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# Assaf Razin: Biographical Notes

## Family History

I am the oldest of three children of my father, Mordechai (“Mussia”) Berezin, and my mother Dora Leibovitch. I spent the first 24 years of my life in my birthplace, Kibbutz Shamir; a rural place in the northeastern part of Israel. These personal biographical notes cover my background from the young age at the kibbutz, through my graduate education at the University of Chicago, the first academic jobs and the major turning points in my adult life. My professional life as an economist is covered in detail in my vitae (see [http:// www. tau. ac. il/~ razin](http://www.tau.ac.il/~razin)). Against expectations that economists' CVs will slip into mathematical formulae already by page five; this 70- page economist's bio does not slip into “Greek letter” academic paper expressions at all.

## Preface

The lives of academic economists (i.e. CVs) typically went like this. He/she graduated from a very prestigious university as the best in their class; had many offers from equally prestigious universities; became an assistant professor at X, tenured at Y; wrote a seminal paper on Z when he/she was W. Served on one or two government panels. Moved to another prestigious university. Wrote another seminal paper. Then wrote a book. And then...this went on and on. You could create a single template, and just input the name of the author, and the titles of the papers, and perhaps only slight differences in age for each of them. Orderly and boring lives are a privilege of rich and orderly societies. We all (perhaps except when we are 25) wish to lead such lives. But they are also very limited lives: the range of emotions and choices that we experience is narrow. Branko

Milanovic, however, wants to have as our teachers in social science people who had to drink poison to make a point (Socrates), or were jailed and tortured (Machiavelli), or were executed on the orders of a national assembly (Condorcet), or banished and killed by a totalitarian regime (Kondratieff); or those who had to flee their governments and reinvent themselves (Marx), or move into incendiary politics (Weber), or migrate to another language and continent (Schumpeter, Hayek, Kuznets, Leontieff), or experience the thrill of forbidden pleasures (Keynes).

My son, Ronny, and my grandson, Iddo, wrote about me:

“Assaf Razin's life story is one of extremes. It follows Assaf from the Kibbutz to the city, from Israel to different parts of the world, from his childhood in the nursery bed of socialism, to the Economics Department in Chicago University, the cradle of intellectual capitalism. Our hero pursues a stellar career and personal achievements while withstanding rather dramatic personal events.” Ronny and Iddo Razin in Assaf Volume I: The first 70 years: A BIOGRAPHY in COMICS , 2012.

Recently, Prakash Loungani profiled me succinctly, as follows.

In 1958, 17-year-old Assaf Razin suffered a near-fatal injury from friendly fire while fulfilling his draft requirement in the Israeli army. He was hospitalized for a year, during which it became evident that an active life toiling in the fields of Kibbutz Shamir, the community on the slopes of the Golan Heights where he was born, was not to be. He turned instead, he has written, toward “the remarkable opportunities the modern global world offers to so many,” in his case graduate school at the University of Chicago and then to a stellar career as a leading exponent of how countries can make the most of globalization. With Tel Aviv University as a secure home base, he has been “a most welcome visitor” at institutions all over the world, says Lars Svensson of the Stockholm School of Economics. In 2017, Razin was awarded the EMET Prize, Israel’s highest award for “excellence in academic and professional achievements that have far-reaching influence and make a significant contribution to society.”

“So the unfortunate event of my injury turned out to be transformational,” Razin says, displaying a trait his friends and family say is “classic Assaf”: never dwell on personal tragedies but move ahead resolutely to fulfill your obligations. Marxist ideals ruled in the kibbutz—his father, one of its founding members, made it a point to visit Karl Marx’s grave when in London—and, after his injury, the kibbutz elders thought he could best serve the community by gaining expertise in agriculture through courses at Hebrew University. Razin however became fascinated with economics and, with a strong recommendation from a mentor, won a fellowship to pursue graduate studies at the University of Chicago, then as now a bastion of free market economics.

“What a remarkable journey from a Marxist commune to capitalist Chicago, then to a career of tremendous achievements, all the while being humble and helpful to everyone,” says Jonathan Ostry, deputy director in the IMF’s Asia and Pacific department, who has known Razin since his own graduate school days at Chicago in the 1980s. Ostry, along with Tom Krueger—also now a deputy director at the IMF—wrote the companion guide for Razin’s noted 1987 book *Fiscal Policies and the World Economy*. “It was a vade mecum [an essential guide] for the international economics community” to navigate a rapidly changing world, says Ostry, with flexible exchange rates and increased capital flows. Relationships among countries’ policy choices were becoming “incredibly complicated,” he says; “today we would turn to computer simulations to understand the complex channels that in those days were clear in Assaf’s mind and book.”

### Promise and perils

The book, written with Jacob Frenkel (a future chief economist at the IMF), bears the hallmark of Razin’s work: laying out the promise and perils of globalization, a world of countries bound together not just by international trade but by flows of capital and labor across national boundaries. To trace the channels of an integrated world, Razin and his coauthors frequently had to cross boundaries between fields of economics, which raised the work’s practical value, according to Atish Ghosh, the IMF’s historian. “Policy issues don’t fall

neatly within one field of economics. And topics that Assaf and his coauthors worked on in one decade seem somehow to have become hot policy issues over subsequent decades,” says Ghosh.

With Elhanan Helpman (then at Tel Aviv University and now at Harvard), Razin studied how capital flows could affect the pattern of international trade. Helpman characterizes their 1978 book, *A Theory of International Trade under Uncertainty*, as an early attempt to break the silos between the study of international trade (considered part of microeconomics) and of capital movements (within the realm of macroeconomics): “it was silly to think independently of trade and macro,” he says. Through an integrated treatment of the two, the book shows that greater risk sharing among countries because of capital mobility in turn enabled greater specialization in trade, which was good for productivity. But greater interdependence as a result of increased specialization also meant countries were more vulnerable when there were disruptions to the global system—because of financial crises, say, or political turmoil in major countries. Razin developed this theme with other authors in subsequent work that stress-tested economists’ belief that some capital flows, such as foreign direct investment, confer greater benefits than others, such as “hot money” (short-term portfolio flows).

In the 1980s, Razin’s research with Frenkel showed how in an integrated world, the monetary and fiscal policy choices of one country could affect and constrain policy choices of other countries—policy “spillovers” in today’s jargon. National governments jealously guard their independence to tax and spend, but to gain the benefits of globalization they must give up some of this precious sovereignty. “This demonstration of the need for fiscal policy coordination in a world with capital mobility is a defining contribution,” says Ghosh, noting the echoes of this theme in many policy debates. Indeed, the issue is one that countries of the European Union are grappling with today, as they seek to agree to fiscal rules that will succeed once they fully unify their economies under a single capital market.

Current and capital accounts

In the 1990s, Razin worked on the interaction between capital and labor mobility, on the one hand, and tax and welfare systems, on the other. Razin did much of this work with Efraim Sadka, another colleague at Tel Aviv. While the mobility of capital can be beneficial to countries, the desire to attract foreign capital by lowering taxes can lead to a “race to the bottom”; lower tax revenues can prevent governments from offering the public services their societies need. The relevance of Razin’s early work on this topic has come to the fore as countries compete for foreign capital through tax breaks that deplete their finances, leading many to question how well foreign capital serves the general good.

Razin’s work on the benefits and costs of capital flows made him a welcome visitor to the IMF in the 1990s. After the 1994 Mexican “tequila crisis,” it was feared that other countries might be at risk. In times past, economists had used simple rules to measure vulnerability, such as a current account deficit (a close cousin of the trade deficit) that exceeded 5–6 percent of a country’s income. But with countries tapping into foreign capital, it seemed that they could run higher current account deficits as long they enjoyed the confidence of foreign investors.

