

Do International Advisers Matter? Case Studies of Israel's Economic Policies

Daniel Schiffman^a and Yaron Zelekha^b

Abstract: Economic research regarding the role of international advisers and their impact on economic policy is limited, and that which has been undertaken, has not fully resolved why and when advisers can affect economic policies. This paper makes use of the unique role that well-known international advisers played in the development of Israel's economy in order to address the question whether international advisers matter. We find clear evidence of three possible scenarios that lead to different outcomes.

Keywords: Economic Policy, International Advisers, Economic Development, Israel

JEL Codes: O20, D78, E65

^aDepartment of Economics and Business Administration, Ariel University, Israel.
daniels@ariel.ac.il

^bFaculty of Business Administration, Ono Academic College, Israel.
yzelekha@ono.ac.il

Acknowledgements: The authors wish to thank the Aharon Meir Center for Banking at Bar Ilan University for financial support. The authors also wish to thank the following individuals for assistance in obtaining archival materials: Prof. Russell Boyer, Patricia McGuire and Tracy Wilkinson of the King's College Archive Centre, Cambridge University, Will Hansen and Megan O'Connell of the Rubenstein Rare Book and Manuscript Library, Duke University, Rami Shtivi and Malki Pomeranc of the Begin Heritage Center Archives, Carmit Cohen and Alice Baron of the Israel State Archives, and Marina Michaeli of the Israel Broadcasting Authority Film Archive. Both authors contributed equally to this paper.

I. Introduction

I realize how unusual it is for outside advisers to be given as active a role in the formulation of policy as we eventually had.

(Fischer 1995, 3)

Economic research on the role of international advisers and their effects on economic policy is very limited, and it has not been fully resolved why and when advisers can affect economic policies in the countries they advise.

In order to analyze the question at hand, this paper utilizes the unique historical fact that well known international advisers took part—albeit with varying degrees of efficacy—in the development of Israel’s economic policies over the period 1948-1985. The involvement of international advisers is explained by the fact that all of Israel’s Prime Ministers and Ministers of Finance during this period lacked formal training in economics, and therefore probably needed independent advice, aside from the advice of their own civil servants.

The problem of policymakers and their willingness to use well known international (or local) advisers is driven by two basic issues in decision making theory: (i) the *agency problem* of conflicting interests between the policymaker’s political and personal interests, and the public interest represented by the international adviser; and (ii) the *information problem* of the informed adviser versus the uninformed policymaker, who therefore faces a risk of losing control regarding the direction of the policy recommendation.

Due to the lack of appropriate samples, it is not surprising that the effect of international advisers has scarcely been documented in the economic policy literature. The aim of this paper, therefore, is to document recommendations of six international advisers that took part in the development of Israel’s economic policy from 1948 to 1985, and analyze their recommendations vis-a-vis (i) the policymakers’ own (including their political parties) interests and (ii) the actual policies that were implemented. It should be stressed that we are not dealing with the role of international organizations (such as The World Bank and IMF), as they were not involved with Israeli economic policy over the sample period, although they did provide technical assistance. All of these characteristics: (i) the intensity and reputation of the advisers, (ii) the absence of any formal training or experience in

economics of Prime Ministers and Ministers of Finance, and (iii) the complete absence of international entities, create a baseline for examining when, and if, international advisers could have had an influence on Israel's economic policy.

The paper is organized as follows. Section II reviews the very limited literature that discusses directly, or indirectly, the role of international advisers and their potential effect on economic policy. It goes on to deal with the research methodology we utilize, that is, the generation of *possible scenarios* and *purposive grounded hypotheses* based upon a *purposive sample*. This section then presents *possible scenarios*, and *purposive grounded hypotheses* that may be able to predict when and why international advisers matter. Section III presents the *purposive sample*, that is, case studies of the role of six well-known international advisers who took part in the development of Israel's economic policies: Kalecki, Lerner, Kahn, Friedman, Herbert Stein and Stanley Fischer. These case studies are based on *detailed archival research*, and include *new historical facts* regarding the impact of the advisers. We present the case studies *in the context* of the possible scenarios and grounded hypotheses accordingly. Section IV offers a summary of the findings, concluding remarks and discussion of possible policy implications.

II. Literature Review and Research Methodology

As noted, research on the role of international advisers and their effects on economic policy is very limited, especially with regard to empirical research. Generally, the literature on advisers and policymaking discusses two basic problems that may negatively influence the willingness of policymakers to use well known international (or local) economic advisers.

First, there is the *agency problem* of potential conflict between the policymaker's political and personal interests and the public interest as represented by the international adviser. Since a well-known international adviser is more probably unbiased, as compared to the policymaker, he is better suited to promote what he perceives as the public interest. However, the adviser's perception of the public interest may deviate from that of the policymaker, who may mix a non-professional understanding of the public interest with personal or party political interest.

Indeed, Dur and Swank (2005) find that the quality of the policy recommendation is inversely related to the difference between the policymaker's and adviser's perceptions of the public interest. They show that unbiased advisers make

the greatest effort to collect quality information and utilize it in an objective manner. This implies that biased advisers may manipulate information accordingly. Eliminating manipulation of information, however, requires that the preferences of the policymaker and the adviser be aligned. Policymakers usually appoint advisers with preferences that are less extreme than their own. Moreover, as the policymaker finds it more difficult to align his preferences with that of the adviser, there will be a tradeoff between the quality of the recommendation and the quality of the information that the recommendation is based on.

In this regard, Samuelson (1978, 38) criticized the ability of economists as advisers in general, emphasizing the agency problem in particular by asserting: “It is a sad finding that, for the most part, I can predict on what side of an issue every economist present in the room will be.” Samuelson’s criticism makes it clear that policymakers do indeed have the option of appointing advisers after examining their preferences which they can easily identify. Second, there is the *information problem* driven by informed advisers versus an uninformed policymaker. This problem may lead the policymaker to face the risk of *losing control* over the direction of policy recommendations. Since information about the consequences of policies (both the current policy as well as the policy recommended by the adviser) is usually hard to verify by policymakers, informed advisers are able to manipulate information or frame their recommendations. Thus, informed advisers often acquire control of decisions at the expense of policymakers (Aghion and Tirole 1997).

In this regard, we should stress that one of the most robust findings in empirical research is the importance of political leaders in explaining economic outcomes. Within this framework, Jones and Olken (2005) show that leadership transitions negatively affect economic growth, while Besley et al. (2011) show that having a more educated leader positively affects economic growth. We suggest that one way of interpreting the results of Besley et al. (2011) is to argue that some leaders are more competent than others, and hence better able to make sensible economic policy, for example by their willingness to use advisers. However, the exact mechanism at work explaining how educated leaders matter remains opaque. Our suggestion is that as the leader is more educated his willingness to use advisers increases.

An additional important question in this regard is the parameters by which we can evaluate the success of the international adviser. We suggest three possible criteria for success (arranged in order from the strictest to the least strict):

- a. Significant success - implementation of the adviser's recommendations (Edwards 2005, Seers 1962);
- b. Limited success - serious consideration of the adviser's views but no implementation (Bronfenbrenner 1963);
- c. Minor success - contribution to helping government officials attain greater clarity on economic issues, but without serious consideration or implementation (Seers 1962). In fact, Seers (1962) claims that most economic advisers fail to make significant contributions, and attributes this failure to either personal deficiencies,¹ technical errors² or political errors.³

Our research methodology is based upon the approach provided by *qualitative research and analysis techniques*, that is, the generation of *purposive grounded hypotheses* based upon a *purposive sample*. The social science literature is replete with descriptions of this methodology and its (widespread) application. Seminal works in the field include Glaser and Strauss (1967), Strauss (1987), Strauss and Corbin (1990, 1994, 1998), Clarke (2005) and Charmaz (2006).

Possible Scenarios and Grounded Purposive Hypotheses

The literature described above, and our *initial reading and review of the case studies themselves*, leads to *three possible scenarios and related grounded hypotheses*, which we will examine *purposively* using the Israeli case studies accordingly:

Crisis – in a crisis environment, the policymaker's balance of interests changes, and the public interest may overcome any other interest. The alternative of advancing the public interest may then ensure the continuation of the policymaker's own position. Therefore, it is expected that the policymaker will adopt the recommendations of the adviser, whether they were requested by him in the first place, or whether the recommendations were initially imposed.

¹ For example, the adviser may be insufficiently sociable and therefore fail to establish rapport with his hosts.

² For example, the adviser may fail to learn enough about how the economy actually works and/or fail to assess major non-economic factors.

³ For example, the adviser may ignore the tendency of the public to misinterpret his public statements and to attribute to him political positions that he does not hold.

Convergence (ad-hoc) – a limited difference emerges between the policymaker’s original policy and interests, and the adviser’s perception of the public interest. In such an environment, the adviser’s recommendations can serve to strengthen the *policy decided on a-priori by the policymaker*. Under these circumstances, and as a direct outcome of Samuelson’s critique (1978), the adviser from the “relevant” side of the issue (as Samuelson put it) will be probably approached first by a government *that wishes to strengthen its public image*. Therefore, the adviser will appear successful in convincing the policymaker to adopt his recommendations. However, close examination of current policy, and scrutiny of the policymaker’s interests, *will reveal that the adviser did not really affect the policy implemented*.

Divergence - Significant differences between the policymaker’s *original* policies and interests, and the adviser’s perception of the public interest may emerge. In such an environment, the adviser’s recommendations can only undermine the policies *already decided on* by the policymaker, and may therefore contradict his interests. Therefore, it is expected that the adviser’s recommendation will be ignored, at least until the policymaker’s interests change. Moreover, under these circumstances, the adviser will probably offer to advise the government (perhaps even on a pro bono basis) without being asked.

III. International Advisers and Israel’s Economic Policy: Case Studies

Since the establishment of the State of Israel, in 1948, well known economists (mostly American Jews) and Israeli economists—who were trained in the US—played an *ostensibly* decisive role as advisers in the development of Israeli economic policy. In this regard, Israel is probably the most notable example of a country—aside from the US—in which major figures in economics have also played a role in economic policy discourse and as advisers.

