation, by Assaf Razin, Cambridge, MA, The MIT Press, 2018, xviii + 208 pp., \$40 (hardback), ISBN 978-0-2620-3734-1

Economically, as in many other respects, the State of Israel has registered very impressive achievements over its lifetime. It emerged in 1948 as a rather weak and impoverished agricultural polity. Over the past seven decades, though, the Jewish state has thoroughly transformed itself into a strong and wealthy industrial polity, one that has become a world leader in many areas of high technology, ranging from computers to medicine, as attested to by its membership in the Organisation for Economic Co-operation and Development (OECD). Thanks in large part to its steadily advancing integration into the global economy, Israel has moved firmly out of the developing world and into the developed world.

But a far less rosy side to this story exists as well. The Jewish state's economic transformation has been accompanied by a number of unhealthy trends, especially the rapid growth of income inequality among different sectors of society. Indeed, income inequality in Israel is nowadays among the highest in the developed world. Certain sectors of the country's population, particularly the Arab and Haredi minorities, have fallen steadily behind the majority of the population in terms of economic welfare, deepening social divisions in the country and threatening its future integrity.

Assaf Razin, a professor emeritus of economics at both Cornell University and Tel Aviv University, traces the rise of the Israeli economy from the mid-1980s to the present day in this concise and incisive monograph. Much of his description and analysis is quite challenging, grounded as it is in the rigorous logic, models and mathematics that characterise the discipline of economics; nevertheless, his work is accessible to the attentive layman, even if some of the more technical portions of the book may be beyond the ken of many.

The first part of Razin's work begins with an inquiry into the causes and consequences of the hyperinflation that rocked the Israeli economy in the mid-1980s, as well as into the stabilisation measures instituted by Israeli policy-makers that eventually tamed the problem. The reduction in inflation, coupled with the mass migration of highly skilled immigrants from the former Soviet Union throughout the 1990s, asserts the author, allowed the Israeli economy to gather a head of steam. Concomitantly, however, mass migration exercised a harmful effect on income redistribution in the Jewish state, Razin shows, leading in turn to widening income inequality between the majority of the population, on the one hand, and the aforementioned minority populations, on the other, a phenomenon that has intensified during the twenty-first century.

The second part of Razin's work examines the impact that globalisation – or the cross-border integration of national economies – and the local development of high technology have had on the Israeli economy. In respect of the former, the author observes that the worldwide financial crisis that began in 2008 – the so-called 'Great Recession', as it is called in the United States – had only a minor and fleeting effect on the Israeli economy in comparison to other advanced economies, in large part because of the fiscal reforms Israeli policy-makers had put in place to contain the hyperinflation of the mid-1980s. In respect of the latter, Razin notes that substantial foreign direct investment (FDI), mainly from the United States and Europe, attracted by the promise of Israeli high technology, has been a major component in the considerable growth of the Israeli economy in the first two decades of the twenty-first century.

The third part of Razin's work explores a number of contemporary trends that are exercising an influence on the Israeli economy. On the plus side of the ledger, the author cites the expanding trade relationships between Israel and Asian countries, especially China and India, which has diversified the Jewish state's export markets. On the minus side of the ledger, the author highlights the mushrooming 'brain drain' of well-educated Israelis, as globalisation has made it easier for them to seek their fortunes elsewhere, and elevated birth rates among the floundering Arab and Haredi sectors of the population. These two trends, he avers, could seriously undermine the advancement and resilience of the Israeli economy in the long run. Finally, while Razin demonstrates that the Israeli economy has thus far largely been shielded from the harmful effects of the Israeli–Palestinian conflict, this situation could well change for the worse in the future, particularly if sanctions are imposed on the country as a result of its policies in Judea and Samaria.

The final part of Razin's work briefly surveys prior studies of the Israeli economy, pointing out that they have been rather few and far between. That is one reason why the present book constitutes an important addition to the literature. Another reason is the work's judicious assessment of the road that the Israeli economy has taken in the past and the one it may go down in the future. Razin's book, in short, is destined to become a core work on the Israeli economy.

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