

Tenth in the world

In April 2005 Netanyahu presented his financial vision for the coming years: “to be one of the top ten developed countries in standard of living and per capita income within ten years”.

However, in order to raise the standard of living, reduce social gaps and lower unemployment, the economy has to grow at an annual rate of 6% for each of the next ten years – and that is a very difficult mission. In order to achieve such growth it is necessary to increase investment and entice large global corporations to Israel.

When the Israeli economy grew at the rapid annual rate of 7% during the mid 1990’s, investments increased by 10-15% year after year. Figures like these are not yet evident on the horizon. Furthermore, tourists are not yet returning in their masses, not to mention international conventions. For this to happen we need to create an atmosphere of peace, quiet and stability.

A look to the future

In his inaugural address as Governor of the Bank of Israel in May 2005, Prof. Stanley Fisher said “to achieve our full potential, a realistic prospect of peace is needed”. Fisher always and

obviously links economic growth to the political situation. He relates that when he told his friends in New York that he was about to make aliyah, they were aghast, assuming that he would need an entire company of bodyguards accompanying him at all times. Yes, that is the impression New Yorkers have of Israel, so you can just imagine what the rest of the world thinks.

Obviously, as we all know, not one of them wants to invest in a country constantly in fear of war and terror. Therefore, to achieve our full economic potential, to reach 6% annual growth, and to be number ten in Europe, the economy has to be linked to politics – peace and stability are essential and this can only be attained through a peace process.

Therefore it is all well and good that the Minister of Finance takes important steps in the direction of a free market economy, but if we wish to be ranked as one of the top ten most developed countries in the world, we need to act through a political channel.

If the Gaza disengagement is to be a prelude to a peace process, this would be the Prime Minister’s greatest contribution towards attaining rapid growth, lowering unemployment and fighting poverty. Never before have economy and society depended more on political processes.

The Trade And Services Sector

as a Lever for Encouraging Economic Growth and Employment in Israel

As surprising as this may be, until today many decision-makers in the Israeli economy as well as media personalities considered the Israeli economy to be divided into two principal segments: a productive segment and a non-productive segment. The productive segment consists of heavy industry, light industry, manufacturing and construction, whereas the non-productive segment includes mainly the trade and services sector.

This quaint anachronistic notion is one of the principle factors of economic development in Israel. For years, the decision-makers were under the erroneous assumption that all efforts must be aimed at encouraging industrial growth, and that the rest of the sectors would take care of themselves. They maintained that in order to encourage the industry, it is essential to change the Encouragement of Capital Investments Law and define the amount of grants, which tax breaks will be given for how long, and the rating of benefits according to the geographic zone. According to this approach, heavy taxes are imposed on everything; high income tax, high employers’ tax, high corporate tax, and subsequently tax breaks, exemptions and benefits are granted to specific economic sectors.

What our decision-makers forgot is that apart from industry, there is a huge and thriving private, entrepreneurial and independent business sector with an enormous potential for economic development and for creating jobs. Instead of contemplating how to stimulate growth throughout the business sector, the question addressed was how to boost industry.

In all developed western countries, the trade and services sector accounts for some 65-70 percent of the GDP. This is also the sector creating the majority of the jobs. 2004 marked an increase of 38,000 salaried positions in the trade and services sectors as opposed to a mere 5,000 new positions in industry. The trade and services sectors employ about 44 percent of all jobs in the marketplace, including the public sector, sharply juxtaposed with only 14 percent in industry. In effect, in the last five years the number of jobs in the industrial sector shrunk by 19,000, compared to 120,000 new jobs in the trade and services sector. Last March alone the trade and services sectors generated 16,100



Uriel Lynn
President of the
Federation of
Israeli Chambers of
Commerce

new positions, compared to only 1,500 jobs in industry. This development is not unhealthy, but the natural path of development of any modern economy in the western world. We are becoming an increasingly service-demanding and service-oriented society. Today, the need to create many new jobs in

In Israel, the trade and services sector accounts for 62 percent of the business sector. We have room for another 8 percent growth in the business GDP before reaching par with the economic structure of developed European countries. This sector also provides opportunities for young people to go into business and