Some, such as Abba Lerner and Michal Kalecki, did so in their capacity as official advisers to the Israeli government in the early years of statehood. In other instances, the individuals concerned acted principally on behalf of the US Government, as was the case with Stanley Fischer and Herbert Stein. In yet a third category, best illustrated by the examples of Richard Kahn and Milton Friedman,

influence was manifested by the occasional entry of world-renowned economists into the Israeli discourse, partly directly and partly indirectly.

We will use their contributions and economic analyses as case studies, so as to *purposively* illustrate our three possible scenarios and their related grounded hypotheses as presented above.

Scenario I- Crisis

In a crisis environment, the *policymaker's balance of interests changes*, and the *public interest may overcome any other interest*.

Stein, Fischer and the growing economic crisis in Israel, 1982-1985

US economic aid and advice to Israel was politicized from the early 1950s onwards. The economic aid was based on both loans and grants. Both Congress and the Administration were involved in the process, especially the Department and Secretary of State, who appointed economic advisers for Israel, albeit to promote the US interest. As a result, both aid and advice were politicized on multiple occasions.

Stanley Fischer was more involved with the Israeli economy than Herbert Stein, but Stein was senior, and was thus appointed by US Secretary of State George Schultz in 1983 to lead a panel of four American economists—Paul McCracken, Abe Siegel, Fischer, and Stein himself⁴—to assess economic measures undertaken by Israel to justify the level of economic aid, plus supplemental aid requests. As Fischer recalled in an interview with Olivier Blanchard (2005, 268): “On the occasions Herb and I traveled to Israel, we essentially had George Shultz’s authority behind us. And we could say, ‘The Secretary of State believes this.’ As a professor, that didn’t especially impress me. But when you say ‘the Secretary of State believes’ to a government that depends on the United States, they are not listening only to the economics.”

However, in support of Scenario III (*Divergence*—see below) most, if not all of their advice—from 1983 *until the crisis peaked in June 1985—was not applied*. For example, in April 1983, Fischer presented a paper at the Carnegie-Rochester Conference on Public Policy entitled “The Economy of Israel,” which was first circulated as an NBER working paper in August 1983 and eventually published in

⁴ Fischer (2001a) recalled that “Abe Siegel and Paul McCracken dropped out at a relatively early stage, but Herb and I remained closely involved for years.”

Spring 1984 (Fischer 1984). In this paper, he outlined two alternatives for stabilization policy in Israel: a. gradual disinflation, in which the government would accept the reality of slow real wage adjustment and (as a result) high real wages during the disinflation process; b. a "wage and macro-policy package" including a "real devaluation" and persuading organized labor "to forgo indexation temporarily," rather than "cold turkey." He noted that either choice would involve a reduction in Israel's domestic deficit and stopping the printing of money to finance it (1984, 35). However, both choices were rejected back then.

In late 1983, Shultz appointed his "advisory group," and in early 1984, the first meeting took place between Shultz, his panel, and a group of Israeli officials and economists. Meetings continued up to mid-1984, but again with no outcome, because of Israeli politics and the upcoming election of July 1984. In June 1984, two key members of the Israeli group—Treasury Director-General Emmanuel Sharon, and Bank of Israel Director of Research Mordechai Fraenkel—resigned, claiming that the government had abandoned anti-inflation policies to obtain electoral support.

After inconclusive election results led to the formation of a Labor-Likud national unity government with rotation of the office of Prime Minister, Prime Minister Peres (Labor) visited Washington in October 1984, with the outcome that Schultz set up a new group, the Joint Economic Development Group (JEDG). According to Stein's recollections (1990, 15):

After the Peres visit, the pace of exchanges between Washington and Jerusalem picked up greatly. Emmanuel Sharon came to Washington in November to brief us on the government's thinking. (Sharon had been brought back into the government by Peres and would be a key figure in the development of the stabilization program.) The full Israeli delegation came in December. Sharon brought to the December meeting a proposal for economic stabilization policy that Prime Minister Peres had authorized him to discuss but which Peres had not adopted. This proposal covered budget cuts, monetary restraint, devaluation, modification of the system for indexing liquid assets, and some restraint on real wages. We were unsure about whether the steps proposed were strong enough, and we were also worried about the Israeli government's ability to execute a program once it had been adopted, particularly to restrain the budget. But

this proposal was much closer to what was needed than the ideas we had heard a month earlier. The proposal, however, did not get as warm a reception in Jerusalem as it had in Washington. It took six months to develop specifics and get them accepted by Mr. Peres, the cabinet, the Knesset [Israel's Parliament], and the leaders of labor and business. This had to be done by the Israelis themselves, but consultation with the Americans was continuous and, I believe, helpful.

However, despite what Stein recalled, in December 1984, Shultz sent a letter to Peres asserting that he would not support Israel's request for increased US aid unless a comprehensive stabilization plan was produced. Shultz advocated not only increased budget cuts, but also "structural changes," such as Bank of Israel independence, so that it could curb the increase in money supply that essentially financed the budget deficit. Shultz was not impressed by the tentative plan proposed by the Israeli government, rather than the *comprehensive* stabilization policy that he deemed necessary.

In reaction to Shultz's letter, which stressed the need for *overall austerity measures*, Israeli Minister of Economics and Planning Gad Yaacobi (Labor) was reported to have said "the unity government knew what it faced and what it needed to do and didn't need lectures and new theories"... "I don't remember the US upbraiding or reprimanding Israel during all the years when the policy which brought us to our present condition was being implemented... Israel does not need moral preaching from the US" (Jewish Telegraphic Agency, 27 Dec. 1984; Chicago Tribune, 2 Jan. 1985). This contrasted sharply with his assertion in August 1984—before the formation of the Peres-led government—that a Peres-led government would adopt austerity measures, including a 10% cut in the government budget; thus, "Israel would have the 'moral authority' to ask for additional US aid" (Christian Science Monitor, 28 August 1984).

Fischer also recalled (1995, 3n8) that while the Treasury Department and Office of Management and Budget participated in the JEDC alongside the State Department, "Shultz took over formal control of the US role in the Israeli stabilization program at a meeting in March 1985." In that month, Shultz sent Stein and Fischer to Israel "to try to figure out what needed doing" (Fischer 1995, 6). According to Fischer, "at the end of this visit," Stein "pulled out of his pocket a list of 10 points"

that became “benchmarks” for stabilization, but more about this below. Fischer went on to recall (1995, 7) that between his visit with Stein in March 1985 and the implementation of the Israeli stabilization program in July 1985, the US participants in the JEDC not only focused on “encouraging the Israeli government to stabilize,” but also, to ensure “that the supplementary aid was not disbursed to the Israelis before they had taken action to stabilize the economy. The problem was that the Congress was so favorably disposed towards Israel at that time, that it was difficult for the Administration to keep them from giving money to the Israelis no matter what their economic policy.”

Fischer then recalled his discussions with Stein and Shultz regarding aid conditionality before their next trip to Israel in May 1985. He wrote (1995, 8): “Shultz did not like... conditionality. All along his idea had been that the Israeli government would set out a program with their own ‘markers,’ actions that they would set as their own conditions, so that both sides could monitor the program. Neither Herb nor I thought that this generous approach would work...” Shultz refused Stein’s request to “impose conditions on the aid,” and told Fischer directly that *actual* conditionality would not be imposed. When Fischer insisted on the importance of conditionality, Shultz told Fischer “you can tell [the Israelis] I will be very disappointed if they get the aid without carrying out the program” (1995, 9).

Indeed, on 21 April 1985, in a major speech at AIPAC (then the most prominent pro-Israel lobbying organization in the US), Shultz, in concise and lucid terms, outlined his views on the Israeli economic situation. He said (1985, 127): “Israel must pull itself out of its present economic trauma. And the Israeli people must do it themselves. No one can do it for them. Israel will need support as it makes the needed adjustments, and here the US can and must help. But our help will be of little avail if Israel does not take the necessary steps to cut government spending, improve productivity, open up its economy, and strengthen the mechanisms of economic policy.”

In a paper dealing with the “role of the economist in society,” including the role of the economist as policy adviser (2001b), Fischer wrote the following (2001b, 4):

There are at least two important differences between policy advising and academic economics. The first is that there is a bottom line. If you are

asked what impact some policy will have, it is no use replying that it all depends on the precise specification of the model. I learnt this most clearly from Herb Stein, who once asked me over a dinner in Washington in 1984 what the policy options were in Israel. I replied with a lengthy and no doubt learned analysis of the state of the economy, the role of the budget deficit, of indexation, monetary policy, the balance of policy views among the various participants-in short, a very good exam answer. When it was over, Herb asked me: “Well, but what do we want them to *do*?” That is the bottom line question for any policy adviser.

The second difference is the set of constraints. The policy adviser will frequently be told that some policy proposal is not politically possible. The political objections need to be explored, for they are often less insoluble than it initially seems. But in the end, it is primarily for the politicians to judge what can and cannot be done.

Interestingly enough, Fischer’s NBER Working Paper with Michael Bruno, dated “spring of 1984” and entitled “the inflationary process in Israel: shocks and accommodation,” outlined “measures” to be taken in possible stabilization programs and the rationale for those measures. Fischer and Bruno concluded that “the program should be comprehensive and rapid” based upon “political economy, and not purely economic, grounds” as “any gradualist program in which restrictive policy... is supposed to be maintained over several years is unlikely to be followed through by the government. Hence the conclusion that the tough medicine should be taken all at once.” They suggested a “list of measures” including: (i) cutting the budget deficit; (ii) freezing nominal wages; (iii) fixing the exchange rate; (iv) attempting to control prices; (v) real devaluation; and (vi) reducing the liquidity of dollar-indexed accounts (1984, 36-38).

March 1985 was an eventful month regarding discussion and debate over the crisis and stabilization proposals. As mentioned above, Stein’s “10 points,” a list of ten policy recommendations for stabilization (reproduced in Stein 1990, 15-16), originated during Stein’s visit to Israel with Fischer in March 1985. Stein’s recollections regarding the origin of this document differ somewhat from Fischer’s. According to Stein (1990, 15):

In March, the State Department decided to send two of its private consultants Stanley Fischer, at the time a professor at MIT, and me, to Israel... The idea was that we could communicate more frankly than an official delegation could. Trying to clarify the issues after several days in Jerusalem, *Fischer and I made up a list of ten points for a stabilization plan* [our emphasis].⁵ We did this in discussion with Sharon [the Director-General of the Finance Ministry, who was reinstated by Peres] and wanted him to take them up with the finance minister and prime minister so that we could see what they were thinking. The list was very close to the points that Sharon had brought to Washington in December.