Razin worked with Gian Maria Milesi-Ferretti, who recently retired as deputy director of the IMF’s research department, to understand when a current account deficit might be suddenly reversed. They looked at factors such as low foreign exchange reserves or deteriorating terms of trade—Razin had done pioneering work with Lars Svensson on understanding the microfoundations of the link between terms-of-trade changes and the current account when there is capital mobility. “I had many conversations with Stan Fischer [then the IMF’s first deputy managing director],” says Razin. “Fischer understood that, despite all the insights from my theoretical work and Gian Maria’s diligence with the data, it was difficult to predict exactly when certain countries would face a sudden reversal and crisis.” Indeed, the timing of current account reversals in some Asian economies in 1997–98 proved difficult to predict, and the quest for a reliable early warning system remains elusive to this day.

Razin's research also forewarned of the interaction between labor mobility and welfare systems, an issue relevant today in the United States and Europe, where populists often accuse migrants of "welfare shopping"—taking advantage of destination countries' generous support.

### Tragedy amid triumph

This remarkable research activity and intensive engagement with policy issues played out against the backdrop of another personal tragedy, his son Ofair's death in 1996 at the young age of 30 after a courageous battle with progressive multiple sclerosis. Displaying his father's tenacity, Ofair had managed in the days before his death to complete his PhD dissertation in economics at Georgetown University. Razin says he cried during entire long plane journey to Washington, DC, after he got the news, but tried to do so "in a nonvisible way" to avoid bothering others.

Razin has honored Ofair's memory by establishing a prize for the best research paper by a Georgetown economics graduate student and a lecture series in which he himself has spoken, as has his son Ronny (now a professor at the London School of Economics). Other speakers among the elite of the profession include Stanley Fischer, Cecilia Rouse, Jeff Sachs, Dani Rodrik, and Nobel Laureate Paul Krugman, who has called the annual event a "family reunion" of Razin's wide circle of admirers.

In 2001, Razin's 60th birthday celebration attracted the profession's leading international economists to Tel Aviv—including Krugman and Anne Krueger (former IMF first deputy managing director). Deflecting the praise heaped on him at the celebration, Razin quipped that he wished his parents had been on hand: "my father would have liked to hear all this praise, and my mother would have believed all of it." He said he had no intention of retiring but was merely taking a "a wonderful break between semesters." True to his word, he has been very active over the past 20 years, teaching in the graduate program at Cornell University (he retired in 2016), continuing with research, and publishing several books, including a well-received analysis of how Israel has made the most of globalization.

He has been intimately following and writing on economic developments in Israel for decades, and he put his ideas together in a 2018 book, *Israel and the World Economy*. Phillip Swagel, head of the US Congressional Budget Office and a research collaborator of Razin's, praised the book's clear exposition of why other countries had "experienced problems with globalization [but] Israel had found success." Unlike many other countries, Israel was able to guide large foreign capital flows toward its growth industry—start-ups in its high-tech sector. And Israel absorbed a million immigrants—about 20 percent of its population—from the former Soviet Union in the 1990s in a way that helped its high-tech sector and overall growth. But Swagel also notes "Razin's frankness on the potential pitfalls" of globalization, including growing inequality within Israel—the highest in the developed world.

#### Secrets of success

Razin turns 80 this year and, true to form, is marking the occasion with a new book on how globalization can get back on track after setbacks from populism and the pandemic. In an interview with F&D, Razin attributed his successful career to the "good fortune to be surrounded by great people ... and to discover and stick to my comparative advantage." At Chicago, his professors included future Nobel laureates such as Milton Friedman and Robert Mundell, and his classmates were a future who's who in the field of international finance, including Rudi Dornbusch and also Frenkel and Michael Mussa, both future IMF chief economists. At the University of Minnesota, his first job after graduation, he "learned 'GE' [general equilibrium]—since Chicago didn't teach it—from the finest minds," Razin says. GE refers to the study of the interactions of the various sectors that comprise an economy, which often yields insight not apparent from the study of the workings of one sector alone ("partial equilibrium"). From Krueger, who was also teaching at Minnesota at the time and has been "a lifelong friend and influence," Razin learned the importance of taking theory to the data.

Stints at other jobs convinced him that he was best suited for academia. From time to time, he took on administrative jobs at Tel Aviv University, but he says that he "was never in my element" in those jobs. He did

not take to government jobs either. In 1979, he was appointed to one of the top positions in Israel's Treasury. The government had been on a spending spree that had fueled inflation and threatened to bring Israel to the verge of hyperinflation. Razin was public in his warnings about the need to reverse the course of policies, which led to his ouster after only six months on the job. "It was akin to Marty [Martin Feldstein] having to leave his job under Reagan because he warned about the dangers of deficits," says Razin. The brief stay in government convinced him that "academic life was my comparative advantage."

While staying out of government, he has remained active in commenting on developments in Israel. His mind is "always preoccupied" with the prospects of peace between Israel and its neighbors. He is reconciled to the likelihood that "peace will come not in my time but in the time of my children and grandchildren." But it is important not to give up the hope of a better world, however utopian that seems, he urges, citing the last line of a poem by his young grandson: "The kingdom of Utopia is hidden hope amongst a heartless world."

## **MY FAMILY BACKGROUND**

I was born and bred in Kibbutz Shamir, in what was then the British Mandate Palestine. Established in 1939, by a small group of mainly [Romanian Jewish](#) immigrants to [Palestine](#), in a temporary place near Kfar Atta in the Haifa region, the Kibbutz was where I was born two years later. In 1944, the settlement was relocated to a permanent place on the slopes of the Golan Heights, which tower 3,000 feet above the Upper Galilee. Indeed, before the border shifted east because of the six-day war in 1967, Kibbutz Shamir was at the most eastern border settlement in Israel. The Kibbutz system, though it spans a wide geographical area along the borders of Israel, has always been a tiny minority of Israel's population. A relatively rare phenomenon can be observed from the kibbutz – a '**sunrise in the west**'. The kibbutz is nested in the steeply-rising western slopes of the Golan. When the sun rises, its first rays at daybreak illuminate the peaks of the Ramim mountain range across



the valley to the west of Shamir. As the sun climbs progressively higher, the more of Ramim is bathed in sunshine, which can then be observed progressing from west to east, down the slopes of Ramim, across the valley and up the slopes of the Golan before reaching the kibbutz.

The kibbutz (Hebrew word for "communal settlement") is a unique rural community; the fulfillment of Karl Marx's idea "from each according to his ability, to each according to his needs". The first kibbutzim (plural 'kibbutz') were founded some 40 years before the establishment of the State of Israel (1948). Their founders were young Jewish pioneers, mainly from Eastern Europe, who came not only to reclaim the soil of their ancient homeland (as is Zionism), but also to forge a new way of life. Today there are some 270 kibbutzim, with memberships ranging from 40 to more than one, 000, scattered throughout the country, mostly in the periphery. The proportion of the kibbutz population within the Israeli society declined from 6.5% in the 1948 census to three. Three percent, in 1972. At the end of the year 2002 the kibbutz Population numbered 115,600, living in 268 kibbutzim, and it constituted 2.1% of the total Jewish population in the country.

The kibbutz movement is almost a century old. In a society in which there is no effective central government, as was essentially the situation of the Jewish community in Palestine until Israel gained statehood in 1948 (and even afterwards, in frontier regions exposed to Arab terrorism), smaller groups will form for self- defense and the provision of other public goods, such as social insurance. Collective ownership and wage equality are ways of protecting each member of the collective from economic and other hardships; "from each according to his ability, to each according to his needs"-- the communist slogan implemented successfully in the classic kibbutz- is then a method of social insurance. As Judge Richard Posner notes, "In trying to weaken the bond between parents and children, the founders of the kibbutz movement, echoing Plato, who in his sketch of an ideal communist state in the *Republic* had advocated the communal rearing of children, were acknowledging that parents' instinctual desire to advance their children was inconsistent with communal equality." The proportion of the kibbutz population within the Israeli society declined from 6.5% in the 1948 census to three. Three

percent in 1972. At the end of the year 2002 the kibbutz population numbered 115, 600, living in 268 kibbutzim, and it constituted two. One percent of the total Jewish population in the country. A best seller 1942 novel by Artur Koestler (who is known for “Dark at Noon”, one of the first to put cracks into the communist utopia), “thieves in the night” , describes first- handedly the first phase of the Kibbutz system (on the transformation of the Kibbutz system over the century since it stated, see later in this bio).

