

THE ECONOMIC SPHERE

The effects of the global economic crisis continue to resonate worldwide. Leading figures from around the world gave an overview of how tomorrow will look from an economic perspective while others debated the next steps that will be needed to keep the Israeli economy healthy in the future. A discussion of the role of social justice and how it relates to economic principles provided an additional aspect in the sphere this year.

The Global Economy's Tomorrow

Prof. Stanley Fischer¹ brought together some of the world's top economists, business and government leaders to address the future of the economies of the US, Europe, Asia and Latin America, in light of the economic crisis that erupted in 2008.

"The central irony of financial crisis is that it is caused by too much confidence, too much borrowing and too much spending and it cannot be solved without more confidence, more borrowing and more spending." President Obama understood this, according to **Prof. Larry Summers**² and it is reasonable to predict that the American economy is coming back and America will have the capacity for economic strength and global leadership as it had in the past. The US economy will benefit from demography, capacity to accept, assimilate and benefit from immigration; capacity for technology and entrepreneurial innovation.

However **Stephen Schwarzman**³ warned about the impact of uncertainty in healthcare, financial services and tax regulation: "It's still yet to be seen whether we get to the strong numbers that Larry Summers was talking about." On the issue of Europe, he predicted that the future of the EU's economy is bleak as being flat to moderate growth.

Martin Wolf's⁴ position was that despite remarkable reductions in financial stresses due to the ECB's decision to buy government bonds, the Europeans still need "massive real adjustments." These include changes in competitiveness, improvements in the structure of economies, fundamental reforms to create a stable banking union not dependant on stability of individual countries, and greater discipline in the financial and governmental sectors.

For Asia, **Ronnie Chan**⁵ sees the continuing rise of economic opportunities, particularly in China. He rejected the idea that there is excessive credit growth in China, claiming that even if there is a future slowdown, it would be a mistake to miss out on opportunities in China. Chan discussed enormous urbanization, increases in consumption, resulting in opportunities for Israeli companies and global businesses. Asia is politically and socially unstable and the chance of socially getting into trouble is likely, but "until then it is going to boom like hell." He was less hopeful about the US economy, saying that it may become the economic center again, but it will be a jobless center and said that Europe will go nowhere, "which means it won't go to hell."

Dr. Rodrigo Vergara⁶ echoed some of the sentiments about China's global importance and credited Latin Americans' ability to take advantage of the dynamism of Asia Pacific. This is why their economies, and particularly the Chilean one, have been successful with a growing middle class. While these changes are positive, he feels that uneven income distribution is a significant challenge.

Economic Principles vs. Social Values: Harmony or Conflict?

Why, despite increased economic prosperity, there is still a growing sense of lack of social justice, manifested in Israel and throughout the world and expressed through social protests?

Sir Ronald Cohen⁷ stated that the social-economic system may be successful "in terms of creation of wealth and the improvement of the standard of living" but the gap between rich and poor grows. The non-for-profit sector, Cohen says, came to be for those left behind, however it lacks funding and scale. The reason for this lies within the system, which does not take care of its social consequences, as it does with its financial and economic ones. He recommended a new model funding social issues and entrepreneurs, The Social Impact Bond - which connects social performance with financial performance. Cohen summed up: "The future is not a distant place - the future is a road we build every day. Let us start building it."

Adrian Gore⁸ took this idea further, saying that inequality is rising, leading to social instability and stunting growth. Financial services create distortion in the market, where the smartest people go into finance instead of entrepreneurship, medicine and science. Healthcare is

becoming unaffordable and will soon bankrupt countries. However, smoking, poor nutrition and lack of exercise are responsible for 50% of health problems. The problem is with incentives: since healthcare is free, people overuse those services and pay too little attention to wellness. Healthcare must therefore be tailored to people's psychology. Gore's solution includes incentives and education to rectify the distortions in the market. Businesses need to be active and innovative, built around increasing social value, not just shareholder primacy. "Only business creates prosperity, governments don't."