On 6 March 1985, Allen Wallis, Undersecretary of State for Economic Affairs, and a prominent economist in his own right, testified at a hearing before the Subcommittee on Europe and the Middle East of the House Committee on Foreign Affairs. The subject of his testimony was foreign assistance legislation for fiscal years 1985-1986. In his verbal statement, he said (1985, 205):

In our conversations with the Israelis, we have stressed our support for their stabilization efforts. And I might say, soon after Secretary Shultz arrived and began to study the situation of the Israel economy and subsequently set up a small group working on it within the department, and still more recently, as I have mentioned, we have established a formal group. We have expressed willingness to provide extraordinary additional assistance support of a comprehensive program that deals effectively with fundamental problems of their economy. We have made clear our view that without such a commitment, more aid simply would not help. Instead, it could perpetuate Israel's problems and create a dependency that neither of us want... We in the administration believe that further progress is necessary to eliminate the remaining structural imbalances and to put Israel back on the road to economic health. Now we commend what Israel has done to date. Our policy is to help the best way we can, but we

⁵ The "Ten Points" were later leaked and published in the Israeli media under Stein's name. According to Stein, this misattribution was due to the simple fact that Stein handwrote the "ten points" and Fischer then typed them into a computer, entitling them "Herb's Ten Points" (Stein 1990, 16).

believe Israel has not yet reached the stage in the evolution of its program where additional US aid would help. And, indeed, as I said, without further progress additional aid could actually be counterproductive. For that reason, the administration intends to continue to defer for the time being a response to Israel's request for supplemental aid.

The Chair of the Subcommittee, Rep. Lee Hamilton (D-Indiana), and other members of the subcommittee, then posed a series of questions to Wallis regarding the US stance on Israel's economic problems (1985, 214-215). Wallis was asked about the root cause of Israel's economic situation, and replied: "It is clearly basically a political problem." Concurrent with Wallis' testimony, Schultz told the Senate Appropriations Committee's Subcommittee on Foreign Operations that the Administration would be reticent in agreeing to a specific level of aid "pending further discussion with Israel and further evolution of its stabilization program." He asserted that the US would assist "in support of a comprehensive Israeli economic program that deals efficiently with the fundamental imbalances in the Israeli economy." Shultz maintained that without such a program, "additional US assistance would not resolve Israel's economic problems but merely help perpetuate them" (Jewish Telegraphic Agency, 7 March 1985).

After their return to the US, Stein and Fischer reportedly supported the proposed \$1.5 billion in supplementary economic aid, if Israel was prepared to enact Stein's "Ten Points," including Bank of Israel "independence" and an end to short-term deposit indexation (Blitzer, 19 April 1985). In late April 1985, Peres sent a letter to Shultz promising a new stabilization program; Schultz received it on 20 April, a day before his address to AIPAC cited above. Schultz, who was due to visit Israel on 9 May, reportedly said that "we are looking for actions instead of promises." The Peres letter responded specifically to Stein's "Ten Points." Moreover, both Stein and Shultz were adamant in stressing that any additional aid should not be allocated prior to the enactment of necessary economic reforms by Israel. Stein, who opposed endorsement of the increased aid to Israel on 2 April by the House Foreign Affairs Committee, was quoted as saying: "A decision to provide supplemental aid before the program has been established can only weaken the sense of urgency about developing the program. Initiation of the needed program would be deferred, possibly until some future crisis" (Gwertzman, New York Times, 28 April 1985).

Regarding central bank independence, Peres wrote in his letter that legislation was being prepared, but he did not make any commitment regarding short term deposit indexation, in spite of Stein's complaint that, along with the budget deficit, indexation had fueled Israel's rapid inflation. In the view of many observers, however, short-term deposit indexation was "so popular in Israel that the government would almost certainly fall if it started to tamper with it" (Kempster, Los Angeles Times, 29 April 1985).

During his visit to Israel in May 1985, Shultz held economic discussions with Peres and Finance Minister Yitzchak Modai (Likud). Peres told his cabinet that the increased US aid "would not be linked to any conditions," but added that Shultz and the US expected Israel to take "necessary measures" in order to save its economy (Jewish Telegraphic Agency, 12 May 1985). A fortnight later, the House Appropriations Committee approved the \$1.5 billion in supplemental aid for Israel. However, the Chair of its Foreign Operations subcommittee was reported to have said that the Administration could hold back the aid until the end of September 1986, to encourage Israel to implement its economic reform program (AP, 21 May 1985). And a commentary published in the Washington Post on 9 June was entitled "will US dollars fix Israel's economy?" but was subtitled "both countries may have allowed the opportunity to slip away" (Oberdorfer, Washington Post 9 June 1985).

In his recollection of events in June 1985, Stein wrote (1990, 16): "Under Secretary Wallis led the US delegation to Israel in June. Mr. Peres was told clearly that the United States regarded the situation as grave and the need for action urgent. By the time we left Jerusalem, we felt that at least the stage was set for action. Our consultations were not the only, or the main, force leading to action. Events were compelling it. The inflation rate was soaring-as high as 1000% annual rate in some months. The shekel was selling on the black market at a 40 percent discount from the official rate. Exchange reserves were dwindling..."

At a weekly cabinet meeting in early June 1985, the Israeli government finally resolved to implement a comprehensive stabilization program. As one of its architects, Bruno, recalled a few months later (October 1985, 1986, 388), Peres and Modai appointed a team of economists to come up with a workable plan to submit to the government by 30 June 1985. The team was headed by Emanuel Sharon and included Michael Bruno, Eytan Berglas, Mordechai Fraenkel and Amnon Neubach. The plan they submitted was based on a "cold turkey" rather than a "gradualist"

approach, and was announced on 1 July 1985. Interestingly enough, Bruno also recalled (October 1985, 1986, 388n6) that in July 1984 another team of Israeli economists—including Elchanan Ben-Porat and Haim Ben-Shahar—“submitted the broad outline of a very similar plan to the Prime Minister.”

What brought about the decision of the Israeli government to finally implement a comprehensive stabilization program? Can it be attributed to conditionality and the threat of holding back supplementary economic aid? It should be recalled that the aid had already been approved by both the House and Senate, and on 15 May 1985 by President Reagan himself. If the Israeli government had been worried about not getting additional aid, it could have implemented a stabilization program earlier in 1985. Can it be attributed to the advice of Stein and Fischer, and their “Ten Points,” which reflected points made by Emmanuel Sharon at a meeting with them in December 1984, as Stein noted in his retrospective (Stein 1990)? If so, why wait until June-July 1985?

Perhaps the answer lies in the fact that *only at the beginning of June 1985 did the government realize that foreign currency reserves were dwindling*, which posed a grave risk to national security and the government’s public standing. It should be recalled that at the time, triple-digit inflation was not actually perceived as a threat to national security. Also, the current account deficit (in dollar terms) had actually narrowed from \$2.1 billion in 1983 to \$1.4 billion in 1984. What was important for the Israeli decision was the continuing and increasingly alarming decline in foreign currency reserves, from \$4.3 billion in 1982, to \$3.8 billion in 1983, \$3.3 billion in 1984, and \$2.6 billion in January-June 1985. Foreign currency reserves had always been seen as a “red statistic” in Israel, with the “red line” drawn at the level of being able to finance at least three months of imports of essential food, fuel and raw materials (about \$3 billion in 1985). As Bruno noted (1986, 380), “By mid-1985 Israel’s economic crisis reached a new high. Earlier partial attempts at stabilization had failed. In spite of a recent improvement in the trade balance, Israel was losing foreign exchange reserves very rapidly...”⁶

Now, Fischer noted in his Horowitz lecture (1993, 21) that: “For the year before the stabilization program, Israel was completely dependent on the US

⁶ The increase in the level of foreign reserves from \$2.6 billion in January-June 1985 to \$3.8 billion in July-December 1985 was a direct result of the \$1.5 billion in supplemental aid.

Government to keep its economy afloat. In the economic sphere, at least, Israel had lost its independence. Even with its back to the wall, Israel would not take any action, even action clearly in its own long-term interest, without US pressure.” He added in a footnote (1993, 21n18): “This pattern of behavior is not unusual; many developing countries rely on the IMF and the World Bank to pressure them to undertake policies that they know should be taken in any case.”

However, while the US may have acted at the time as Israel’s IMF, the adoption of a “cold turkey” stabilization program, and its implementation on 1 July 1985, was, in our view, neither the result of potential US pressure and aid conditionality, nor of Fischer and Stein’s advice as manifest in their “Ten Points.” Rather, it was the foreign reserve statistics that spoke for themselves, indicating that a national security crisis had been reached, which could only be resolved by immediate and vigorous economic measures; words alone would not suffice.

Scenario II- Convergence

Convergence, or better put, ad-hoc convergence, occurs when there is *limited difference* between the *policymaker’s original policy and interests* and the *adviser’s perception of the public interest*.

Kalecki, Lerner, Friedman and economic policy

Kalecki’s “Report” – *initial ad-hoc convergence*

Not long after Israel attained independence, the Ben-Gurion government came under political attack from the center-right opposition parties—Herut, the General Zionists, and the Progressives. The center-right opposition denounced the government’s quasi-socialist policies and advocated the abolition of exchange and price controls, along with the introduction of a floating exchange rate. In response to these pressures, the government turned on an ad-hoc basis to the well-known economist, Michal Kalecki, and indeed he recommended not only the retention of exchange controls, but also the retention of price controls (Young and Lee 1993). Not surprisingly, Kalecki’s advice was at first implemented, although he was approached in the first place to strengthen the public and international image of policy decisions *that had already been made*.