I was seven in 1948, the year of the Arab- Israeli war that followed Israel’s establishment as a state. The Kibbutz was then at the forefront of battles for the existence of the finger- of- Galilee region of the new Jewish state. All the women and children of the Kibbutz were evacuated into the relatively safe place of Haifa. We returned to the Kibbutz at the end of the War.

(On May 15, 1948, one day after the creation of the State of Israel, the Arab armies of Egypt, Syria, Jordan, Iraq, Saudi Arabia and Lebanon invaded the new Jewish state. The war was marked by long periods of fighting and temporary cease- fires. Finally, fighting officially ended in January 1949, at which time Israel held the 5,600 square miles allotted to it by the UN partition plan plus an addition 2, 500 square miles. Jordan held East Jerusalem and the West Bank, and Egypt held the Gaza Strip. From January to July 1949, armistice agreements were signed with Egypt, Lebanon, Jordan and Syria based on some minor variations of the frontlines as they were at the end of the fighting.)

The origins of my father’s family are in the area near the Dniester, in Ukraine. Professor Isaac (Isaco) Meilijson (a mathematical statistician from Tel Aviv University) read the 2010 book written by the historians Michael Keren and Shlomit Keren, "We are coming, unafraid: The Jewish Legions and the Promised land in the First World War", and provided me with this information.

A sizable part of the book has to do with recollections of Chaim Baruch Berezin from Mogilev Podolsk, on the Ukrainian side of the Dniester. The Bessarabia half of the city is Otaci. Maybe the little town Berezovka nearby has to do with your name too... Berezin was neighbor next door and friend in Mogilev Podolsk of my family Meilikhzon, that were part in Yedenitz, part in Briceni, part in Mogilev-Podolsk, but they are registered in Otaci in documents of around 1848. The book contains a fascinating story of Berezin the British officer, having to decide what to do (in Jericho) with Turkish soldiers and officers taken prisoner, when one of these filthy-looking, thirsty and hungry Turkish officers asks him in Hebrew "Ata Yehudi?" Berezin, that recognized only

his voice, not his looks, opens his eyes wide asking "Meilechzon, was tiste du?" or something like that. Well, "Meilekhzon" had insisted on coming to Palestine to study in the Gimnasia Herzliya, and his entire class was drafted by the Turks, including his class mate and very good friend Moshe Sharett, Israel's first foreign minister, probably still going under his non-Hebrew name Shertok at the time.

My father, Mordechai ("Mussia") Berezin was born during the beginning phase of World War I in Kishenev, the East European city in what is now the Republic of Moldova.

(In Kishinev, a provincial city of the Russian Empire (now Chisinau, Moldova), on April 19-20, 1903, 49 Jews were murdered, several among them children; as many (or more) were serially raped; very many more were injured. In the then Czarist Russian city, in April 1903, a three-day pogrom led to forty seven Jewish Deaths- men, women, children- and more than seven hundred houses had been looted. In the same city in October 1905, nineteen Jews were killed. Jews around the world were outraged by the Continuing attacks. After these pogroms at Kishenev, the Hebrew Writers Union of Odessa sent the 30-year-old poet, Hayyim Nachman Bialik, who became later Palestine Israel's national poet, to collect eyewitness accounts from the survivors. Bialik then wrote the famous poem "City of Slaughter".

Zipperstein gives us a clear narrative as well as appalling details of the Kishinev Pogrom. Rumors of attacks on the Jews had been circulating; permission had been given, it was said, for three days of violence; there were accusations against the Jews of ritual murder. It began with random, nonlethal violence. The mob found meaning through its slogans, "Strike the Jews!" and "Death to the Jews!" They were cheered on by local officials who claimed, as one put it, that Jews "exploited the Christians in a hundred unscrupulous ways, to their own aggrandizement." But the book is much more than an account of these horrors. It is a history of the pogrom's reception, as well. Among his six chapters, Zipperstein addresses the impact on Russian anti-Semites, who took the pogrom as proof not of Jewish weakness but of Jewish mendacity; on the Zionist movement and then on Israeli society, who saw in it the impossibility of diaspora existence; on the N.A.A.C.P., "energized by efforts to align the Russian pogroms against Jews with the American lynching of blacks," as well as in the United States generally, "the epicenter of pro-Kishinev relief campaigns and demonstrations.")

My father made *alyah* ("to ascend" in Hebrew; this is how we describe in Israel the immigration by Jews from the Diaspora) in 1937, before World War Two. In the 1950s, it became fashionable

to switch from Diaspora- type to Hebrew- type last names. Our family name became Razin (“secrets” in Hebrew; in the Hebrew alphabet it is as close as you can get to the original European name Berezin).

The name, Berezin, perhaps indicating our ethnic origin, is derived from a Russian word Berioza, a white- trunk tree. Leo Tolstoy’s “War and Peace” describes an historical site, Berezina, from which, perhaps, my father’s last name Berezin has been derived. Berezina became famous when Napoleon was driven back by the Russian Army. The French army melted away at the uniform rate of a mathematical progression; and that crossing of the Berezina about which so much has been written was only one intermediate stage in its destruction, and not at all the decisive episode of the campaign. If so much has been and still is written about the Berezina, on the French side this is only because at the broken bridge across that river the calamities their army had been previously enduring were suddenly concentrated at one moment into a tragic spectacle that remained in every memory, and on the Russian side merely because in Petersburg— far from the seat of war— a plan had been devised to catch Napoleon in a strategic trap at the Berezina River. Everyone assured himself that all would happen according to plan, and therefore insisted that it was just the crossing of the Berezina that destroyed the French army. In reality, the results of the crossing were much less disastrous to the French— in guns and men lost— than Krasnoe had been, as the figures show. The sole importance of the crossing of the Berezina lies in the fact that it plainly and indubitably proved the fallacy of all the plans for cutting off the enemy’s retreat and the soundness of the only possible line of action— the one Kutuzov and the general mass of the army demanded— namely, simply to follow the enemy up. The French crowd fled at a continually increasing speed in addition, all its energy was directed to reaching its goal. It fled like a wounded animal and it was impossible to block its path. This was shown not so much by the arrangements it made for crossing as by what took place at the bridges. When the bridges broke down, unarmed soldiers, people from Moscow and women with children who were with the French transport, all— carried on by vis inertiae— pressed forward into boats and into the ice- covered water and did not, surrender.

My father was one of the founding members of Kibbutz Shamir, and he lived there for the rest of his life. Soon after his arrival in Palestine, World War Two had erupted. The Jewish community in Palestine established a unit, the “Jewish Brigade”, to fight the Nazis. (Winston Churchill formed a separate Jewish Fighting Force, which would fly the Jewish national flag, within the British army. The Jewish Brigade Group of the British army, which fought under the Zionist flag, was formally established in September 1944. It included more than 5, 000 Jewish volunteers from Palestine organized into three infantry battalions and several supporting units. ).

Because the Jewish community in Palestine had no full- fledged draft, the Jewish Brigade was based entirely on volunteers. However, the Kibbutz system was based more on putting moral suasion on its members to volunteer; rather than letting the members to exercise their own individual choice. The Kibbutz chose two of its members “to volunteer” to the military service, and one of these happened to be my father. Being extremely loyal, he accepted the collective decision and loyally went on to serve the 4- 5 year period: first in North Africa (where General Montgomery fought the strong German army under Rommel), and then in Italy and Germany. I can still read the postcards he sent from training in Mount Carmel, Cairo, Italy, and Germany. The Jewish Brigade entered Europe through Italy, where the famous battle in Monte Cassino was fought. (There were four separate and distinct ‘battles’ of Monte Cassino during late 1943 and early 1944, each one being immensely costly in Allied lives. In their turn, Americans, Indians, British and Poles reached the summit of Monte Casino but found it impossible to retain a hold for long. The destruction wrought of the world- famous monastery on the summit of the mountain was but part of the damage that occurred during this period. The campaign to take Monte Cassino was one of the most dramatic of the Italian campaign.)

