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Growing the Economy by Shrinking Government

Case Study: Israel

In Israel, the first quarter of 2003 saw the continuation of the economic contraction that characterized the country's economy since the end of 2000. In fact, the Gross Domestic Product (GDP) per capita decreased a cumulative 6.3% in years 2001-2002, which was unprecedented in Israeli history. During this time of economic slowdown, government spending increased, thereby increasing the deficit and debt as a percentage of GDP.

To reverse this alarming trend, the Israeli government has recently embarked on bold steps to increase economic growth, including: cutting government expenses, eliminating government jobs, lowering income and investment taxes, and selling the government's portion of El Al Airlines.

Although these policies have not yet been fully implemented, the Israeli capital markets have already stabilized, business investment in Israel is up, unemployment is decreasing, prices are increasing slowly, and the GDP is now forecast to grow 0.8% in 2003 and 2.5% in 2004.

But Israel has more reform planned for 2004 in order to sustain and increase this pace of economic growth, including:

- Capping the overall deficit at 4% of GDP (currently forecast to be 5.6% in 2003);
- Cutting government expenditures by 0.8% over 2003 (about $2.3 billion);
- Eliminating 1,500 government jobs by closing various government offices;
- Privatizing the Israel Discount Bank, Bank Leumi, the Israel Electric Corporation, the Israel Water Company, various oil refineries, and other government-owned businesses;
- Transforming the Postal Authority into a company and opening the postal market to competition;
- Abolishing the monopoly of the Ports Authority and lowering port fees by 15%;
- Reducing (and in some cases eliminating) taxes on the investments of export-oriented companies in peripheral areas of Israel; and
- Eliminating the transaction tax on the issuing of bonds.

And despite being bombarded by terrorism on a weekly basis, Israel is still budgeting to cut defense spending by 2.1% in 2004, in order to help reduce government expenditures overall.

Sources for all data in this document: http://www.mof.gov.il/beinle/economic_plan.pdf; http://www.mof.gov.il/research_e/2004/b.pdf

If Israel can shrink government, why can't we?

Note: The Bush Administration conditioned recent loan guarantees to Israel on the commencement of ambitious economic reforms and cutting the budget deficit there. Shouldn't we hold ourselves to the same standard? http://www.state.gov/r/pa/prs/ps/2003/21804.htm