The politicization of policy recommendations by international advisers in Israel is, thus, first exemplified by Kalecki's September 1950 "*Report on the Main Current Economic problems of Israel.*" At first "confidential," the report was subsequently circulated in 1951 by the Ministry of Finance, which had, in 1950, invited Kalecki to compile it (Gross 1990, 79n24).⁷ Indeed, it is a prime example of a government's identifying with, and subsequently distancing itself from policies advocated by international advisers, whose policy views are known in advance. In order to understand the context and influence of Kalecki's Report—or lack of it—we must recall here the international and domestic political environment and constraints affecting Israel, its political leadership, and its economic policymakers at the time.

After Israel declared independence in May 1948, the provisional government implemented *de facto* austerity measures—rationing and price control. After the general election of January 1949, the first elected government implemented a *de-jure* austerity program in March 1949. In early 1949, the extensive needs of the new state became evident with a \$100 million loan granted to Israel by the US government backed Export-Import Bank and a \$250 million appeal for funds by the United Jewish Appeal (the leading American Jewish philanthropic organization), which were only a part of the estimated \$800 million the country needed for its economic development, settlement, and absorption of immigrants, at least according to Oscar Gass, an American economist who was an adviser to the Jewish Agency.⁸

Public disillusionment with austerity and controls—especially exchange controls—and black markets in both goods and foreign currency, brought some politicians and economists to claim that these policies were not only responsible for differentials between formal and black market rates of exchange, but also a distortion if not breakdown of the price system, and capital flight. Prime Minister David Ben-Gurion and his cabinet, on the other hand, were initially unwilling to undertake major policy changes. They looked for support to Kalecki's "Confidential Report" of September 1950.

What then were the main points of Kalecki's Report? First, he attacked the idea that abolishing exchange controls would be a panacea; rather, he advocated

⁷At the time, Kalecki was working at the UN, on leave from his position at the Oxford Institute of Economics and Statistics.

⁸ As we shall see below, Gass was later appointed by Ben-Gurion to head the Economic Advisory Service (1953-55), comprised of a number of foreign economic advisers, including Abba Lerner.

keeping existing controls, including price controls. Secondly, he recommended fiscal policies to reduce inflationary pressure. As he put it (1950, para.7; 1951 [1993], 98-99):

It is useful to consider briefly a theory which is often propounded in Israel. It is frequently maintained that all problems could be solved at one stroke by abolishing foreign exchange restrictions and full decontrol at home [domestic controls]... This viewpoint, I think is an entirely unrealistic one... The measures recommended below go in exactly the opposite direction. It is advocated that the greatest possible effort should be made to reduce imports and to increase exports and thus to rely as little as possible on import of foreign capital, while maintaining the strictest possible exchange restrictions. These measures for improving the current balance of payments will require a much larger degree of government supervision and interference than has hitherto been the case.

In his report, Kalecki actually came out *against investment for modernization of Israel's industries*. He claimed that while "a considerable savings in imports" could be achieved by such investment, because there was "unused capacity" and "no scarcity of labour" in the country at the time, "modernization is a luxury that the Israeli economy cannot afford for the time being" (1951 [1993], 102-103). In order to expand exports of these industries, he recommended "export premiums." He justified this recommendation by asserting that "from the point of view of saving foreign currency, which is the scarcest factor in the Israel economy, it is much more reasonable to pay export premiums, however unnatural such a subsidization of obsolete methods of production might appear" (1951 [1993],103).

In other words, he was against *both* private capital imports *and* private investment, which he thought should be regulated. Rather, he advocated state-organized investments so as to maximize exports and finance imports of industrial goods and machinery. As he put it in his report, in Israel, "there exists, I believe," a tendency "to exaggerate the possibilities of foreign direct investment" (1951, para. 43 as cited in Gross, 1990, 82).

Initially, based on its *weltanschauung*, the Israeli government actually "preferred certain assumptions and recommendations" in his report (Gross, 1990, 81).

By mid-1951, however, there was “severe erosion of public support” for the economic policies of the government, as evident in the July 1951 election results (more about this below). Moreover, by the end of 1950, the government realized that in order to continue receiving US aid, such as the 1951 \$64.5 million grant to Israel approved by Congress, it had to undertake economic reform. At the time, many—including the British Foreign Office, the US State Department, and even the US Joint Chiefs of Staff—regarded Israel as a socialist state, in danger of becoming a Communist one (Bullock 1985, 648); a contemporary account in *Fortune* magazine reported that “some allege” that Israel “is a Moscow-drifting socialist mess” (Lehrman 1952, 89). At the same time, and in spite of Kalecki’s position, and the initial ideological predilection of the Israeli government, *Fortune* also reported that from 1949 to the end of 1951, private foreign investment in Israel amounted to some \$180 million, \$65 million of which was investment by American firms (Lehrman 1952, 90).

Lerner and the Economic Advisory Staff (EAS) - *initial ad-hoc convergence*

On 12 May 1953, Prime Minister David Ben-Gurion announced that a group of US experts had been engaged to assist Israel in solving its economic problems. Oscar Gass—a senior US government adviser during WW II, and economic adviser to the Jewish Agency, was designated to head the group. Other members included Bernard Bell, chief economist at the Export-Import Bank, Bertram Gross, former Secretary of the President’s Council of Economic Advisers, Marion Clawson, former Director of the Department of the Interior’s Bureau of Land Management, Leonard Rosenberg of the Department of Commerce’s Office of Business Economics, and Abba Lerner, the well-known academic economist. Lerner was educated in Britain and began his teaching career at the London School of Economics before moving to the US in 1937. By the 1950s, he was recognized as a leading academic economist: He had taught at the New School for Social Research and the Universities of Michigan and California, and had published his influential book *The Economics of Control* (1944). Lerner was appointed as a member of the EAS and as Economic Adviser to the Ministry of Finance.

In his account of the EAS, Kleiman wrote (1981, 552):

In its search for economic expertise the government turned also to seek advice abroad. The list of foreign economists consulted included such

luminaries as M. Kalecki... but their opinions were often disregarded as not suiting local conditions. More successful was the establishment, in 1952, of an Economic Advisory Staff outside the regular governmental bureaucracy. Headed by Oscar Gass, formerly the Jewish Agency's economic adviser in the United States, the EAS managed to recruit some top level experts from abroad, and included among its members Abba P. Lerner and M. M. Clawson, the well-known agricultural expert... A number of young economists, either newly migrated from Western countries or recently graduating in Israel, served their apprenticeships on its supporting staff. The EAS had considerable influence both on current decisions and on professional standards. (Its most lasting effect, perhaps, was in the sphere of investment project evaluation, where it seems to have foreshadowed some later theoretical developments in the field.) ***But the government found the EAS's independence inconvenient and did not renew its contract after 1955.*** [our emphasis]

Indeed, in late March 1954, David Horowitz, the first Governor of the Bank of Israel⁹ and former Director-General of the Ministry of Finance, complained about the EAS (which he called "the Gass team") to Prime Minister Moshe Sharett. As Sharett recorded in his diary (Sharett Personal Diary 1954 [2013], Wednesday 31.3.1954): "[Horowitz] is prepared to endure the 'Gass team' without Gass, but if Gass is removed, then [Horowitz] advocates breaking up the group and installing each of its individual members in the relevant Ministries-Bell to the Finance Ministry, [Bertram] Gross to the Ministry of Labor, Clawson to Agriculture, Abba Lerner to the Central Bank."

Under this framework and consistent with the government's quasi-socialist economic policy, Lerner *at first* advocated government intervention and controls in order to overcome what he saw as "market" and "effective demand" failures, which he termed "secular stagnation." In this regard, his views were in line with those of the ruling political party (MaPAI="Workers of the Land of Israel Party") and its interests.

⁹ In 1954, the newly-established Bank of Israel took over responsibility for monetary policy from the Ministry of Finance. The process of creating a central bank began in March 1951, with the appointment of a working committee headed by the Minister of Finance. Horowitz, at the time Director-General of the Ministry of Finance, was given the responsibility of drafting the necessary legislation. The process concluded with the passage of the Bank of Israel Law in 1954.

However, soon after Lerner began to publicize proposals which went *against* the ruling party's goal of strengthening its hold on the economy, his policy prescriptions were actually *excluded* from consideration by the government. Therefore, we will continue to discuss Lerner's influence from that point forward, when we present examples in Scenario III below.

Friedman, 1977- *initial ad-hoc convergence*

The Israeli general election of 17 May 1977 brought about a political sea-change: Menachem Begin's Likud Party defeated the Labor Alignment, which (in its various incarnations, beginning with MaPAI) had ruled Israel since 1948. Begin chose Simcha Ehrlich, number two in Likud and leader of its free market-oriented Liberal faction,¹⁰ as his Minister of Finance.¹¹ Friedman, the 1976 Nobel Laureate in Economics, was scheduled to visit the Hebrew University in July 1977 to receive an honorary doctorate.¹² Just a few days after the election, Ehrlich took the opportunity to invite Friedman to advise the government during his visit. Before his arrival in Israel, Friedman saw a limited difference between himself and the new government: "People ask for advice from people who they know will give them the advice they want to hear...a reason why they have asked me if I would advise them is because *they know that I believe in a free economy and that their policy is my policy*" (Friedman 1977b; our emphasis). But he also foresaw divergence due to the power of vested interests: "...I may say *I am not very optimistic about very favorable results* since by this time the various forms of governmental subsidization have gone so far that *it is hard for me to see where there is any kind of constituency for a true free-market policy* for Israel" (Friedman to Micha Gisser, 10 June 1977, Friedman Papers, Box 197 Folder 1; our emphasis).

¹⁰ Likud consisted of three factions: Begin's Herut (20 Members of Knesset), Ehrlich's Liberals (15) and Yigal Hurvitz's Laam (8). The Liberal faction drew its support from manufacturers and small farmers. Its constituency opposed the special privileges enjoyed by enterprises that were owned by the government and by the trade unions.

¹¹ Ehrlich did not take office until June 20, when the new coalition government was sworn in.

¹² The idea of conferring an honorary doctorate upon Friedman was conceived by Don Patinkin (Friedman and Friedman 1999, 463). Patinkin helped draft Hebrew University's letter of invitation. He also defended Friedman against a left-wing campaign to revoke the invitation, based on the allegation that Friedman's visit to Chile in March 1975 had lent moral legitimacy to the Pinochet regime (Patinkin Papers, Box 38).