This is how Vikram Seth, the author of Two Lives, describes the battle, where is uncle, Shanti uncle, lost his arm.” Two major roads lead northwards from Naples to Rome: one along the coast, the other in the road skirts the towering mountain of Monte Cassino and then moves towards Rome along the Liri valley. Four attempts were made between January and May 1944 to advance past Cassino into the Liri valley. The first battle was a disaster. The Germans brought in reinforcements from north of Rome to contain the beachhead. Every move along a “Snakehead Ridge”, as the American dubbed it, could be viewed and countered from the surrounding highest, all of which were in German hands. Two nights later, the New Zealanders at great cost captured the railway station at Cassino- a position that would have helped the British army make a break past Cassino into the Liri valley. However, the battalion was forced by German tanks to relinquish their gains the following day. In February it was decided to attack Monte Cassino the third time. Cadstle Hill and the first bend were taken by the New ZealandersUncle Shanti was in Cassino area for several months.”)

Amazingly, the letters he sent from the front were written in almost perfect Hebrew, despite his being “Oleh Hadash” (new migrant). This was due to the Hebrew High School he attended in the Diaspora. During the War he managed somehow to do a lot of serious reading on his own. He was fascinated by ancient history. This helped him later to put himself on a successful track and became a self- taught biblical scholar. With the end of the war, and the smashing defeat of the Germans, he returned to the Kibbutz. I still remember the enthusiastic

reception given to him when he returned by the members of the Kibbutz and the big celebration of the victory over the Nazis. The Kibbutz members recognized his special intellectual talents and the general assembly assigned him to be the first high school teacher of the Kibbutz. For this purpose, he studied in the Kibbutz Teachers' College in Tel Aviv ("Seminar Hakibutzim"). However, unlike a University college the seminary had no exams, and granted no diploma. A diploma was not needed to work as a teacher in the Kibbutz. Studying in the Faculty of Humanities in the Hebrew University was not an option for him because the Hebrew University did not subscribe to the Marxian dogma, which had dominated the intellectual intercourse among the Kibbutz members. Possibly this also helped the Kibbutz to limit the outside options of its members, so as to prevent desertion. There were very insightful broad thinking teachers in the "Seminar Hakibutzim". Because at this time in Israel there were very limited number of academic positions were available in the only one university in the country. On the supply side, though, they were drawing from a pool of many highly educated and talented people. The Hebrew University, the only university in Israel at the time, had only a very small faculty; only of a few hundred academic staff (compared to 10,000 today). It was also established as an institution of higher learning and research after the German university model: a few permanent professorship positions and teaching assistants with only temporary positions. Many bright, highly educated historians, literature scholars, etc. had no other choice but to pursue semi-academic careers. By default, they had to choose teaching careers in high schools and seminaries. These institutions obviously benefited from having a select group of teachers of a high caliber. For example, a teacher in Seminar Hakibbutzim, who had a great influence on my father, was Zvi Yavetz. Zvi, the internationally renowned historian of the Roman period, was a Hebrew University Ph. D. student at the time. (In 1956 he received a Ph. D. Degree in History, Classics and Sociology, from the Hebrew University; and moved into an academic position.)

Beneath my father's infatuation with the Soviet Union, seeing the Soviet Union as the harbinger of the great socialist utopia was the fantasy of Russia itself. Recall that in the late 19th century, Russian music, drama and literature were at the leading edge of modern Western culture. Shaw was caught up in the great wave of enthusiasm for Tolstoy that broke over the western world in the mid-1880s when Tolstoy's "War and Peace" and "Anna Karenina" appeared. My father read these masterpieces at the source, in Russian; as well as **Dostoevsky and Chekhov**. His fantasy view of the Stalinist regime crashed in the 1950s where across the Soviet Union and its satellite states, Jews in countries behind the "Iron Curtain" were in mortal fear of increased anti-Jewish propaganda. Because of the results of manufactured trials of former Communist leaders in the Soviet Union, Czechoslovakia, Poland, Rumania, and other Soviet-dominated countries as official Soviet sanction of an outspoken anti-Jewish policy. I remember the

split in Kibbutz Shamir behind the “Sneh” (pro-Russian) camp and the Yaari-Hazan camp, which culminated in expelling members of the former camp. As a child, I had nightmarish sleeps. I was fearful of my parents’ expulsion from the Kibbutz at the time. Luckily, my Father joined the second camp and we remained untouched in our home place.

The historical aspects of the Bible became central to my father’s scholarship. He viewed the Bible as a genuine record of ancient Jewish history, in addition to its unique religious value. The best way I can describe my father is as a self- taught biblical scholar with a Marxist orientation. He published a scholarly book (joint with his colleague and friend Shunia Ben- Dor) on the origin of ancient kingdom of Israel (major sources were **the book of Joshua and** the Book of Judges in the Bible. The book of Joshua presents several internally inconsistent scenarios, which describe the entry of Israel into Canaan, and it conflicts with the Book of Judges and other books of the Bible.

(In a recent book by Finkelstein and Silverman, *The Bible Unearthed*, they write: “By the late eighteenth century and even more so in the nineteenth, many critical biblical scholars had begun to doubt that Moses had any hand in the writing of the Bible whatsoever; they had come to believe that the Bible was the work of later writers exclusively. These scholars pointed to what appeared to be different versions of the same stories within the books of the Pentateuch (The “Chumash”), suggesting that the biblical text was the product of several recognizable hands. A careful reading of the book of Genesis, for example, revealed two conflicting versions of the creation (1: 1- 2: 3 and 2: 4- 25), two quite different genealogies of Adam's offspring (4: 17- 26 and 5: 1- 28), and two spliced and rearranged flood stories (6: 5- 9: 17). In addition, there were dozens more doublets and sometimes even triplets of the same events in the narratives of the wanderings of the patriarchs, the Exodus from Egypt, and the giving of the Law. The distinctive uses of geographical terminology and religious symbols and the roles played by the various tribes in the two sources convinced scholars that the J text was written in Jerusalem and represented the perspective of the united monarchy or the kingdom of Judah, presumably at, or soon after, the time of King Solomon (C. 970- 930 BCE). Likewise, the E text seemed to have been written in the north and represented the perspective of the kingdom of Israel, and would have been composed during the

independent life of that kingdom (C. 930- 720 BCE). The book of Deuteronomy, in its distinctive message and style seemed to be an independent document, "D." And among the sections of the Pentateuch that could not be ascribed to J, E, or D were a large number of passages dealing with ritual matters. In time, these came to be considered part of a long treatise called "P," or the Priestly source, which displayed a special interest in purity, cult, and the laws of sacrifice.)

