

An Overview of the Evolution of the Israeli Economy Since 1948

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Abstract

Despite the difficult shocks encountered during its relatively short history, the modern state of Israel succeeded in becoming a key player in the Middle East, economically, technologically, militarily, and geopolitically. The establishment of the modern state of Israel in 1948 gave a huge impetus to its citizens to deeply engaging in building a prosperous country and a thriving society. Thus, a marginalized and often discriminated people had the chance to finally deciding upon his own destiny. However, in the last seventy-six years of its existence, Israel has faced a state of constant war because most of its neighbours did not recognize its borders. Despite this conflictual situation, which highly affected its economy, this small country has obtained an impressive economic performance since its creation. The purpose of the paper is to briefly analyse the evolution of the Israeli economy since 1948. In this respect, the authors achieved the aim of the study through a qualitative research method. This research contributes to the enrichment of the scientific literature as it offers a deeper understanding of how the Israeli economy has evolved since 1948. Also, this study identifies four evolutive phases and several factors that enabled this small country to obtain rapid and sustainable economic growth.

Keywords

Israeli economy, gross domestic product, economic growth, Israel, Jews, Zionism

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Introduction

Despite the difficult shocks (e.g., several wars and immigration waves) encountered during its relatively short history, the modern state of Israel succeeded in becoming a key player in the Middle East, economically, technologically, militarily, and geopolitically. Connecting three important continents, Africa, Asia, and Europe, this small country represents the birthplace of well-known monotheistic religions such as Judaism and Christianity. According to the Jewish millennial tradition, Abraham was the father of the ancient Jewish people and Moses, one of its famous heroes (Cohn-Sherbok, 1997). Deeply rooted in religion (Bright, 2000), the history of the ancient people of Israel lies “far behind us, a concluded period of human events” (Ewald, 1869, p.1) and witnesses the disappearance of its national existence in the existence of numerous nations across the world. Living over 1,800 years in the Diaspora due to expulsions, pogroms and massacres, the Jews were a traumatized people for a long period of time (Adelman, 2008).

Considered by many authors as a veritable miracle of economic growth (Pethokoukis, 2021), Israel began to develop at the periphery of the Ottoman Empire. The establishment of the modern state of Israel in 1948 gave a huge impetus to its citizens to deeply engaging in building a prosperous country and a thriving society. Thus, a marginalized and often discriminated people had the chance to finally deciding upon his own destiny. However, in the last seventy-six years of its existence, Israel has faced a state of constant war because most of its neighbours did not recognize its borders (Blumberg, 1998). Despite this conflictual

situation, which highly affected its economy, this small country has obtained an impressive economic performance since its creation.

The purpose of the paper is to briefly analyse the evolution of the Israeli economy since 1948. The structure of the paper is as follows: the literature review is exposed in the second part. The third section displays the research methodology. The results and discussion are illustrated in the fourth part of the paper. The conclusions are presented at the end of the paper.

1. Review of the literature

There are numerous articles and books written about the history, economy, politics and culture of Israel. Most of them are referring to the concept of Zionism, the movement of Jewish national liberation and a unique characteristic of the Jewish world. The original essence of the of Zionism comprises the following two aims (Figure no. 1):

“First, it sought to promote the return of Jews to the land of Israel and the revival of Jewish society, culture, language, and other institutions.

Second, it sought to establish a publicly recognized, legally secure home for the Jews in Palestine, their “historic homeland”, where they would make up a Jewish majority in a Jewish state and thus be able to guarantee future generations freedom from persecution.” (Mahler, 2016, p.48) In other words, Zionism represents “the quest for self-determination and liberation under the modern conditions of secularization and liberalism” (Avineri, 2017).

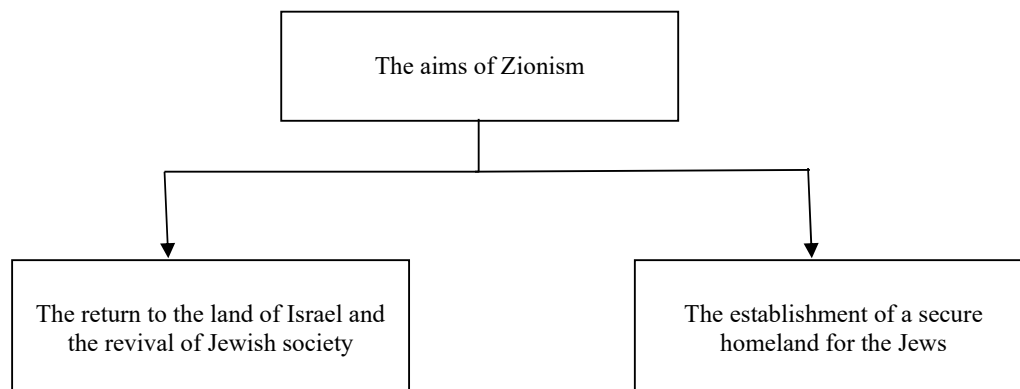


Figure no. 1 The aims of Zionism

After the end of the Second World War, the year 1948 remained and will remain a key momentum in Jewish history, the peak of Zionism. Then, the leaders of the Zionist National Council declared the independence of the state of Israel and the dream of a Jewish majority in a Jewish state became a reality. The choices of the Jews were simple: to fight or to disappear again, to build a flourishing future for the generation to come or to die. The painful lessons that the past taught them made the Jews profoundly think about a new meaning of their existence: creating a modern state that “holds as an integral and essential part of its Jewish identity and its Jewish ethos” (Shindler, 2013).