However, very soon, the original limited difference between the government's *original policy and interests* and Friedman's perception of the public interest turned out to be, in fact, significant, as will be discussed in detail in our presentation of Scenario III below.

Scenario III- Divergence

Divergence occurs when there is *significant difference* between the *policymaker's original policy and interests*, and the adviser's *perception of the public interest*.

Kalecki's "Report" and the "New Economic Policy"- divergence

In the early 1950s, Israel was characterized by almost complete government intervention in the economy. The ruling party was the Socialist MaPAI ("Workers of the Land of Israel Party"), under the leadership of Prime Minister David Ben-Gurion. MaPAI used statist policies to consolidate political control over the economy and undermine the liberal and centrist opposition parties (Herut, the General Zionists and the Progressives), which drew their support from small businesses and the commerce and services sectors (for details, see Zelekha 2011, 26-28).

The government effectively controlled capital investment, credit allocation and foreign currency. Prices were fixed by the government, wages (and wage differentials) were fixed by the Histadrut (the General Federation of Trade Unions, which was dominated by MaPAI), and a legal maximum was set on interest rates. The government also imposed rationing and austerity as a means of maintaining economic control: Everything from foreign currency to food was rationed, and black markets flourished until they brought about the collapse of the rationing/price-fixing system in 1952 (Patinkin, 1956, 1960a, 1960b, 1961).

From mid-1951 onwards, public discontent with existing economic policies increased. Moreover, "the faith of the leaders of economic policy in the potential of intervention by the state" had "weakened, as did their mistrust of the price mechanism," and it thus "became obvious that a change in policy was due" (Michaely 1975, 23). Israel's international position was deteriorating: External foreign exchange reserves dwindled from \$117 million in 1949 to \$34 million in 1951 (Michaely 1975, 34-35), and the trade deficit (measured in current US dollars) rose by an alarming

27.3% in 1951, driven by a 29.9% rise in imports (Michaely 1975, Appendix A, Table A-10).

Political instability and policy disagreements brought about the July 1951 general election (Gross 1990, 79). While MaPAI's Knesset representation stayed roughly constant,¹³ the centrist General Zionist Party almost tripled its Knesset representation, from 7 to 20 Members of Knesset, thus becoming the Knesset's second-largest party. Most of the General Zionist gains came at the expense of the rightist Herut and the leftist MaPaM parties rather than MaPAI. Nevertheless, MaPAI understood that it would have to satisfy the electorate's demand for a change in economic policy (Etzioni 1959; thus, Kalecki's report, which legitimized the status quo, would have to be jettisoned.

After a lengthy negotiation, Ben-Gurion formed Israel's Third Government with the religious parties in October 1951. The General Zionists, who opposed controls and austerity, and the Soviet-leaning MaPaM (the third-largest party) were excluded. In February 1952, realizing that Kalecki's policy recommendations did not suit its revised politico-economic position, the government reversed its economic policy, and announced a "New Economic Policy" (henceforth NEP)¹⁴ consisting of the following measures: (nominal) devaluation, import liberalization,¹⁵ increased capital flows, abandonment of most rationing and price controls, absorption of excess demand by raising the domestic price level, and reducing credit and the budget deficit.¹⁶

The NEP was implemented gradually over 1952-1954, within a favorable political climate: After the Third Government broke up over the issue of religious education, Ben-Gurion formed the Fourth Government with the General Zionists and

¹³ MaPAI lost one Knesset seat but its Arab satellite party gained three.

¹⁴ The choice of the Soviet-sounding name "New Economic Policy" was rather ironic.

¹⁵ For a detailed analysis of the import liberalization, see Michaely (1975, 27-57).

¹⁶ MaPAI economists justified the NEP on the basis of the new possibilities created by the (expected) reparations agreement with West Germany (by January 1952, both the Bundestag and the Knesset had empowered their respective governments to begin official negotiations), but the election results clearly played a role (Etzioni 1959).

Progressives in December 1952.¹⁷ The NEP was rather successful. Relative import prices almost tripled (Michaely 1975, 48). Imports (in current US dollars) declined by 7.7% in 1952 and 7.1% in 1953 before rising by 2.2% in 1954, and the trade deficit (in current US dollars) narrowed by 14.5% in 1952, 14.3% in 1953 and 9.5% in 1954 (Michaely 1975, Appendix A, Table A-10). External reserves fell to \$31 million in 1952 before rising to \$39 million in 1953 and \$81 million in 1954 (Michaely 1975, 35). Michaely (1975, 48) sums up the NEP as follows: “Altogether, the NEP of 1952-54 and related developments may be considered an outstanding example of the substitution of the price mechanism for regulation through quantitative restrictions.”

It is not surprising, therefore, that in retrospect, Kalecki recalled that “in only one case my advice was not ignored but taken account of. This happened in Israel... Instead of simply ignoring my advice, the Israeli government did exactly the opposite” (as reported in Laski 2004, 124). Kalecki’s advice *was only partially implemented early on when it suited the government’s purpose. Later, the government distanced itself from **all** of his policy recommendations when the NEP was subsequently implemented.*

Lerner, economic independence, wages and the Histadrut - divergence

In 1954, Lerner, then a member of the EAS and economic adviser to the Ministry of Finance—in a series of public lectures delivered at the forerunner of Tel Aviv University, and elsewhere in Israel, and in an article published in Hebrew in the influential and widely-circulated *Economic Quarterly* (Lerner 1954)—proposed to phase out foreign aid and capital imports over ten years in order to attain economic independence.

Lerner outlined a plan for attaining economic independence, defined as growth and development without reliance upon foreign assistance.¹⁸ Under the assumption that Israel received foreign assistance and net foreign investment amounting to 50%

¹⁷ The composition of Moshe Sharett’s Fifth Government (January 1954-June 1955) was virtually identical.

¹⁸ For a comprehensive review of the Israeli debate regarding economic independence, see Krampf (2009).

of its national product, Lerner's plan envisioned a gradual phase out of foreign aid and capital imports over ten years by adopting the following policy goals:

- By the end of the period, Israel would cut its imports in half and expand its export six-fold. This would be achieved by cutting export prices in half and doubling import prices.
- Labor productivity would have to increase considerably, basically by means of "working harder" and real wage reductions.

In a later paper, Lerner (1957) attacked the Histadrut for blocking the prospects for economic independence by creating an environment of wage-led inflation. He suggested establishing a Wage Authority, parallel to the Monetary Authority (i.e., the Central Bank) and the Fiscal Authority (i.e., the Ministry of Finance). The purpose of the Wage Authority was to maintain high employment at the highest real wage possible. This meant dismantling the Histadrut's influence upon economic policy. Since the Histadrut was controlled by the ruling party (MaPAI), this recommendation would have damaged the political interests of the government itself.

Lerner's 1954 plan aroused both academic and political debate. In practical terms, its chances of realization were always very slim. The government, while ostensibly supporting the ideology of economic independence, was not willing to pay the necessary political price. Specifically, it was not prepared to ensure that the public sector and the public at large would "work harder" and pay more for fewer imports. The outcome was the termination of Lerner's position as an official economic adviser. In one of his last statements, Lerner wrote to one of his critics that he was rather "surprised at the violence" of the reaction (Lerner 1957, 86).

Kahn, the wage-tax nexus, COLA, and the EEC – divergence

The famous Cambridge University economist Richard Kahn maintained close ties with the Israeli economics establishment; in this respect, he was unique among British economists of his era. Over 1951-1973, Kahn visited Israel on at least five occasions, for personal, academic and business reasons: Kahn had two sisters living in Israel (Kahn to Denis Smith, 4 April 1973, Kahn papers, RFK 18/7), maintained a close professional relationship with Don Patinkin (Kahn Papers, RFK/12/2/19;

Patinkin Papers, Boxes 28 and 65)¹⁹ and served as a director of Anglo-Israel Bank, Bank Leumi's UK subsidiary (Kahn to Nissan Liviatan, 22 September 22 1972, Kahn Papers, RFK 18/7).

During his visits in 1957 and 1962, Kahn met with Israeli policymakers, bankers, industrialists, and labor leaders; these meetings were most probably arranged by Patinkin. In this framework, Kahn offered pro bono advice regarding certain aspects of Israeli economic policy.

In 1957, Kahn argued among other things that:

- Economists overemphasized the role of monetary factors in the inflationary process. The actual causes of inflation were problems with the supply of consumption goods and excessive wage increases (Kahn 1958).
- An unfavorable dynamic existed in industrial relations. The Histadrut leadership believed that the workers bore most of the burden of immigrant absorption by means of high taxes. The Histadrut would demand increased wages as compensation. Kahn urged the Histadrut to alter its approach, and instead advocate a fairer tax system and subsidies on essential goods (Kahn 1958).
- The EEC customs union would harm Israel's trade. Israel's application for EEC Associate Membership would be rejected (Kahn, "Note on Short Visit to Israel in December, 1962," Kahn Papers, RFK 21/3/1).
- A major reform of the COLA system is necessary. Israel should reduce protection against real wage erosion through the COLA, and move closer to the Swedish wage setting model, in which the COLA plays only a minor role (Kahn 1958).

In 1962, Kahn had the following to say:

- On the Balance of Payments: "The physical achievement of Israel in the economic sphere is remarkable, especially when taken in relation to the heavy burden of defense and of the housing and equipment of immigrants. Whether too much of the improvement [in Real GNP] has gone into raising the standard of living and not enough into securing an

¹⁹ Kahn and Patinkin played a key role in promoting academic collaboration between King's College Cambridge and Hebrew University (Patinkin Papers, Box 28).

even faster growth of productivity and an improvement in the Balance of Payments, depends on one's attitude to the Balance of Payments" (Kahn, "Note on Short Visit to Israel in December, 1962," Kahn Papers, RFK 21/3/1). In other words, Kahn took a neutral position in the "economic independence" debate—the ongoing debate regarding the sustainability of Israel's chronic international imbalances.

- On the EEC customs union: The EEC would make reducing Israel's trade deficit more difficult, even if the UK did not join. As in 1957, Israeli policymakers were overoptimistic regarding the chances of attaining EEC Associate Membership. They also overestimated the potential benefits of an Israel-EEC commercial agreement (Kahn, "Note on Short Visit to Israel in December, 1962," Kahn Papers, RFK 21/3/1).