Indeed the financial ecosystem needs to change and "promote industries that can create jobs, not just for those with the highest skills but for the entire population," said **Abby Joseph Cohen**⁹. She then proposed to utilize the market's ability to incentivize socially responsible investing. "We need jobs creating immediate incomes, not stock market wealth," she said. The financial markets can contribute, particularly in connecting social entrepreneurs with capital from the financial markets through social impact bonds. "We need a new mode of financing to tackle social issues."

Lord Prof. Robert Skidelsky¹⁰ took this a step further, saying that the issue is not just creating jobs, but creating jobs that allow people to feel satisfied. He pointed out that despite major advances in technology, average working hours have remained the same since 1930 due to the inability for many people to work part-time, the feeling that people have that they will never have enough, and the differences "between the have-nots and the have-yachts." "Advertising is the organized creation of dissatisfaction," he noted.

Prof. Manuel Trajtenberg¹¹ put some of the blame on academic economists who have long defined economic principles as pursuing economic efficiency and GDP growth, saying "my profession has betrayed me". He added that governments cannot provide the answers to integrate economic principles and moral values, and neither can classic economics. "What is needed is a conceptual revolution... it has to change and it *can* change."

Boris F. J. Collardi¹² addressed various local and international economic issues in a "One on One" session with **Udi Segal**¹³. The world is slowly overcoming the 2008 crisis, says Collardi, and presents the EU and Asia as regions facing challenges. The first is dealing with social, economic, political and economic crises, and just last year faced the possibility of breaking up. The latter consists of trends, as Japan projects "positive enthusiasm

after 20 years of deep sleep" and China, although its economy poses as one of the main sources of trade in Asia for the EU and the US economies, its own is slowing down. Regarding Israel, he says, that even though there is regional uncertainty and local social tension, Israel has the tools to make its economy and banking system a great success.

The Israeli Economy: Is it Preparing for Tomorrow?

It seems that the Israeli economy, after all, has been affected by the global crisis. Recently, citizens of Israel have been informed of the economic threats the country is facing and that they will have to carry a much heavier tax burden. Leading figures discussed whether the Israeli economy can maintain its resilience and continue to grow, despite the global recession, and how Israel can cultivate its comparative advantages and adapt for the economy of tomorrow?

Hagai Golan¹⁴ presented the question of "what is the most important challenge facing the Israeli economy today?" and was answered that there are two aspects - How to grow the economy and how to divide its profits.

Yair Seroussi¹⁵ asserted that the biggest problem in Israeli management is fear of risk. He described a policy-induced uncertainty, claiming that if people felt that the Israeli environment would protect them over the next two decades, they would be able to "take the enormous creativity in Israel and turn it into a growing economy."

Martin Wolf¹⁶ rejected this claim and maintained that policy-induced uncertainty is less important than endogenous uncertainty and that the nature of the economic system will always be volatile. According to Wolf, Israelis must recognize the variance of global risk along with the unprecedented production in the West, to be ready for the future. He added that, "obviously, Israel has done exceptionally well" at managing turbulence and growing its economy.

Prof. Eugene Kandell¹⁷ noted that reading Israeli blogs one would think "it's not exceptional, it's not well, and it's not obvious." The biggest threat for Israel's economy is the social discussion on economic issues. We stopped believing that someone else has legitimate thoughts and knows what he is talking about.

Golan pointed out that one area in which people continue to place blame is in the division of economic profits. **Ofra Strauss**¹⁸ responded that in order to have a well-functioning society, all of the stakeholders need to be considered, including the company's profits as well as the employees and the community. Kandel reminded people that most Israelis participate in the profits from big corporations through pension funds and other market mechanisms. As Wolf pointed out, the discussion of legitimacy of profits is a global issue within democracies like Israel. However, he stated that "profits in clearly competitive industries are almost universally accepted as legitimate; profits in monopolistic industries are not."

The panelists discussed the role of Arabs, *Haredim* (Jewish Orthodox) and people living in the periphery. **Inas Said**¹⁹ talked about how the Arab community doesn't feel like they are a part of the Israeli market. "We need strategic thinking about how to give equal opportunities to the Arab community." He suggested that if more Arabs finish high school and learn Hebrew and computer skills, the ones who finish high school will be ready for the job market. On this topic, Kandel offered hope for the future, saying that we can expect results from investments in education for Arabs and *Haredim*, and that those who do or don't go to university should be encouraged to be proud of their careers.