Several general features of the Israel state and its people deserve to be outlined. In this respect, Israel is like other states, but also different, as follows (Sharkansky, 1987; Levi-Faur, 1998; Hazan et al., 2021; Kumaraswamy, 2021):

- a democratic country;
- a strong national identity;
- a rather problematic status in the international arena, especially due to several conflicts with the Palestinians;
- a developmental state;
- a welfare-oriented political regime;

- a people's deep reliance on the national-decision making process;
- a socially and economically conscious state;
- a strong and large government;
- a considerable sum in reparations war received from Germany;
- a powerful and influential overseas community;
- a rational and competent bureaucracy;
- a pluralistic political regime;
- a powerful army based on high national security expenditures;
- an important role played by the state in the economy;
- a mixed economy etc.

It is obvious that irrespective of its size and geographical position, the government of a country should design and implement a national strategy to increase its gross domestic product, enhance its welfare and raise its wealth. Characterised by incessant change (Toma and Marinescu, 2015), today's highly turbulent global environment requires competent management and leadership either at the macro, meso or micro level (Toma, 2006a). This is why strategy represents a fundamental concept for the activities and processes carried on by both countries and organizations (e.g., research and development strategy) and by both researchers and practitioners from various domains (e.g., business). Due to its high complexity, strategy utilizes numerous concepts, instruments, techniques and methods, such as artificial intelligence (Grădinaru et al., 2024; Toma and Hudea, 2024), entrepreneurial thinking (Dinu and Tăchiciu, 2009), quality management (Toma, 2006b; Toma and Naruo, 2009; Toma and Naruo, 2017), business ethics (Dinu, 2008), knowledge management (Toma, 2011) or social responsibility (Toma, 2008; Imbrișcă and Toma, 2020).

In the case of Israel, the national strategy and the strategy of Israelian business organizations are connected in most situations. For example, the Israeli national security strategy in the 21st century (Inbar, 2006) involves the participation of its highly competitive defense industry (Barnea, 2014). On the one hand, facing profound adversity from the Arab world (Fraser, 2015), the state of Israel entered into the international arena by promoting a Zionist foreign policy (Karsh, 2004). On the other hand, the rapid expansion of the globalization process (Toma, 2005) forced Israel to become competitive by heavily investing in technology and constantly innovating. The way the Israeli economy successfully developed has constituted a subject of interest for numerous researchers such as Aharoni (2013), Razin (2018), Rivlin (2019), Getzoff (2020) and Zeira (2021).

2. Research methodology

In order to reach the purpose of the paper, the authors used a qualitative research method. In the beginning, they identified relevant sources of information (e.g., books, reports, articles) utilizing a desk research. Next, the authors collected and systematized the data through a comprehensive literature review. Then, they synthesized and interpreted the information. In the end, the authors elaborated on the paper.

3. Results and discussion

After reviewing the scientific literature, the authors thoroughly studied and synthesized all the gathered data. Thus, they obtained several valuable outcomes that allowed them to discuss the evolution of the Israeli economy after gaining its independence in 1948. In essence, the authors identified the following phases of this evolution by taking in account the growth of the gross domestic product (GDP), the gross national product (GNP) and the GDP per capita in Israel (Appendix no. 1, 2 and 3):

1. 1948-1951- austerity. The first war with the Arab world and the large exodus of Jews from Arab countries forced the Israeli government to create workplaces despite the lack of the needed financial resources. Therefore, a low-income economy was tightly controlled by the state and an austerity policy was implemented. The majority of investments were channelled to agriculture to ensure the needed food for the people.
2. 1952-1972- high economic growth. The government took important market-oriented measures towards economic liberalization and facilitated the import of capital. The foreign investors provided not