Ultimately, Israeli policymakers disregarded Kahn's advice on both the EEC and COLA issues. They continued their intensive efforts to attain Associate Membership in the EEC, or at the very least a Preferential Trade Agreement, and failed to adopt Kahn's proposal for COLA reform.

Kahn's lack of practical influence is surprising in light of the underlying similarities between his views and those of Israel's Labor Socialist leadership. Kahn was a member of the UK Labor Party, supported partial nationalization of industry and planning (including directed credit), asserted a cost-push view of inflation, and accepted trade protection under certain conditions. From the perspective of the Israeli government, Kahn was no radical reformer (Schiffman 2014).

*However, his advice contradicted the **political interests** of the ruling party, and therefore was generally rejected by the government.* Therefore, as a pro-bono economic adviser to Israel, Kahn enjoyed very minor success at best. He failed in the sense that the government did not follow his advice (and probably did not give it serious consideration), but he was probably successful in the more limited sense of helping government officials attain some new perspectives on economic issues (for an extensive overview, see Schiffman (2014)).

Friedman and Israel, 1977 onwards- divergence

In the series of Horowitz lectures that he delivered in Israel in 1972, Milton Friedman explicitly attacked foreign exchange controls and abjured his audience to take to heart the lessons of history. As he put it (1972, 54-55):

Who do you suppose invented the modern system of exchange controls? It was Hjalmar Schacht in 1934 in Germany. What did he invent it for? He invented it primarily in order to despoil the Jews ... As a Jew, rather than an economist, I say to you, why don't you get rid of the false appearance, why don't you abolish the exchange controls and make your practice conform to your values. Set your people free.

Friedman's advice was rejected, and had to wait until the political sea-change of May 1977. In early 1977, Friedman agreed to accept an honorary doctorate from the Hebrew University, to be conferred July 1977 in Jerusalem. Indeed, immediately after the general election of 17 May 1977 which brought Menachem Begin and his Likud Party to power, Simcha Ehrlich, Begin's choice for Minister of Finance, invited Friedman to advise the government during his visit to Israel. Ehrlich made the invitation public on 22 May.

On 24 May, Israeli newspapers published two lengthy interviews with Friedman, in which he advocated higher unemployment (the following quotations are retranslated from the Hebrew):

...there must be a free labor market and a certain amount of unemployment must influence people in the transition from one job to another... [The legal prohibition against firing government employees] is very bad. In many countries you cannot fire [government employees]. Israel is not unique in that [respect]. But these are very bad laws and they cause more damage than benefit... Perhaps [unemployment in Israel] is a sacred cow, but sometimes you get buried by what the cows produce. (Barnea 1977)

The experience of other nations proves without any doubt that high inflation in and of itself causes unemployment. Israel's [feasible] choice is

reduced inflation, with adjusted unemployment during the transition period. There is no possibility of stopping inflation without unemployment. In both Germany and Japan inflation was reduced without a significant impact on unemployment.

(Kiviti 1977)

In the first quote, Friedman justified increased unemployment on the grounds that it promotes greater labor mobility. However, he did not explain the macroeconomic benefits of greater labor mobility, nor did he demonstrate that these benefits outweigh the economic and social costs of unemployment. The second quote is even less comprehensible: It is unclear why “high inflation in and of itself causes unemployment” (unless the reader is familiar with Friedman’s Nobel Lecture (Friedman 1976), which offers a hypothesized explanation for the recently-observed positive correlation between inflation and unemployment), and the final two sentences appear to be contradictory. Presumably, the apparent contradiction must be resolved in light of the Expectations Augmented Phillips Curve: In the short run, disinflation is inevitably associated with higher unemployment, but there is no such tradeoff in the long run, as demonstrated by the experience of Germany and Japan. Obviously, only a professional economist could have come up with this interpretation. To sum up, Friedman simultaneously offered two different justifications for increased unemployment, both of which were largely incomprehensible to the general Israeli public.

Not only did Friedman fail to communicate effectively with the general Israeli public, he also unwittingly injected himself into the 21 June election for the leadership of the Histadrut. Labor, which was still smarting from its defeat in the general election, mounted a vigorous campaign to retain its erstwhile control of the Histadrut. Although Friedman’s remarks did not influence the results—the incumbent Histadrut Secretary-General defeated his Likud challenger 57%-28%—they made Friedman a lightning rod for Labor criticism of Likud economic policy. Begin and Ehrlich were forced to publicly distance themselves from Friedman.²⁰ Friedman’s remarks were especially embarrassing for Ehrlich, who promised on national television to reduce

²⁰ Both Begin and Ehrlich made campaign appearances on behalf of Likud’s Histadrut candidates.

unemployment (24 May; reported in Davar, 25 May 1977), thus completely reversing his public support for higher unemployment during the Knesset campaign. When Friedman landed in Tel Aviv (3 July), he was forced to backtrack: “I do not recommend or encourage unemployment. It is a phenomenon that sometimes appears when stopping inflation is attempted...” (Davar, 4 July 1977)

Friedman visited Israel during 3-8 July, and met with Begin, Ehrlich, Housing Minister Gideon Patt (who had telephoned Friedman to invite him on Ehrlich’s behalf), Bank of Israel Governor Arnon Gafny, the Knesset Finance Committee, and the leadership of major economic associations. He also gave a half-hour long interview to Israeli television. During his visit, Friedman proposed a broad package of free market economic reforms:

- Achieve zero inflation over 3-4 years. Implement a monetary growth rule based on 5% annual growth in potential output. The government “should spend less money, it should print less money and it should interfere less in the economy.”
- Float the Israeli Pound and abolish exchange controls immediately. Phase out import restrictions and export subsidies over 2-3 years, and rely exclusively on the exchange rate for BOP adjustment.
- Make “an extensive revision” of banking regulation.
- Abolish reduced income tax rates for export sector employees, subsidized development loans and subsidized directed credit.
- Phase-out renter protection laws.
- Eliminate hidden unemployment, reform housing regulations that impede labor mobility and abolish legal restrictions on firing workers.
- Where subsidies are necessary, subsidize openly. Reform aid to development areas by replacing non-indexed loans with grants.
- Sell or lease State lands at market prices; index leases to the CPI.

(Friedman 1977a, 1977b; State of Israel, Knesset Finance Committee 1977, Davar, 7-8 July 1977; Friedman to E. Magnus Oppenheim, 29 July 1977, Friedman papers, Box 197, Folder 1).

While Israeli policymakers listened to Friedman’s economic philosophy and policy proposals, they did not discuss with him the policy initiatives that they were

considering (Friedman 1987, Flomin 2014).²¹ After Friedman's visit of July 1977, he had "very little contact" with Israeli policymakers (Friedman to Alan Green, Friedman Papers, Box 197 Folder 1).

On 17 July, the government announced a \$143 million cut in defense spending, a 25% cut in food and fuel subsidies and a devaluation of 2%. The timing of the announcement was no coincidence: In two days, Begin would meet US President Jimmy Carter in Washington, and Israel's aid request for Fiscal Year 1979 would be on the agenda. The Administration was reportedly pressuring Israel to implement a fiscal adjustment or face a reduction in US foreign aid (Ofner 1977). While this report may have been exaggerated, the fact is that Ehrlich, in presenting the economic measures to the Knesset (20 July), cited the need to demonstrate fiscal rectitude to President Carter and the American people (Jewish Telegraphic Agency, 21 July 1977). Friedman reacted as follows: "These were not my suggestions, but they are a step in the right direction." (Ofner 1977)

On 28 October 1977, in a reform known as the "economic revolution," the government abolished exchange controls, reduced export subsidies and import tariffs, devalued the IL by 47% and then adopted a managed floating exchange rate. Moreover, exchange controls on current account transactions were abolished, and the public at large was allowed to hold short-term foreign currency linked accounts.

At first, Friedman was elated: "This is one of the greatest things that happened in Israel since its establishment. The government deserves a lot of credit for its courage and wisdom." He predicted a highly favorable outcome. *But once again, Begin and Ehrlich distanced themselves from him:* "No, Professor Friedman has no connection with this decision...The Minister of Finance and I began to have discussions two or three days after the government was formed about eliminating the controls on foreign currency" (Begin, interview with Israel Television, 30 October). "We were unable to accept Professor Friedman's proposals, because they are unsuitable for the structure of the Israeli economy" (Ehrlich, 31 October, State of Israel, The Knesset 1977, 208). Begin's account seems highly plausible, in light of the fact that both the Liberals (and their ideological forerunners, the General Zionists) and

²¹ This lack of openness was motivated in large part by a fear of media leaks (Flomin 2014).

Begin had advocated abolishing exchange controls since the 1950s (Kleiman 1981, Fuksman-Shaal 2011).²²

Indeed, the cumulative impact of these policy changes, although substantial in the immediate term, was short-lived. Like the previous Labor government, the Likud too adopted electorally-oriented programs of growth with full employment financed in an inflationary manner. Therefore, it is not surprising that the government abandoned the remainder of Friedman's agenda; for example, deficit reduction was considered but never implemented.²³ After inflation increased from 42.5% in 1977 to 111.4% in 1979, Ehrlich was forced to resign.

The second oil price shock and resulting world recession (1979-81) did not cause the government to reconsider its economic policy. After June 1982, the Likud ran an inflationary "guns and butter" policy which led from stagnation (with full employment) and double-digit inflation (stagflation) to rapid inflation. Not even Patinkin's repeated public pronouncements against the inflationary policies of both Labor and Likud governments were able to prevent Israel's "Great Inflation" of 1982-1985.

