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Statement by the Hon. **BENJAMIN NETANYAHU**,
Governor of the Fund for **ISRAEL**,
at the Joint Annual Discussion

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Reform is The Only Choice

It is said that we live in a world full of choices. Whether we are walking into a supermarket, clicking our television remotes, or surfing the internet, the range of options available to consumers seems almost infinite. For investors, the choices are no less abundant. With the press of a button, billions of dollars in capital can be moved across the globe, and with the ability to ship goods at a pace scarcely imaginable a few decades ago, plants and even whole industries can be transferred to the country that offers the most business-friendly environment.

Yet because consumers and investors have more choices, governments have fewer. More choices means more competition, and more competition means that governments, regardless of their political and ideological composition, must enact policies that will enable their national economies to compete in an increasingly uncompromising and unforgiving global marketplace. Economies that do not provide a good investment climate will lose investors to economies that do. And economies that fail to unleash the creative potential of their workforce will see their best and brightest flock to economies that can.

The formula for economic success in the global marketplace is clear: Lower taxes, reduce government spending, streamline bureaucracy, invest in infrastructure and de-monopolize industry. Enacting these reforms demands political courage. Leaders can try to delay reform in the hope of avoiding unpopular decisions. But what may be politically prudent for the individual leader proves disastrous for his or her nation. When the reforms that enable a country to share in the enormous prosperity generated by globalization are delayed, that country falls further and further behind, becoming even less fit to compete. Eventually, the costs of procrastination are painfully felt, as thwarting the slide into relative poverty necessitates even more drastic measures. Indeed, the question is not *whether* a given economy will reform, but *when* and *at what price*.

Israel's government has decided not to wait. We have already drastically cut government spending. Just two years ago, that spending accounted for nearly 56% of our GNP. Today, it accounts for less than 52%. These cuts were designed to streamline the bureaucracy, decrease the dependency on welfare and provided incentives to enter the workforce – and they have worked. While unemployment remains high, more Israelis are entering the workforce than ever before as tens of thousands of jobs are created in the private sector. Our government considers this an enormous achievement because, as has been well documented, the best way to fight poverty is to provide jobs to poor parents.

No less important, for the first time in Israel's history, tax burdens are being reduced. Income taxes on the middle class have been cut, a regressive value added tax (VAT) has been rolled back and sky-high taxes on imported consumer durables have been slashed. Just as tax cutting has proven an effective engine for economic growth in countries across the world, it has proven the same in Israel. In little more than a year, the current Israeli government has taken a *shrinking* economy and placed it on a path that is expected to yield 4% growth this year and even more in the years ahead.

In addition to our reverse tax and spend policies, we have embarked on an ambitious program of privatization that includes our national airline, banks, ports, refineries, the state's sole electricity provider and others. We are also pouring money into infrastructure, creating a high-speed rail line that will link every city with a population of over 50,000 people and which along with a new highway that runs down the spine of the country will revolutionize Israel's transportation system.

Most important of all has been the reform of our state-funded pension system. Within a few years, at best a couple of decades, most industrialized countries will face the prospect of not being able to provide pensions for their rapidly aging populations. Rather than place its head in the sand as so many other governments have done, Israel's government has taken the politically unpopular steps that are necessary to address this problem: We have gradually raised the retirement age of both men and women and increased workers' contributions to the funds.

The benefits Israel has gained by embracing reform are already evident. Growth has returned, the stock market is skyrocketing and the rise in unemployment has been checked. Israel's success is easily replicable in countries that courageously embrace reform.

The more rigorously that international donor institutions and countries link aid to reform the better. The greater the incentive for reform, the sooner indebted nations will be able to repay their loans and lift themselves out of poverty. Israel, which has never defaulted on a loan, knows that reform can be a difficult road. But it is the only road that leads to a prosperous future.

In the last half-century, the economic efforts of national governments were largely directed at providing various forms of state benefits to citizens. The primary economic challenge facing governments during the next half-century will be directed at reducing the scale of those benefits so that their economies can compete in the 21st century marketplace. Israel is proving that it is up to the challenge.