- only capital and technology but also management and marketing know-how. On the other hand, other immigrants arrived, many being well-educated and possessing financial resources. The German reparations payments and the sale of bonds outside Israel also contributed to substantial investment programs. Impressive rates of GDP growth were achieved. As the educational and professional level of the workforce significantly rose a large increase in labour productivity appeared. The structure of the Israeli economy gradually changed together with the development of industry. In this respect, the roots of the future Israeli high-technology revolution emerged as the domestic military industry grew.
3. 1973-1989- slow economic growth and crisis. The oil crises, the Yom Kippur and the Lebanon Wars negatively affected the Israeli economy. The level of economic activity was reduced for a relatively long period of time and the external debt significantly increased. Also, the high rates of inflation due to the increasing oil prices and the large balance of payments deficits worsened the economic situation. The 1977 reforms that aimed to liberalize the economy were followed by austerity measures at the end of the 1970s. Israel experienced a severe hyperinflationary period between 1979 and 1985. This is why a comprehensive economic stabilization program was adopted in 1985: reducing spendings, cutting the budget deficit, freezing the exchange rate, and equilibrating the balance of payments. An emergency financial aid from the United States of America was also very helpful for the Israeli economy. After successfully stabilizing the economy in early 1987, the government understood the need to redirect it towards the market economy. As a result, the economic structure started to be dominated by human capital-intensive industries. Textiles, food, beverages, and tobacco declined whereas electronics, chemicals and machines increased in importance.
 4. 1990-onwards- globalization economic path. Increasingly based on the market forces, the Israeli economy succeeded in obtaining more sustainable economic growth and reaching a hi-tech economic power. Since the end of the 20th century and the beginning of the 21st century, Israel has grown into one of the most dynamic and thriving economies. By becoming more and more integrated into the global goods, services, labour, information, technological and capital flows, the Israeli economy provides a valuable example of achieving economic progress by mixing a sound macroeconomic policy and well-regulated institutions with a gradual economic opening to the world economy.

In sum, the above presentation leads to the idea that the Israeli GDP and GDP per capita increased, but their growth rates fluctuated over time. Rapid economic growth started at the beginning of the 1950s and ended at the beginning of the 1970s. It followed a period of relatively lower economic growth.

Conclusions

Unprecedented events mark the long history of the Jewish people. After a very long period of living all over the world, the Jews finally rebuilt their country in 1948. The deep attachment of Jews to their ancestral homeland has been expressed by Zionism, their nationalist movement, which aimed at self-determination and statehood. Since the establishment of the modern state of Israel, its economy has miraculously developed from a low-income to an advanced economy in less than eighty years of existence.

This research contributes to the enrichment of the scientific literature in two ways. Firstly, it offers a deeper understanding of how the Israeli economy has evolved since 1948. Secondly, this study identifies four evolutive phases and several factors that enabled this small country to obtain rapid and sustainable economic growth. Further research may analyze in depth the above four evolutive phases and introduce other factors related to Israeli economic success.

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Appendix no. 1.

GDP growth (annual %) of Israel in the periods 1961-1969 and 1980-2023

Year	GDP growth (annual %)	Year	GDP growth (annual %)
1961	11.2	1980	3.6
1962	10.2	1981	4.7
1963	10.7	1982	1.4
1964	7.9	1983	2.6
1965	9.1	1984	2.2
1966	-0.1	1985	4.5
1967	3	1986	3.6
1968	16.2	1987	7.5
1969	13.6	1988	3.6
		1989	1.4
		1990	6.6
		1991	4.6
		1992	7.2
		1993	3.8
		1994	7.0
		1995	9.7
		1996	5.9
		1997	3.8
		1998	4.1
		1999	3.3
		2000	8.7
		2001	0.3
		2002	-0.1
		2003	1.4
		2004	4.8
		2005	4.1
		2006	5.6
		2007	6.0
		2008	3.3
		2009	0.9
		2010	5.7
		2011	5.6
		2012	2.7
		2013	4.2
		2014	3.9
		2015	2.3
		2016	4.4
		2017	4.3
		2018	4.1
		2019	3.8
		2020	-1.5
		2021	9.3
		2022	6.5
		2023	3.1

* No data are available for the period 1970-1979.

Source: *The World Bank, 2024; International Monetary Fund, 2023*

Appendix no. 2. GNP growth (annual %) of Israel in the periods 1960-1989

Year	GNP growth (annual %)
1960	10.8
1965	9.7
1967	1.5
1970	12.0
1975	3.5
1980	2.8
1985	4.8
1987	6.0
1988	2.9
1989	1.3

Source: Aharoni, 1991

Appendix no. 3. GDP per capita growth (annual %) of Israel in the periods 1961-1969 and 1996-2022

Year	GDP per capita growth (annual %)	Year	GDP per capita growth (annual %)
1961	7.6	1996	3.2
1962	5.0	1997	1.2
1963	6.7	1998	1.8
1964	3.8	1999	0.7
1965	5.3	2000	5.8
1966	-2.6	2001	-2.0
1967	-1.4	2002	-2.1
1968	13.8	2003	-0.4
1969	10.6	2004	2.9
		2005	2.3
		2006	3.7
		2007	4.2
		2008	1.4
		2009	-1.5
		2010	3.8
		2011	3.6
		2012	0.7
		2013	2.5
		2014	1.9
		2015	0.5
		2016	2.5
		2017	2.3
		2018	2.1
		2019	2.2
		2020	-3.6
		2021	6.8
		2022	4.8

* No data are available for the period 1970-1995.

Source: The World Bank, 2024