Friedman himself was strongly disillusioned. In a 1978 exchange with John Kenneth Galbraith (which was published in the *Times of London*), he disclaimed responsibility for Israel's inflation (Friedman 1978, responding to Galbraith 1978a; see also Galbraith 1978b). He subsequently dissociated himself from the Israeli government. In a 1985 letter to the Israeli daily Haaretz, he went so far as to say the following: "[In July 1977,] I also spoke with Simcha Ehrlich. As I recall, this was a very unsatisfactory conversation, since I do not speak Hebrew and Mr. Ehrlich did not understand English. Therefore, the conversation was conducted with the help of a translator, and at the end, it was not clear to me what Mr. Ehrlich's position on economic issues was" (Friedman 1985). In 1987, he offered the following assessment: "Liberalization was not tried under Likud. There was some liberalization in exchange

²² It should be noted, however, that the Likud economic platform (Likud Party 1977) did not promise immediate currency liberalization, nor did it promise an immediate float. Instead, Likud presented the following plan: Retain the fixed exchange rate for now. Reduce the rate of devaluation to 15% per year while reducing inflation to 10% per year, for a real devaluation of 5% per year. Float the currency in the mid-1980s, after the disinflation/real devaluation process runs its course. Simplify and phase out exchange controls while reducing the BOP deficit from \$3.5 billion in 1976 to \$1.3 billion in 1981.

²³ Begin shelved Ehrlich's goal of deficit reduction (although it was part of the Likud economic platform (Likud Party 1977)) due to the vehement opposition of cabinet ministers from the coalition parties. Bank of Israel Governor Gafny protested publicly and was reprimanded by Begin (Gross 2007, 109).

rates and nothing else. If anything, I think the extent of government control is greater now than it was in 1977” (Friedman 1987).

As related above, when Friedman agreed to advise Israel, he prepared for two scenarios—convergence and divergence: Friedman turned out to be correct: Israeli policymakers wished to exploit Friedman’s “respectability and prestige”(which Friedman was willing to lend them—Friedman to Micha Gisser,10 June 1977, Friedman Papers, Box 197 Folder 1) but were never fully committed to carrying out his program.

Indeed, on 24 May 1977, Yechezkel Flomin (Deputy Finance Minister, 1977-1979) spoke with an official at the US Embassy in Tel Aviv, who reported as follows: “Aware that Friedman’s philosophy represents extreme laissez faire, Flomin said he was chosen so as to invest the Likud’s idea for liberalizing Israel’s economy with the prestige of Friedman’s name. ‘We had to pick someone who represents a 180 degree turn-about from Israel’s present course in the hope that we will eventually end up somewhere in between’ ” (US State Department 1977).

In his 1999 autobiography, Friedman recalled his July 1977 visit and subsequent developments as follows (Friedman and Friedman 1999, 463):

The 1977 trip was in many ways the most memorable of our trips to Israel, partly because of its coinciding with Menachem Begin’s election victory. The occasion of the trip was to accept an honorary degree from the Hebrew University in Jerusalem...Arrangements for the trip were made before the election that resulted in the unexpected victory of Menachem Begin and his Likud party. However, that event only briefly preceded my visit and led to our extending our stay in order to consult with the new government. As I wrote in a Newsweek column on my return: Prime Minister Begin and his government have proclaimed their intention to cut government down to size and to give greater scope to the free market. Much as I approve of these objectives, their attainment will not be easy. Too many groups have a vested interest in government subsidies, including many supporters of the Likud...While my hopes were high, my expectations were low that Begin would succeed... the honeymoon [typically enjoyed by new governments] was squandered in

bickering among private interests and newly appointed policy officials about what should be done, with the end result that nothing was done. The actual outcome was a major expansion rather than contraction in the role of government in the economy. That expansion laid the seeds for an accelerating inflation that was finally checked by a major monetary reform in 1985. The reform was highly successful in bringing inflation down, but did nothing to reduce government control over, and intervention into, every aspect of economic activity.

IV. Summary and Concluding Remarks

The analysis of the case studies reveals that Scenario I and its related grounded hypothesis is supported by the case of the 1985 economic crisis in Israel. During the 1985 crisis the policy measures (“Ten Points”) advocated by Stein and Fischer were implemented, for the most part, by the government, although they were *rejected* prior to the crisis itself, with other measures, such as “wage-price freezes” being attempted. In fact, the implementation can be easily defined as a significant success.

Furthermore, over the sample period 1948-1985, there were no other acute crises similar to that of 1985, while *outside* of the sample period, there was only one additional crisis of such magnitude, in 2003. Briefly put, in 2003, as a result of the 1986 law that prohibits the Bank of Israel from borrowing (printing money) to finance the government budget deficit, foreign purchases of government bonds became the sole potential source for financing the deficit. However, Israel was *unable* to “sell its domestic budget deficit” abroad, despite promising high rates of interest on its bonds. In other words, the government of Israel faced “bankruptcy.” Although the 2003 crisis did not bring the government to approach a prominent foreign adviser for assistance, it did approach an Israeli adviser to prepare a new economic policy, which was implemented for the most part. That adviser, Yaron Zelekha (one of the authors of this paper), was not a government official, but rather an academic adviser, and the invitation to prepare a new economic policy that contradicted the previous policy of the Ministry of Finance, was unprecedented (with the exception of the 1985 crisis).

This event provides additional support for Scenario I and its related grounded hypothesis.²⁴

The analysis of the case studies reveals that Scenario II and its related grounded hypothesis are supported in full by all three case studies considered in its context. Kalecki, Lerner and Friedman were invited by the government to advise it *after the original policy had been determined*, with Kalecki invited on an ad-hoc basis, to provide justification for the extant government policy. Lerner and Friedman, for their part, were *excluded* almost immediately after it appeared that the *differences* between the government's *original policy and interests* and their *perceptions of the public interest* were, in fact, *significant*. Therefore, while at first, their advice was perceived as successful, in retrospect, it was not.

The analysis of the case studies reveals that Scenario III and its related grounded hypothesis, is supported in full by all four case studies. Kalecki, Lerner, Friedman and Kahn failed to achieve even *limited* success, ***according to their own accounts***; Friedman was not even invited to take part in the policy discussions that were ostensibly based upon his economic worldview, and the government felt the need to publicly distance itself from his advice. The support for Scenario III and its grounded hypothesis is even more striking when we take into account the initial ostensibly significant impact of Kalecki and Lerner. Additional support for Scenario III and its grounded hypothesis can be seen in the fact that even the success of Stein and Fischer during the 1985 crisis only came after very similar policy prescriptions were *not* applied over 1982-1985, and in addition were partially and gradually undermined after the crisis was over and the economy was back on track (Plessner and Young 2005).

Our data allow us to consider several sensitivity and robustness checks. First, our data consists of six advisers (case studies), but dozens of policy recommendations made by these advisers. None of these many recommendations contradicts our three possible Scenarios and grounded hypotheses. Second, in the years after our sample period and up to the present (1986-2014), there is no other case of a well-known international adviser taking part in the Israeli economic policy discourse to contradict (or further support) our findings. However, as mentioned above, in 2003 the Israeli economy experienced an additional crisis which was of a similar magnitude to the

²⁴ For a detailed account of the 2003 crisis and the new economic policy that was implemented, see Zelekha (2008).

1985 crisis; the 2003 crisis in fact supports Scenario I and its related grounded hypothesis.

Our findings have significant policy implications today, when many countries still suffer from the effects of the Global Financial Crisis. Our findings suggest that the public in these countries, as well as international organizations, should be aware of the unique “opportunity” that the *crisis* creates for the country—an opportunity to overcome vested interests in order to *maximize and implement* the necessary reforms before the “golden hour” passes. In addition, the public should become aware of the political *misuse* that governments make of advisers *in order to gain support for policies that were already decided upon, according to political considerations*.

When interpreting our findings, the limitations of our dataset must be taken into account. Our dataset is limited to a single country, and includes only six case studies, although we did examine dozens of distinct policy recommendations. Future research should be based on a larger number of countries, advisers, and policy recommendations.

References

Aghion, P. and J. Tirole (1997), "Formal and Real Authority in Organizations", *Journal of Political Economy* 105:1, 1-29.

Associated Press Report (1985), 21 May, Washington, DC.

Barnea, N. (1977), "Milton Friedman: Israel Must Strive for a Certain Amount of Unemployment and Allowing for Worker Layoffs," *Davar* (Hebrew newspaper), 24 May.

Besley, B., Montalvo, J.G. and M. Reynal-Querol (2011), "Do Educated Leaders Matter?" *Economic Journal* 121, F205-F227.

Blitzer, W. (1985), "US Still Waiting for Israeli Action before Approving Aid," *The Jewish Exponent*, 5 April, (p.) 3, (continued on) 56.

Bronfenbrenner, M. (1963), "Balm for the Visiting Economist," *Journal of Political Economy* 71:3, 293-297.

Bruno, M. (1986), "Sharp Disinflation Strategy: Israel 1985," *Economic Policy* 1:2, 379-402 [originally published in abridged form as Bruno, M. (1985), "The Stabilization of the Economy: The Emergency Plan and its Initial Stages," (in Hebrew), *Economic Quarterly* 126, 207-223].

_____ and S. Fischer (1984), "The Inflationary Process in Israel: Shocks and Accommodation," *NBER Working Paper* #1483.

Bullock, A. (1985), *Ernest Bevin, Foreign Secretary*, Oxford: Oxford University Press.

Charmaz, K. (2006), *Constructing Grounded Theory: A Practical Guide Through Qualitative Analysis*, New York: Sage.

Chicago Tribune (1985), "Israel's \$800 Million Albatross," Editorial, 2 January.

Christian Science Monitor (1984), 28 August.

Clarke, A. (2005), *Situational Analysis: Grounded Theory after the Postmodern Turn*, New York: Sage.

Davar (Hebrew newspaper), 25 May 1977.

Davar (Hebrew newspaper), 5 July 1977.

Davar (Hebrew newspaper), 7-8 July 1977.

Dur, R. and O.H. Swank (2005), "Producing and Manipulating Information," *Economic Journal* 115, 185-199.

Edwards, S., (2005), "Establishing Credibility: The Role of Foreign Advisors," *NBER Working Paper* #11429.

Etzioni, A. (1959), "Alternative Ways to Democracy: The Experience of Israel," *Political Science Quarterly* 74:2, 196-214.

Fischer, S. (1983), "The Economy of Israel," *NBER Working Paper* #1190.

_____ (1984), "The Economy of Israel," *Carnegie-Rochester Series on Public Policy: Monetary and Fiscal Policies and Their Application*, 20, 7-52.