Biblical scholarship is indeed intellectually an exciting stuff. The inspiration for my father's the book came from the Marxist classic "the **Origin of the Family, Private Property and the State**" (circa 1884), written by Friedrich Engels. (Friedrich Engels, the son of a successful German industrialist, was born in Barmen in 1820. As a young man, his father sent him to Manchester (England) to help manage his cotton factory. Engels was shocked by the poverty in the city and began writing an account that was published as **Condition of the Working Classes in England** (1844). In 1844, Engels began contributing to a radical journal called **Annals** that was being edited by Karl Marx in Paris. Later that **Franco-German** year Engels met Marx and the two men became close friends. Thereafter, Marx and Engels worked as a team. Friedrich Engels (in *The Origin of the Family*, 1884), was fascinated by **primitive communism**, a term usually associated with Karl **Marx**, referring to the collective right to basic resources, partner sharing, egalitarianism in social relationships, and absence of authoritarian rule and hierarchy that is supposed to have preceded social stratification in human history. Both Marx and Engels were heavily influenced by Lewis Henry **Morgan's** speculative evolutionary history. Lewis Henry Morgan—dubbed "the father of American anthropology"—in his 1877 cultural evolution masterpiece *Ancient Society*, flashing out the role of inheritance and shared partners in the U. S. American tribes. ) My father's scholarly accomplishment is the book he co-authored with Shunia Bendor (both with no academic degree at the time) about the historical-sociology of the early Israeli kingdom. The publication of a book was a rare event in the Kibbutz, and the members organized a special evening to celebrate my father's great achievement. A glimpse into the Kibbutz life as a collectivistic community with hard core ideology however was sadly revealed in a beautiful, authentic, short story that my brother, Ehud Razin, wrote a few decades later:

**Insightful Kibbutz Story**



Here is a short story which my brother Ehud Razin wrote on the kibbutz social organization, the creativity of kibbutz members, and cult-like trust in what the leader says, documenting the inauguration of my father's book. Ehud tells us that he got up in the morning of Israel's Independence Day, April 17th, 2002. He is going down the stairs of my house to the lower floor, looking for one of Yehuda Amichai's poetry books. Now let him tell the story in his own words.

On the bookshelf, next to my daughter's room, my eyes fall on your book, my dad: "Origins of the Ancient Monarchy in the Bible".

I admit; I've never read it before. In the past, upon taking the book into my hands, I used to touch the hard cover and just look at the pictures at the end. Pictures of altar horns, bees, rams and knives. On the initial blank page I find that you wrote a handwritten dedication on the occasion of my discharge from military service: "Dear Ehud, upon the return to civilian life I wish you goodwill and blessing. Your father with love." My hands caress the pages of the book: stodgy sheets with yellowish shade. Date of its publication is missing. From the opening first pages, it becomes evident that the print house in the small city of Bat Yam did not take great care in its production. Here and there, and everywhere, letter fonts look like they are "shaved to their scalp".

I can however be able to figure out that date of publication is the year 1958.

At the time you were forty-four years old: young, aspiring, humble and curious mind; in the prime of life. I can wonder why you put your energy in exploring the early kingdom in "book of books". Your peer group, the

atheist pioneers, connected the word "Bible" to religion, yeshiva, rabbis, curly wigs and expatriate Jewish unproductive way of life in exile.

Founding members of the kibbutz were pioneers who voluntarily left Jewish shtetls in Eastern Europe, cut off from their father and mother, brothers and sisters, and ascended to Israel to plow and plant the land and collect the harvest. They threw behind them thousands of years of Jewish tradition. They rose up to seize an irreversible opportunity (remember the holocaust waiting to kill the Jewish diaspora?) to help build from ..scratch the renewed Jewish homeland.

But you' my dad, off the prevailing mainstream, chose to engage in intellectual activity of doing a biblical research. In the remote kibbutz far away from libraries, university close guidance, seminars, rubbing shoulders with likeminded researchers, and intellectual stimuli.

I remember your little handwriting on white paper sheets with no lines: Crowded words, microscopic letters-- hard-to-decipher handwriting. Your writing pages piled up on the right edge of the large desk, which was located on the outskirts of the austere, one-room, living room. After a while, when you returned from Jewish Brigade in World War II, you started to employ the Hermes Baby typewriter, typing with both your fingers, tik, tik, tik. That's how you'd sit in the small room for days on end. Concentrated, bent, dressed in short-sleeved khaki pants, sweat waves sticking out on your wide forehead.

I glanced at your book how it describes the evolution of the 12 tribes of Israel into the Great Kingdom. The book is readable, friendly and flows well. The reader receives a broad historical aspect of the ancient places, borders and the kingdom of Saul and David. Reading the book from today's perspective, the lack of an experienced and deliberate hand in the writing guidance is evident. In many places there is no reference to the

sources, summaries are missing at the top of each chapter, and an introduction to make it easier for the reader and to get a broad picture of the main points of your ideas is missing. However, careful examination of the scope and content of the book leaves no doubt in the reader's mind that this work could be qualified as a Doctoral Dissertation in biblical studies in every respect.

And in 1959, at beginning of spring, members of the kibbutz had a celebration on the occasion of the book's publication.

The kibbutz is a remote settlement point on a Basalt stone hill, located on the slopes of the Golan Heights. A silo structure projects out on its outskirts, and a landscape of white houses with red roofs, trees and greenery. With a shack and apple orchards, fields in the valley, dolmens (a megalithic tomb with a large flat stone laid upright ones, found also in Britain and France), and Syrian army posts facing-kissing the outskirts of the kibbutz—a constant threat. A kibbutz on something like edge of the world. placed away from any closed-border the Israeli settlement.

Standing out exposed to extremes of weather. It is rainy and muddy in Winter, windy (through so- *sharkia* winds) in the Fall, and hot-burning in the Summer. The few who would walk around the houses during the windy season, when even a dog would not roam outside, as my mother used to say, were wrapped in a heavy, tidy coat that would have been slooped twice or had their heads pulled out, as a kind of Bedouin outfit, that

obscures the contours of the haunted figure and fights the wind, making the individual identification impossible.

The kibbutz's links with the outside world revolved around a number of components. The main one was through telephone. But, only two single phones were available for the 400-500 residents. One telephone was located in the central secretariat building and the other in the small foyer between the community dining room and the kitchen. It seems that this arrangement was a deliberate. Placing the telephone precisely in the most crowded location is a way to eliminate a possibility of intimate telephone dialogue between members of the kibbutz. When the telephone would ring countless times, there would finally be someone who would pick it up, and the deaf call would go something like this: "Who? What, I can't hear you! Where? What were they going to cast? Wait a minute, I'm going to call Miku, Miu?, where is Miku?. Miku was the kibbutz's professional electronic expert. During the War of Independence, Miku operated wireless Morse Code Transmitter.

The kibbutz's other connection with the Israel's population was through an Egged bus that would emerge at and collect the few passengers who were waiting for it on a bench near the communal dining room. In the evening the Egged bus would come back, eject his passengers and throw out the two evening newspapers (*Maariv* and *Yedioth*) on the plaza in front of the dining room shack.

In those days, an Egged-Cooperative bus driver was a symbol of status. The bus driver was carrying a small, swollen, bag with a coin-spewing device, with a peacock-like move, confident and a Don-Juan type. Twice would sit a girl on his knees while not having passengers. Embracing the girl from behind while holding the steering wheel, the Egged bus driver would gallop as if one is training a student in a driving class. When the

would come back after a while, the bus door would typically open with a fierce slamming, the girl would skid lightly over the two exit stairs, align her shirt wrinkles. The driver then would wave "Wait for me and I'll come back". At around 1:00 P.M., the red-mail car would bring the left-leaning paper *Al Hamishmar* (Title translation: the Guardian). The newspaper small logo at the top right corner was the Communist Manifesto line-- "Workers of the world, unite!" . The newspaper small logo at the top left corner was the Zionist-Socialist slogan--" To Zionism, To Socialism and To the Brotherhood of Mankind." This newspaper, which was distributed to every kibbutz member, was the almost single information source in print news. Headlines often cried out for the injustices of imperialist colonialism. DWIGHT D. EISENHOWER is referred to as the leader of the capitalist world, while Nikita Khrushchev, Nikolai Bulganin , Lazar Kaganovich and Vyacheslav Molotov were regarded as role models as to the how to develop the organization of a future society.