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- 1 Prof. Stanley Fischer (Israel) is the Governor of the Bank of Israel. In the past he served as the Vice Chairman of Citigroup as well as First Deputy Managing Director of the International Monetary Fund, Vice President for Development Economics and Chief Economist at the World Bank and the Killian Professor and Head of the Department of Economics at MIT.
 - 2 Prof. Lawrence (Larry) H. Summers (USA) is the Charles W. Eliot University Professor and President Emeritus of Harvard University as well as the Weil Director of the Mossavar-Rahmani Center for Business & Government at Harvard's Kennedy School. In the past he served as the 71st Secretary of the Treasury for President Clinton, Director of the National Economic Council for President Obama and Vice President of Development Economics and Chief Economist of the World Bank.
 - 3 Mr. Stephen Schwarzman (USA) is the Chairman, CEO and Co-Founder of the Blackstone Group.
 - 4 Mr. Martin Wolf (UK) is the Chief Economics Commentator for the *Financial Times*, London.
 - 5 Mr. Ronnie C. Chan (China) is the Chairman of Hang Lung Group Limited and its subsidiary Hang Lung Properties Limited and the Co-Founder of the Morningside Group. Chan is the Chairman of the Executive Committees of the One Country Two Systems Research Institute and of the Better Hong Kong Foundation, Chair and Founder of the China Heritage Fund and Co-Founding Director of The Forbidden City Cultural Heritage Conservation Foundation.
 - 6 Dr. Rodrigo Vergara (Chile) is the Governor and a member of the Board of the Central Bank of Chile.
 - 7 Sir Ronald Cohen (UK) is the Chairman of Big Society Capital, the Founder Chairman of The Portland Trust and Bridges Ventures, the Founder Director of Social Finance Ltd and Social Finance USA. He was a Founder Director and past Chairman of the British Venture Capital Association and a Founder Director of the European Venture Capital Association.
 - 8 Mr. Adrian Gore (South Africa) is the Founder and Chief Executive Officer of Discovery, a multinational financial services group.

- 9 Ms. Abby Joseph Cohen (USA) is the President of the Global Markets Institute and Senior Investment Strategist at Goldman Sachs. She serves on the firm's US Retirement Investment Committee and has served on the Partnership Committee.
- 10 Lord Prof. Robert Skidelsky (UK) is the Emeritus Professor of Political Economy at the University of Warwick. He also serves as the Andrew D. White Professor-at-Large at Cornell University and is Chairman of the Governors of Brighton College.
- 11 Prof. Manuel Trajtenberg (Israel) is Chair of the Planning and Budgeting Committee of the Council for Higher Education in Israel. He is a Professor of Economics at Tel Aviv University and served as the first chair of the National Council of Economics.
- 12 Mr. Boris F. J. Collardi (Switzerland) is the Chief Executive Officer of the Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd.
- 13 Mr. Udi Segal (Israel) is a journalist and the Diplomatic Correspondent of Channel Two News Israel.
- 14 Mr. Hagai Golan (Israel) is the Editor-in-Chief of the *Globes* financial newspaper.
- 15 Mr. Yair Seroussi (Israel) is the Chairman of the Board of Directors of *Bank Hapoalim*.
- 16 Mr. Martin Wolf (UK) is the Chief Economics Commentator for the *Financial Times*, London.
- 17 Prof. Eugene Kandel (Israel) is the Head of the National Economic Council at the Prime Minister's Office of Israel. He is the Emil Speyer Associate Professor of Economics, Director of the Center for Financial Markets and Institutions and former Chairman of the Economics Department at the Hebrew University of Jerusalem.
- 18 Ms. Ofra Strauss (Israel) is the Chairperson of the Board of Directors of the Strauss-Elite Group.
- 19 Mr. Inas Said (Israel) is the CEO of *Alfanar* ('Lighthouse' in Arabic), an Arab-led organization specializing in workforce development. Said served as the CEO of *Gallit* Software and has previously held managerial positions at Nokia, Stratus Technologies in Boston and ECI Telecom's Broadband Access Division in Israel.