_____ (1987), "The Israeli Stabilization Program, 1985-86," *American Economic Review* 77:2, 275-278.

_____ (1993), "Israel and her Neighbors: Israeli Growth, Stabilization and Reform," *Horowitz Lecture Series* (1992), 1st Lecture, 11 January 1993, Jerusalem:

Association of Banks in Israel, Hebrew University and Tel Aviv University Depts. of Economics.

_____ (1995), "Recollections of the United States Role in the Israeli Stabilization Program," International Monetary Fund, November.

_____ (2001a), "Remembering Herb Stein: His Contributions as an Economist," Prepared for delivery in a session commemorating Herb Stein, American Economic Association Meetings, New Orleans, 6 January.
<https://www.imf.org/external/np/speeches/2001/010601.htm>

_____ (2001b), "Beyond the Ivory Tower: the Role of the Economist in Society," International Monetary Fund, 20 May (Revised).

_____ (2005), "Interview with Stanley Fischer- Olivier Blanchard," in P. Samuelson and W. Barnett (eds.), *Inside the Economist's Mind*, New York: Wiley, 261-278 [reprinted from *Macroeconomic Dynamics* 9:2 (2005), 244-262].

Flomin, Y. (2014), Personal Interview, 10 March.

Friedman, M. (1972), *Monetary and Economic Development*, New York: Praeger.

_____ (1976), "Inflation and Unemployment," Nobel Memorial Lecture, 13 December.
http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1976/friedman-lecture.pdf [reprinted as Friedman, M. (1977), "Nobel Lecture: Inflation and Unemployment," *Journal of Political Economy* 85:3, 451-472].

_____ (1977a), "Floating Exchange Rates for Israel," (in Hebrew) *Economic Quarterly* 95.

_____ (1977b), Interview with R. Hefner, *The Open Mind* Program, PBS Television (US). 31 May. Archived at <http://www.thirteen.org/openmind/public-affairs/a-nobel-laureate-on-the-american-economy/>

_____ (1977c), Interview with A. Kushnir, *Moked* Program, Israel Television, 6 July.

_____ (1978), “Relying on the Free Market,” Letter to the Editor, *Times of London*, 15 August.

_____ (1985), Letter to the Editor, *Haaretz* (Hebrew Newspaper), March 13. Reproduced in Friedman, M. (1988), *Free to Choose* (Hebrew Edition). Tel Aviv: Israel Center for Social and Economic Progress and Dvir Publishing.

_____ (1987), Video interview by D. Doron and S. Plaut, Israel Center for Social and Economic Progress, Mevasseret Zion, Israel.

_____ Milton Friedman Papers, Hoover Institution, Stanford University.

_____ and R. D. Friedman (1999), *Two Lucky People: Memoirs* [paperbound edition], Chicago: University of Chicago Press.

Fuksman-Shaal, M. (2011), “The Socioeconomic Philosophy of the Herut Movement,” (in Hebrew) in A. Diskin (ed.), *From Altelenah to the Present Day: The History of a Political Movement-From Herut to Likud*, Jerusalem: Carmel Publishing House and Begin Heritage Center, 173-191.

Galbraith, J.K. (1978a), “Economic Efficiency under Democracy,” Letter to the Editor, *Times of London*, 3 August.

Galbraith, J.K. (1978b), “Relying on the Free Market,” Letter to the Editor, *Times of London*, 20 August.

Glaser, B. and Strauss, A. (1967), *The Discovery of Grounded Theory*, Chicago: Aldine.

Gross, N. (1990), "Israeli Economic Policies: 1948-1951: Problems of Evaluation," *Journal of Economic History* 50:1, 67-83.

_____ (2007), "Economic Policy in Israel as Viewed by Leading Officials of the Bank of Israel, 1954-2000," in N. Liviatan and H. Barkai (eds.), *The Bank of Israel, Volume 2: Selected Topics in Israel's Monetary Policy*, Oxford: Oxford University Press, 98-129.

Gwertzman, B. (1985), "Israel Sends Shultz a Plan to Meet Economic Conditions for New Aid," *New York Times*, 28 April.

Jewish Telegraphic Agency (1977), "Knesset Approves Fiscal Measures," 21 July.

Jewish Telegraphic Agency (1984), "Shultz's Letter to Peres Draws Fire from a Cabinet Minister," 27 December.

Jewish Telegraphic Agency (1985), "Reagan Administration Continues to Demand More Economic Reforms from Israel before Aid Increase," 7 March.

Jewish Telegraphic Agency (1985), "Peres: There is 'Broad Agreement' between Israel and the US on Reviving the Mideast Peace Process," 12 May.

Jones, B. and B. Olken (2005), "Do Leaders Matter? National Leadership and Growth since World War II," *Quarterly Journal of Economics* 120:3, 835-864.

Kahn, R.F. (1958), "The Pace of Development," in A. Bonne (ed.), *The Challenge of Development: Papers of a Symposium Held in Jerusalem*, Jerusalem: Eliezer Kaplan School of Economics and Social Science, Hebrew University, 163-198 [reprinted in Kahn, R.F. (1972), *Selected Essays on Employment and Growth*, Cambridge, UK: Cambridge University Press, 153-191].

_____, Papers of Richard Ferdinand Kahn, King's College Archive Centre, Cambridge University.

Kalecki, M. (1950) [1951, 1993] *Report on the Main Current Economic Problems of Israel*, Jerusalem: Israel Ministry of Finance, September [circulated 1951; reprinted in J. Osiatynsky, *Collected Works of Michal Kalecki*, Vol. 5, Oxford: Oxford University Press].

Kempster, N. (1985), "Peres to Curb 'Printing-Press Money'," *Los Angeles Times*, 29 April.

Kiviti, N. (1977), "Professor Friedman: This is how I will Act in Israel," *Yediot Aharonot* (Hebrew newspaper), 24 May.

Kleiman, E. (1981), "Israel: Economists in a New State," *History of Political Economy* 13:3, 548-579.

Krampf, A. (2009), "The Coining of the Expression 'Economic Independence' in the Israeli Economic Discourse," (in Hebrew) *Iyunim Betkumat Yisrael* 19:1-34.

Laski, K. (2004), "Three Ways to ... High Unemployment," in Z. Sadowski and A. Szeworski (eds.), *Kalecki's Economics Today*, London: Routledge, 111-124.

Lehrman, H. (1952), "Israel without Ideology," *Fortune Magazine* 46:1, 89-100.

Lerner, A. (1944), *The Economics of Control*, London: Macmillan.

_____, (1954), "Stability and Economic Independence," (in Hebrew) *Economic Quarterly* 2:1-2, 3-11.

_____, (1957), "The Histadrut and the Israeli Economy," *Midstream* (Autumn), 74-86.

Likud Party (1977), "Election Platform for the Ninth Knesset," (in Hebrew, 11 pages), Begin Heritage Center Archives.

Michaely, M. (1975), *Foreign Trade Regimes and Economic Development: Israel*, New York: NBER.

Oberdorfer, D. (1985), "Will US Dollars Fix Israel's Economy?" *Washington Post*, 9 June.

Ofner, F. (1977), "What Begin's Belt Tightening Means: He Asks Food, Fuel Cutbacks to Help Win Renewed US Aid," *Christian Science Monitor*, 19 July.

Patinkin, D. *Don Patinkin Papers, 1870-1995*. David M. Rubenstein Rare Book and Manuscript Library, Duke University.

_____ (1956), "Money and Price Developments in Israel: 1949-53," in R. Bachi, (ed.) *Scripta Hierosolymitana: Studies in Economic and Social Science* 3, Jerusalem: Magnes Press, Hebrew University, 22-52.

_____ (1960a), "Economic Progress in Israel," (in Hebrew) *Economic Quarterly* 7, 22-28.

_____ (1960b), *The Israel Economy: The First Decade*, Jerusalem: Jerusalem Post Press.

Plessner, Y. and W. Young (2005), "Economists, Government, and Economic Policymaking in Israel: From 'Crawling Peg' to 'Cold Turkey'," *History of Political Economy* 37: Suppl. 1, 284-305.

Samuelson, P.A. (1978), "Policy Advising in Economics," *Challenge* 21:1, 37-38.

Schiffman, D. (2014), "Richard Kahn and Israeli Economic Policy, 1957 and 1962," *History of Economic Thought and Policy* 1-2014, 31-73.

Schultz, G. (1985), "The United States and Israel: Partners for Peace and Freedom," address before the Annual Policy Conference of AIPAC, Crystal City, VA., 21 April [published in *Journal of Palestine Studies* 14:4, Summer 1985, 122-128].

Seers, D. (1962), "Why Visiting Economists Fail," *Journal of Political Economy* 70:4, 325-338.

Sharett, M. (1954) [2013], *Personal Diary 1954*, archived at <http://www.sharett.org.il/>.

State of Israel, The Knesset (1977), *Divrei Haknesset* (Parliamentary Record, in Hebrew), 9th Knesset, 34th session, 31 October.

Stein, H. (1990), "Israel's Economy: Observations of an Adviser," *The American Enterprise* 1:3, 12-18.

Strauss, A. (1987), *Qualitative Analysis for Social Scientists*, Cambridge, UK: Cambridge University Press.

_____ and J. Corbin (1990, 1998), *Basics of Qualitative Research: Grounded Theory Procedures and Techniques* (1st and 2nd ed.), New York: Sage.

_____ and _____ (1994), "Grounded Theory Methodology: An Overview," in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research* (1st ed.), New York: Sage.

US State Department (1977), "Meeting With Liberal MK Flomin," US Embassy in Israel to State Department, 25 May. Document Number: 1977TELA03702 (Declassified May 2009).

Wallis, A. (1985), Testimony before US House of Representatives, Committee on Foreign Affairs, Subcommittee on Europe and the Middle East, 6 March, 204-217.

Young, W. and F. Lee (1993), *Oxford Economics and Oxford Economists*, London: Macmillan.

Zelekha, Y. (2008), *The Black Guard, 2008* (in Hebrew), Or Yehuda: Kinneret-Zmora-Bitan Publishers.

_____ (2011), *Reforming the Consumption Patterns* (in Hebrew), Bnei Brak: Ono Academic College and Hakibbutz Hameuchad Publishers.