The paper editorials and op-eds exclusively presented the party line. One of the internal pages was devoted entirely to the so-called "Publicist Articles". A kind of overflow of thousands of words in a clumsy style, replete with slogans. Sometimes when a fateful movement decision was made, the ideological leader of the entire kibbutz movement Meir Yaari would publish in *Al Hamishmar* a guiding article, like a Rebbe in the orthodox communities. On the day the newspaper article appeared, kibbutz members around the communal dinner table used to quote paragraphs, from commentators, explaining one to the other what the leader meant without attempting to contradict even a pinch of reasoning, the sacred assumptions. There were two ideological co-leaders—Meir Yaari and Yaakov Hazan. The later was in charge of literature, communications, media, etc. The kibbutz members assembled to celebrate the new book, written by their own founding member. On the evening, dad, the wind of *Sharqiya* (meaning the wind coming from the east) whistled outside the gathering

wrapped. The shack trembled in harmony with the place. The dining hall was an elongated wooden shack wrapped in *Sharqiya* wind.

A wide concrete sidewalk led from my dad and mum one-room living room to the dining-hall shack. Walking there you unavoidably touch the night-ghostly bushes on the trail sidelines. Its route passed by a communal toilet, built of armed concrete. To prevent the leftover mud boots from becoming a smeared paste in the mud, in winter, when it was difficult to keep the toilet place clean, a carpet of dense wood chips would be sprinkled on the floor. To highlight the need to keep the place clean, an enlightening sign was written in white *Kiddush* letters: "Dear friend, please be careful to use the toilet device on the inside; not on the outside." Outside the dining room, on the outskirts of the large plot of grass that stretched as far as the residences, lay a grayish-hued ancient Byzantine column in the temple of God, discovered in the ancient city Caesarea. The column served the members as a resting seat, for food digestion after dinner. As a youngster not allowed into the adult gathering, I had to wait to join me there after the celebration. of the Kibbutz members I waited for

My mother was however was absent. She sat on the bed side in *Tel Hashomer* Hospital to watch my older brother Assaf, who was lying there recuperating from severe gun-shot injury during his military service. My sister Hava, was yet too young to be allowed her participation in the celebration. Arriving in the dining hall my dad's father, my dad greeted all the kibbutz members, his communal kinships who had all gathered in the dining hall. Men whose hands are seared by hard, washy, and crass, physical work. Women put on an artificial smell by using an identical cream paste they were oiling their hands and face with. They all came to the dining room hall, away from the cold wind that was blowing outside. It was literally like

הנה מה טוב ומה נעים שבת אחים

The Hebrew version of the joy of all of us sitting together.

We recall that this was a generation of pioneers, ascetics, who settled for little, satisfied themselves with bread and water, porridge with sugar and cocoa; and lots of jam. With the unity of purpose, believing in the importance of togetherness, with little scope for the individual, and a total devotion for the mission embedded in the words of the song “Hey, we will rebuild the Galilee”. In a kind of hours-after-work indulging attitude, the female members would compete as to how to bake a jam cake with cookie crumbs on the patchy of the porch; as well as the *dolce*, concentrated jam made from fruit and fresh herb, ripped from the kibbutz fields.

So, almost everyone came to celebrate the book inauguration party with my dad, except for my mother who could not be there. Tables were removed, and wooden benches were arranged in the dining hall, rows by rows. Peeking through the open door to the kitchen you could see the Nirosta-stainless-steel Carts, packed with homemade pastry cakes and coffee jugs, prepared in advance to serve food. My dad was standing there behind a pile of copies of your book, which were placed in the middle of the table, covered in white waxed tablecloth. A group of friends gathered at the entrance to this is the first time I've seen the ideological leader of the 'closed' kibbutz movement Yaakov Hazan, who was invited to give a keynote speech. Hazan means cantor in Hebrew. People called him Hazan, skipping His first name, implying that he is the “one and the only one” Hazan. I remember public debates about education, the bylaws of the kibbutz, the treatment of communists among dinner while

spreading the anchovy on a slice of black bread they quipped "Hazan would reject such argument", or "It will not pass through Hazan judgement" and more, and more. Hazan would also advise Meir Yaari, who used to single-handedly prepare the annual Party-conference "Theses". These were a set of declarative statements on domestic inter-party relations, trade unions, etc. They address external issues such as the attitude to the Middle East conflicts, the Soviet Union, the Cold War and the like. The "theses" would appear in a thin booklet wrapped in paperback printed in a kibbutz *Merhavia*, home of Meir Yaari. The booklet was then distributed to members of the entire kibbutz movement and put in mailboxes, which were located in the ante room to the dining hall. This file would have been brought to a vote for approval by each individual kibbutz, reminiscent of the Soviet Union style of government.

Now after a long delay the ceremony started in the book-celebration event when Hazan arrived. One of the kibbutz members rushed over and brought the venerable leader a unique chair lined with black leather. A comfortable chair that was used during daytime to peel onions, potatoes and carrots. Hazan got seated with a home-owning expression. He looked sideways, his head nodded hello. Several members, insiders to the Party apparatus, approached Hazan in a tentative move as if they share with him confidential information. Then, they safely returned to their seats, conveying their self-importance. I peeked into the dining hall, staring at the mythical figure, Hazan, who failed to shake hands with the guest of honor. My Dad's shyness deterred me from any attempt at a proactive handshake. The evening began with kibbutz secretary introductory blessings. He began by apologizing that he read only a few passages from the book. He spared no warm praises in a well-formulated sentences. He then quickly looked in Hazan's direction, with a preaching tone: "The book puts a challenge to all those intellectuals who are not interested in *isms*: Marxism, Socialism, and Capitalism. Those



who see all their world without the values of social and national values. Therefore, it is not surprising that in their eyes the kibbutz's genius diminishes." He finished his brief remarks, he folded the page of the speech in four little pieces, tucked the paper into the pocket of his pants, while sneaking a glimpse of Hazan to examine his reaction. Then spoke my dad's friend from the early days of growing up in Eastern European province of Bessarabia. He reminded the audience that my dad dared to leave the yeshiva and rabbinical ordination as a young person against the wishes of his orthodox family. I first met Mussia, my dad's nickname, immersed in Freud, surrounded by a mountain of books." He turned his gaze to Hazan and in an attempt to interpret my dad's book said: "Mussia succeeded in bridging the prophets of Israel and the Torah with Karl Marx and Friedrich Engels."

These first two greetings were a warm-up evening's star speaker. Then, Hazan rose forcefully from his seat. Serious, gloomy face, eyes ploughing, bent slightly from almost endless workload he had in the kibbutz movement. Silently surveyed the entire crowd which gathered in hall. He began by saying that due to a severe workload, he had not yet been able to browse through the book. He quickly added that he was not sure if he would even find time in the near future to read the Book in front of them. Thus, without any greetings and polite words that are expected by such an event, he uttered: "We all know and feel the on-going immense struggle the kibbutz movement is in. He then drifted to pointing the dangers that are threatening us all from the forces of evil that come upon to destroy us."

At this moment my father was overwhelmed by the insensitivity implicit in Hazan oratory. My father had been always sensitive to spoken words as an open-minded man would. He then began to realize that his book

only a side show. At this point Hazan left no doubts about where he was going, lifting his right hand as his thumb was pointing to the ceiling of the dining hall, his voice rose to high volume to declare:

"And, friends, there's been a danger lately that our Bible studying activity will start crowding out the study of Marxism. You know, our Bible learning classes are booming, Marxism learning classes are shrinking." Hazan quickly moved to a warning: "And I must say that this is a very dangerous process. It is an escape from reality, it is a head-lift, and it is an expression of a feeling of inferiority towards the outside world that attacks us. It manifests the reluctance of facing the great social issues of our time."

A number of kibbutz members whose look was captured by Hazan's menacing eye shook their heads. My Dad, who is a self-made biblical scholar, felt suddenly like a sacrifice lamb being raised at the altar. But, Hazan continued to "stick knives" in my dad's bare body.