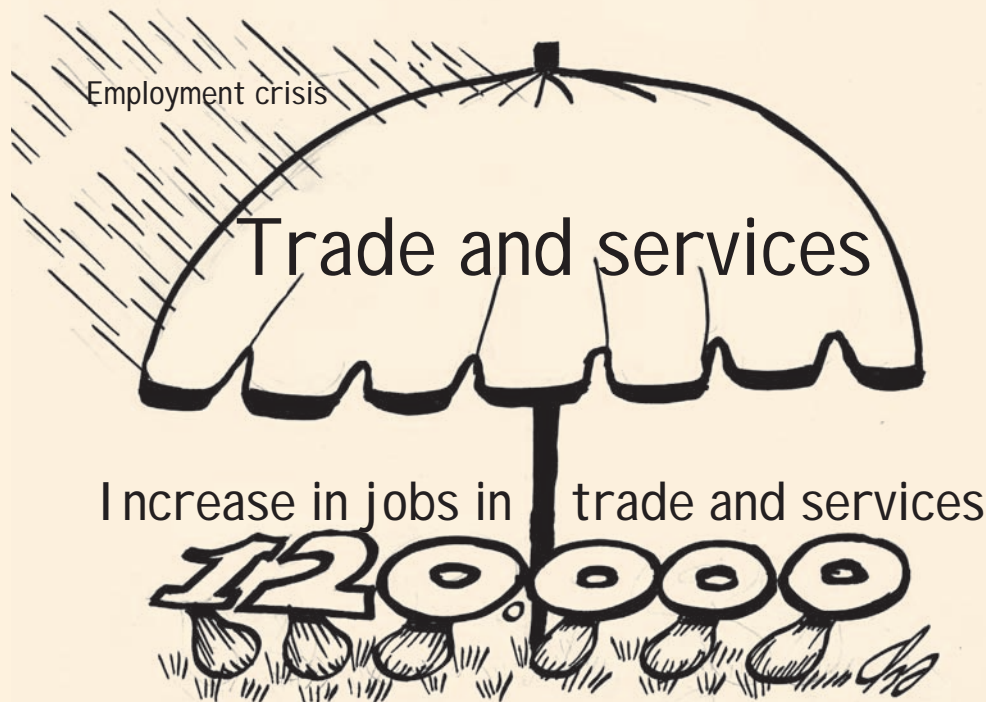
develop ventures of their own. The entrepreneurial high-tech industry indeed captures the imagination and draws more attention. However, an important part of the high-tech industry is computer applications, creating software and Internet technology, and these mostly fall short in terms of services.

The traditional services sector also offers many opportunities. True, only 50 percent of new businesses succeed, but the experience is worthwhile, especially for young people. The gratification and horizons for expansion of a person who owns his own private business usually far exceed the satisfaction that a person can derive as a salaried

employee. This is especially true when the investment required in the trade and services sector is usually not as high as in manufacturing.

The trade and services sector does not demand government assistance, but only that the government refrain from interfering and bearing down on the business unnecessarily. All that the government needs to do is structure a system of taxation, licensing and control that will make Israel a convenient and friendly place for doing business. The population itself will do the rest, since we are living in a materialistic and entrepreneurial economy.

The Israel Federation of Chambers of Commerce has no less than 100 active divisions spanning the various economic sectors, such as wholesale trade, retail trade, export, import, real estate, the capital market, financial services, tourism, private medicine, business services and many more. This partial list demonstrates the wide variety of services existing on the Israeli market today.



the marketplace will not be met by the industrial sector. As mentioned above, the trend in the last five years clearly indicates that industry does not have any real potential to create new jobs. Today, we are producing more with far less manpower. The assembly lines are taken out of Israel to countries where labor is cheaper. Therefore, the criterion for a business system must not be based on the business content but on its cost-effectiveness. It makes absolutely no difference if a successful business is in the field of manufacturing or services. The question that should be addressed is whether the business stands on its own feet, is not supported by public funds and is able to generate jobs for its owners or for more employees.

Ireland realized this when it decided to change its economic policy. It lowered corporate tax across the board for the entire business sector to 12.5 percent. The Israeli Ministry of Finance's last tax reduction plan of lowering corporate tax over a period of five years to 25 percent is the first harbinger that a change will also take place in Israel's economic approach.