Israel's Culture of Entrepreneurship and Success

By Michael Tanner - August 5, 2012

It is always tricky to traverse the minefield of Middle East politics, and Mitt Romney appears to have stirred up more than a little controversy with his recent remarks about Israeli and Palestinian economies.

Romney pointed out that GDP per capita in Israel is $21,000, compared with $10,000 in the Palestinian Authority, and suggested that a difference in "culture" between the two countries might be partially responsible for the disparity. The Palestinians were predictably upset, and much of the media said Romney had committed a damaging gaffe. Yet, considered apart from concerns over offending Middle Eastern sensibilities, Romney's remarks are not only accurate, they reflect a much larger truth that matters not just in the Middle East but in this upcoming election.

First, it should be noted that Romney actually got the numbers wrong: Israel's per capita GDP is much higher, $31,282, and the Palestinian Authority's much lower, just $1,600. No doubt the Palestinian economy has suffered as a result of Israeli security policies. Limitations on Palestinian property rights, continued Israeli control over land and water, and restrictions on both imports and exports have harmed Palestinian economic development. By some estimates, as much as 60 percent of Palestinian territory is off limits to economic development. Romney should have taken this into account.

Yet, how then to account for Jordan, where GDP per capita is just $5,900, or Egypt, where it is only $6,500? Israel can hardly be blamed for a lack of economic growth in those countries. In fact, no Arab nation without substantial oil wealth has a GDP per capita greater than half that of Israel.

Perhaps Romney could have used a better term than "culture" to describe the combination of attitudes toward markets, the role of government, the welfare state, inequality, and institutions that underpin a nation's economy, but nitpicking about terminology shouldn't eclipse the larger truth: If a nation hopes to prosper, it must foster a culture conducive to prosperity.

In fact, Israel itself had to change in order to spur economic growth, abandoning the old socialist solidarity of the kibbutz for a political culture that encourages entrepreneurship, investment, and risk-taking. Prime Minister Benjamin Netanyahu has cut taxes, reduced government spending, reformed pensions, and begun privatizing state-owned companies, including El Al (Israel's national airline) parts of its electric company, and its major banks. The "new Israel," Netanyahu has said, is based on "free enterprise, privatization, open capital markets, an end to cartels, lower taxes, [and] deregulation."

The result has been the transformation of Israel into a hub for technological entrepreneurship. From 1993 to today, real GDP has increased fourfold, and real GDP per capita has risen 250 percent.

The Palestinian Authority has not undertaken similar reforms. Government spending continues to consume an inordinate amount of GDP. Taxes, while widely evaded, are high. Both foreign investment and domestic business remain subject to a byzantine and often corrupt regulatory regime. The Authority's old-fashioned pay-as-you-go public pension program is accumulating enormous future liabilities. Crony capitalism is the norm rather than the exception. As a result, the Palestinian Authority's economic growth has been nearly nonexistent.

If the Palestinians want to follow the Israeli model for economic growth, then they too will have to reduce taxes, regulations, and the burden of government. They will have to foster a culture of entrepreneurship and success. They will have to realize that the politics and policies of resentment and envy do not create a single job, start a single business, or add a single dinar of wealth.

This is true outside of the Middle East, as well. Is there any doubt that Europe's welfare-state culture and the entitlement attitude that drive the high taxes and bloated governments of countries such as Greece and Spain are at least partially responsible for their problems?

Governor Romney hardly needed to go halfway around the world to demonstrate this. He could just have looked at two neighboring U.S. states, Virginia and Maryland, to see a similar dynamic. Maryland has one of the most aggressively tax-and-spend legislatures in the country. The state ranks 42nd out of 50 in terms of business environment. Its tax burden is the nation's twelfth-highest. Virginia, ranked 26th for business climate, is far from the most pro-business state, but it is much better than Maryland. Thirty-three states have higher taxes than Virginia does.

As a result, Virginia's unemployment rate is just 5.7 percent, while Maryland's is 6.9 percent. Virginia just announced a state-budget surplus. Maryland continues to wrestle with a massive budget deficit. And, after Maryland passed a new "millionaires' tax," 31,000 residents moved out of the state, many of them to Virginia. One might consider Virginia to be Israel and Maryland to be Palestine (without the border checkpoints). That is why President Obama's view of America's culture, at least when it comes to economics, is so troubling. His recent remarks concerning whether business owners built their businesses on their own, even when taken in context, reflect a belief that individual initiative, intelligence, and hard work have far less to do with success than good luck. The successful are simply winners of "life's lottery." It is, therefore, government's job to rectify the inequity of capricious fortune by redistributing the wealth.

President Obama would make our culture more like the cultures of Europe. If that were to happen, we wouldn't just be a "fundamentally transformed" nation, we would be a far less prosperous one.

Don't call it a gaffe. Governor Romney was right. Political and economic culture really does matter.

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