Hazan added: "The second issue is the connection between the physical labor and the intellectual activity in kibbutz way of life man. Between physical work and cultural creativity. Humanity will surely reach that time when out of abundance the difference and contrast between physical and intellectual work will disappear. But we are still far way reaching this advanced stage in social development".

When Hazan ended his remarks, he thanked the crowd for the exciting experience he had. A loud applause

filled in the meeting place. Kibbutz members stood still and began singing the Communist Hymn, The

International:

Workers of the world, unite  
You have nothing to lose but your chains

Break every chain  
Break every prison of want

on in revolt now thunders  
ast ends the age of cant.  
with all your superstitions  
masses arise, arise  
hange henceforth the old tradition  
urn the dust to win the prize.

rades, come rally  
last fight let us face  
ernationale unites the human race.

Then Surika, a prominent member of the Kibbutz who was trained to parachute being enemy borders in  
II, got up, in hasty steps approached Hazan, gently put her arm into his arm and escorted him to his chair  
in the front row. He slumped on the seat with all his weight, tired, smug and full of self-satisfaction.

The crowd began to disperse. Each pair of friends took a copy of the Book, casually and slightly flipped  
through its pages.

kibbutz members, replete with the semi-spiritual experience they had just been through, went outside into  
the blowing wind.

My dad kept sitting in the corner of the table behind the few remaining copies of the Book, still left in the  
rner. I walked up to you, wrapped my little hands around your shoulders. Suddenly you raised your head,

ged me with your big, warm hand and the tears streaming from my eyes were absorbed into the sleeves of  
your white shirt.

This is a vivid account written by my younger brother Ehud, about the Book inauguration event.

This book celebration event made my father's remaining life in the Kibbutz challenging; he diminished his optimistic nature greatly.

At his middle age, he visited London, where my son and my grandchildren live now. London – where Marx, a century and a half ago, prepared to write *Capital*; where Lenin, some 100 years ago, engineered a split in his political party from which the Bolsheviki – meaning “the majority” – were born. Indeed, my father went to visit Karl Marx grave in high gate neighborhood during this visit. London has been for two centuries also the home of finance and until 50 years ago, of imperialism. It was only at the relatively old age of 55, when his adherence to the Marxist dogma was significantly weakened, that my father embarked on formal studies in the Hebrew University. At this stage, the Kibbutz was also less dogmatic and more tolerant. The University awarded him a Ph. D. in biblical history (Professor Abraham Malmat, the renowned biblical scholar, was his adviser; Sara Yefet (Israel prizewinner in biblical scholarship was his classmate), but this event came only after I had received my own Ph. D. from the University of Chicago. It is only the fact that he was a member of the Kibbutz all his life. In contrast, I left the Kibbutz at a still formative age. This can explain such a distortion of the natural chronology of events between father and son. My mother Dora was born in Bivoular, a Romanian town, near the provincial capital city of Iasi, also at the beginning phase of WWI.

*[Iasi is a city located in north Romania, in southern Bukovina. This country was the easternmost crown land of the Austrian Empire. Iasi, before WWII, consisted of a hundred thousand individuals, half of which were Jews. [The Iasi pogrom is the most infamous in the history of the Romanian Holocaust. On June 25, 1941 (three days after the outbreak of the war) rumors circulated that Soviet parachutists landed near the city of Iasi. The army ordered a search of all Jewish homes. Many believed that Jews in Iasi were "enemy allies" of the USSR, "Bolshevik agents, and "parasites on the Romanian nation."].*

My mother's maiden name is Leibovitch. She arrived in the Kibbutz just a few months after my father. My father, who knew Hebrew already from the Jewish high school in Kishenev, became my mother's Hebrew teacher. My mother was the one who had to take sole responsibility of us, the children, while my father was absent for relatively long periods. She did not have the intellectual curiosity my father had. However, she was an integral part of a household, not very typical in the Kibbutz society that educated its children under the banner that investment in schooling is of crucial importance. She also kept the family well tied together after my father died at the young age of 57. (She was all alone at her small and austere apartment after my father died when in June 13, 1974 when 4 PLO terrorists sneaked through the Lebanon- Israel border and invaded Kibbutz Shamir. They ambushed and killed 3 Kibbutz members who were working at the working honey factory in the outskirts of the Kibbutz. The members of the Kibbutz were having breakfast at the communal dining hall at the time. They seized their guns and ran in the direction from where gunfire was heard. In the gun battle that followed all the terrorists were killed--a self defense courageous act, with no help from the Israeli army. I imagine how terrified my mother was. However, she did stay in the Kibbutz in the remaining years of her life.) She definitely was the Matriarch of our family. She was extremely proud of the skills that her own children acquired much through investment in human capital, while the average child of the Kibbutz was less educated.

Here is my brother Ehud's short (true) story about our mother:

The announcement of his injury caught my mother, Dora, late in the day while Dad was outside the kibbutz and he could not be contacted. Unlike Dad, Mother was a woman of action and had a great deal of practicality in her approach to solving problems that afflicted every single day. Within a short period of time, she contacted my Dad's sister, Geeta, a member of Kibbutz Ein Horesh. Both, with great determination, headed to the town of Beersheba, which was located in the minds of the remote Galilee residents far beyond the mountains of darkness. The arduous journey to the south of the country while traveling by several buses lasted for hours that

seemed to my mother and aunt as eternity. When they finally arrived at the Southern town's military clinic, running and caring, they found the dear son lying in the corner of the hall on a stretcher covered in a military wool blanket. Pale was groaning in pain. Bandage in the waist area the site of the infiltration of the Uzi bullet ejected from the weapon of an unsightly force in the order of discharge of weapons held at the end of a fire drill in the Army Corps of Engineers class corporal course.

I will never know the details of my brother's evacuation to a more centrist located hospital, but the rumor has it about the mother of the lioness who fought tenaciously with the chief medical head of the military base to allocate an ambulance to rescue her injured son from the shabby clinic where he was in the desert combustion, which at the time lacked a proper treatment of such serious injuries. Thus, my brother was led north on dilapidated roads to Tel Hashomer Hospital with my mother and aunt sitting next to a stretcher dangling, from every moan and pain that had been streaked in the living flesh. The doctors who participated in the bullet removal surgery, which was stuck somewhere in the flesh in the deep wafer near the vertebrae of the lower back, did not express a shred of hope about his future ability to recover and walk on both legs. Thus he was left lying on the iron bed expecting a miracle, casting all over his lower body.

A mother doesn't leave from her son's bed. She dined and bathed him and took care of her devoted cod as a donkey. Thus the days passed when she was consumed with worries and nerve-wracking, for fear of her son's future. When she came to the kibbutz at weekends to meet her other two children and regain her forces, a group of "caring" members of the kibbutz began to utter remarks such as: " It is rude to allow her to be absent from the kibbutz for so long when there is such severe hardship in working hands. After all, it is the duty of the military medic to treat their patients. So what if she happens to be his his mother?"

Recovery was not in sight, the drifts and background noise even increased. The annual vacation days were long overdue and all my mother had to do was try to convince Yankele, the work usher on the kibbutz, with the crucial importance of her presence at her son's bedside.

One day, the medical team in Tel Hashomer orthopedic ward decided to try move him away from bed , set him up to begin walking, and checking his body stability. Assisted by a small tea cart, he was starting to walk, tentatively, as a tracker in a minefield, while humming Naomi Shemer's song " I am walking in the winding road, hoppa hey, hoppa hey. Not everyone walks the road to the end, to the bitter end, but I do, hallelujah" .

“A medical miracle”, shouts began to be heard from all sides.

My mother who could no longer stop the flow of tears burst into tears of happiness while hugging and kissing her beloved son. "He'll be able to walk!" she made a heartbreaking cry.

Indeed, within a short period of time, her son returned home for continued recovery at the kibbutz. Her and my dad small residence, the "room" in the kibbutz's parlance, that included a single room, a toilet and a shower, but no refrigerator. The Kibbutz had a communal dining room for its members but not house by house facilities.

