

### ***Macroeconomic Consolidation***

The Israeli macroeconomic outlook for the near future is not promising. Following decades of slow or stagnating growth, increased unemployment and high tax rates, a comprehensive fiscal consolidation approach is needed to ensure that Israel can continue to afford its crucial government programs and maintain global competitiveness. The former Director of Research at the Bank of Israel, Rafi Melnick, presented the participants with a comprehensive reform package directed at achieving this goal. Dr. Melnick's proposal has been presented to members of the Israeli government and certain portions have already been implemented. In short, the main goals of the consolidation program are to lower the share of government expenditure in GDP, lessen government involvement coupled with greater efficiency in the delivery of government services, decrease the public debt/GDP ratio, lower the share of government employment in the workforce, maintain economic stability through small budget deficits, and lower the tax burden. All of these goals are inter-related and each seeks to not only stabilize the economy, but to ensure future economic growth through a series of private-market reforms. Basically Dr. Melnick argues that the government is too involved in the economy (54% of GDP is government expenditures) and that efficient private market solution must replace inefficient public bureaucracy.

Commenting on Dr. Melnick's proposal were Dr. Steven Fazzari, Chair of Washington University's Economics Department, and Dr. Murray Weidenbaum, former Chair of the President's Council of Economic Advisors. Noting the burden unnecessary regulation can have on small business, Dr. Weidenbaum strongly recommended a review of government regulations and an elimination of those that put undo strain on the business sector. Furthermore, he recommended a reduction of the tax burden on the middle class, which will increase the incentives to work rather than use social services. Since the welfare system in Israel is lucrative and can be an attractive alternative to work, reducing its appeal to work-aged and capable adults is a necessary condition to bring the Israeli economy back to par with other Western countries.

Prof. Fazzari focused on the need to establish goals for reform and then developing a plan on how to achieve those goals. For example, he pointed out that Dr. Melnick's goal was to emulate European growth and welfare patterns. This he pointed out is coupled with a U.S. like reform package. The goal and the remedy are inconsistent with one another. Only once the precise goal of the reform is clearly elucidated, can tax reductions and other government reforms be geared to serve that end. Overall fiscal consolidation is a long run process that cannot happen overnight. It is also less effective than many think it to be. Reforming the workforce and the incentive to work as well as the package of social services are key to the long-term solvency of Israel's economic system. Reforming the labor market, by decreasing government employment as a share of total employment, is crucial because it will give young people the incentive to enter the more productive private sector upon completion their education and military service. After years of military service the average Israeli enters the workforce much later than his or her counterparts in western industrialized countries. Israel must find creative solutions to its uniquely structured workforce rather than rely on consolidation alone to solve problems that are much deeper than government inefficiencies, that, as Drs. Weidenbaum and Fazzari pointed out, are not unique to Israel.