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## (Review) The Political Economy of Israel

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### **Comments**

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The Political Economy of Israel: From Ideology to Stagnation by  
YAKIR PLESSNER. Albany: State University of New York Press.  
1994. 328 pp. \$21.95.

Yakir Plessner, a former economic adviser to the Israeli Minister of Finance as well as Deputy Governor of the Bank of Israel, has essentially written a two part book. The first part is a well researched 225 page diatribe against government "interference" in Israel's economy. Since Israel was founded on largely socialist principles, and is still today a garrison state surrounded by enemies, Plessner has a lot to rail against. Plessner has one or more chapters detailing the capital markets, Israel's economic culture, and the business sector; he gives a great deal of historical material.

Plessner details a long list of perceived more or less incredible governmental inadequacies, failures and blunders. If one's only knowledge of Israel came from reading only this book, one might be led to conclude that Israel must have a per capita income comparable to Tanzania, or, perhaps, Paraguay.

Plessner writes largely from what is known as a "Hayekian" or "Austrian" economic perspective. I see two sorts of readers who may be interested in this part of the book. One is the "anthropological" reader who wishes to sample right wing conservative economic thought from a clearly enough written book aimed at the general reader. Particularly interesting is what

these economists tend to do to language. There is a privileging of "the market", "laissez faire", "the invisible hand" and "economics" which are asserted and assumed to produce "efficient" "natural" desirable outcomes. This is counterpoised to the government which "distorts" and "rigs" the economy; and people urging government regulation of the economy are unfortunately ruled by "ideology" and "politics".

The second type of reader interested in this part of the book would be aspiring Rush Limbaugh types. These readers will find intellectual sustenance to support their right wing economistic idealism written by a competent economist. Nonetheless, I do not think this part of the book will sway many non-believers. The book is simply too one-sided; readers looking for any sort of balanced assessment of the political economy of Israel will have to look elsewhere.

The last 50 pages is suddenly a fresh book, and for two reasons.

Economists tend to argue (and teach) that with extensive indexing, the losses from inflation theoretically would not be too great. Essentially there would only be a decline in the demand for so called real cash balances, and people would have to go to the bank more often (or their ATM machines). Plessner convincingly demonstrates that in Israel there was extensive indexing of wages, savings, tax brackets and pensions; yet, with high inflation this still led to an enlargement of the financial sector, and greatly increased difficulty in spending and

investment decisions. This is an excellent account of the limits of indexing in mitigating the effects of inflation.

Secondly, mainstream and conservative economists tend to advocate harsh, painful IMF-administered medicine for countries which have the misfortune to owe money to foreigners and suffer from inflation (of course in recent decades practically all countries have inflation). The generic IMF perscription is for the patient to restrict its money supply, cut government spending, increase interest rates, reduce tariffs, increase unemployment and poverty. This policy prescription rarely works to bring about long run economic growth (witness the Latin American economies in the last decade, and currently the ex-Communist countries). Indeed, the medicine has the indelicate appearance of seeming to keep most poor countries poor, and making most ex Communist countries poor.

Here, Plessner breaks with his conservative brethren, renounces the IMF approach, and argues that in the case of Israel inflation is not caused by increases in the money supply and government budget deficits. Instead inflation is caused by an increase in import prices, or a supply side shock. This then causes the currency to devalue, and class conflict over the diminished available output. The currency devaluations and class conflicts then cause inflation to go up. Plessner calls for a "heterodox" solution to inflation, including incomes policies, possible price controls, and exchange rate stabilization - and all of a sudden we are a long way from orthodox right wing

thought.

Plessner calls on Israel not to follow IMF doctrine in fighting inflation. Plessner certainly marches to the beat of his own drummer. When he writes on what he knows intimately - the recent Israel experience with inflation and near hyperinflation - he writes provocatively and with keen insight.

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