I have never known my grandparents. My Parental grandparents (Meir and Fruma Berezin) and my maternal grandparents (Leon and Ada Leibovitch) did not followed my parents in the migration to the (then) Palestine. My maternal grandparents, who lived in Iasi, Romania, under the Antunesco Puppert regime during the World War II, did not survive the war period. First, there was a pogrom in Iasi, in June 1941. Then forced labor was done in an out of the city. The hunger and sub- human conditions that were widespread throughout the region were plausibly the cause of their death. My parental grandparents, who lived in the city of Kishenev by the river Dniester, did not survive the war period either. The 1939 Molotov- Ribbentrop Pact assigned this region to the Soviet Union. In May 1941, Heidrich, following Hitler's plan to eliminate the Jews, established the units of the Einsatzgruppen, to accompany the German army in Operation Barbarosa into the Soviet Union. Their specific mission was to execute not only members of the Jewish community, but also communist leaders. Kishenev, like the rest of the region became a killing field, as Poland before it. I do not know how precisely my grandparents' life ended, because my parents lost all communication with them during the war.

My younger brother Ehud (who is the Dean of Faculty of Medicine at the Hebrew University in Jerusalem) inherited my father's broad intellectual curiosity. My younger sister Hava (who is a fertility nurse- specialist in Hadassah Medical Center in Mount Scopus) inherited my father's good nature and my mother's legacy of how to raise a well-educated family. All of us inherited the "optimism gene" from my mother. We tend not to complain about bad luck and always look forward with an optimistic sense of meeting new challenges ahead. I liked playing basketball, listening to music-- Beatles' music, 1950s, 1960s and 1970s pop music, as well as Classical music, especially, Beethoven's Symphonies. (At the funeral of my son, Ofer, we played the third symphony, The Eroica). A member of Kibbutz Shamir, Yahali Wagman, a musical prodigy as a teenager, and a graduate of The Juilliard School of music, motivated us to listen to classical music. I learned to play the clarinet and became fascinated with Mozart's famous concerto for clarinet ([Wolfgang Amadeus Mozart - Clarinet Concerto in A Major](#)). In our class, we were just 10 children with very distinct Israeli names: Ziva, Uzi, Ygal, Hillel, Amos, Oded, Amnon, Amit, Yuval, and myself, named Assaf, the youngest. At the time, the name Assaf (taken from the book of Psalms) was quite rare. (IDF Major- General Assaf Simchoni (1922- 1956) who

commanded the Sinai Campaign (1956), and was killed in an airplane accident at the end of the war, was another person with a same. A bit older than me and born in a Kibbutz, Geva. ) People were not used to such a name. Some pronounced it as Esav, (**Esau** , **Standard Hebrew Esav**, is the son of **Isaac** and **Rebekah** and the older twin brother of **Jacob** in the **biblical Book of Genesis**, who, in the **Torah**, was tricked by Jacob into giving up his birthright (leadership of Israel) for a "mess of pottage" (meal of lentils). (**Genesis 25: 29- 34**.) I must admit I had many moments of embarrassment because of the (then) unusual name. Now days, this name is one of the most popular names in Israel.

Ran Abramitzky tackled the problem of the long survival of the kibbutz system for more than a century. The system is still going strong. It provided a community for the individual to belong to with a shared ideology to believe in. The kibbutzim were deeply aware of the problem of free riding and had elaborate monitoring and social sanctions mechanisms to limit such behavior. That meant that kibbutzim were likely to have types of work that were more routinized and easier to monitor that might have driven out more idiosyncratic and entrepreneurial work. The more extreme version of the kibbutz included not simply equal sharing and common ownership of all property, but also communal dining halls, no use of hired labor, no private savings, and above all separate communal residences for children to weaken the notion of the private family and to emphasize that all children were to be raised jointly by the community. Over time this part of the system has changed, with children mostly moving into individual parents' homes by the late 1970s. Furthermore, financial stress in the 1980s was a great blow to some of the kibbutzim. At the same time, the worldwide boom in high tech increased the attractiveness of the outside option and caused a great many of the most talented and educated members to leave. The shakeout induced by these economic and social changes meant that kibbutzim over the last quarter century have chosen to shift away from strict equal sharing to one degree or another. Certainly there was also some self-selection involved as the more idealistic would have been less likely to leave, though that is not addressed in any detail. What is more likely is that both selection mechanism of who can become a member, as well as kibbutz monitoring systems have been good at making sure that the people selected are both less likely to shirk and more likely to respond to social incentives against free riding. Communal property acted as a bond to limit exit, and extensive local public goods meant that their loss would be costly to those who chose to leave and gamble on an outside life. In particular, adults who chose to join the kibbutz would have to give up all private property to the group and thenceforth could only benefit from community assets to the extent that they remained in the commune. Those who chose to exit could not take their share of the community property with them, such as their house. This inability to accumulate substantial assets therefore would have served as a constraint on those considering moving out of the kibbutz. Children of members would not have had any assets



to give up and, if well-trained, would potentially have the greatest outside option. They therefore would be at higher risk for exit.

About growing up in a remote place, you may read Gabriel Garcia Marquez' **One Hundred Years of Solitude**. This is a story of one hundred years in the life of Macondo, a mythical Colombian town, a fresh new place isolated from civilization, and its inhabitants - the story of the town's birth, how it developed a lively community, and how tragically it has reached its end. It was founded by a team, which included the married couple Jose- Arcadio Buendia and his wife Ursula Igueren. They started a dynasty that lasted a few generations. Macondo was deserted after the last offspring, an infant, was left alone and died. The experience of growing up in a remote isolated new establishment, and be a part of an emerging small community, where its leaders trying to establish new community rules and norms of behavior, methods of education, developing health care and social organization, is what re-inventing I feel as some kinship to the story with my childhood's experience in Kibbutz Shamir. In both the Macondo and Kibbutz Shamir stories, the children were part of a big social experiment. Luckily, in sharp contrast to the sorry end of Macondo after 100 years of existence, the community of Kibbutz Shamir was able to fully integrate itself, absorbing the center- core of the country in social and cultural features. The kibbutz was able to modernize its social organization institutions and economic well-being.

Indeed, 60 years after its birth, the Kibbutz is a great success story. However, there is a weakness with the kind of education that I had experience with growing up there. Thinking about the relatively poor education I received in my youth, big drawback of the Kibbutz educational system was that they had no exam to motivate their pupils. When it comes to educational systems, the world seems keen to adopt ideas developed by British experts. It was the British headmaster of the famous Eton who largely created Germany's postwar educational system and the international Baccalaureate. The program designed for 16- 18 years old, has done particularly well in the US. It allows schools to opt out of the national qualification system. University admissions bodies create special tariffs whereby the international baccalaureate is given a preferential treatment. This gives an added incentive to get into such program in the first place. In the Kibbutz system, there were no exams at all; surely not national or international certification exams. When many years later I became a Professor of economics, in my book *Population Economics* (MIT Press, 1995), I was able to identify key demographics economics issues for different societies, including those that characterize the kibbutz. My analytical thoughts about the difference among various ways of social organization were, as it turned out, strikingly fit the fertility-education choices prevailing in the Kibbutz; at least for the kibbutz system at the time I was growing up. In the

book *Population Economics* (MIT Press, 1995), co-authored with Efraim Sadka, we analyzed two education-fertility regimes, referred to as the “children as capital goods” regime, and the “children as consumption goods” regime. The “children as capital goods” regime features parents who treat their children as a “capital good”, bringing them up and investing in them with an objective that the children, as grownups, take care of parents who already reached their old age. This model seems to capture fertility- education choices in traditional economies, where risk- sharing and financial saving institutions are almost entirely absent, public schooling is scarce and government provided social security system does not exist. In contrast, the “children as consumption goods” regime prevails when financial markets are well developed and the government provides both public education and old age social security. The fertility- education decisions are motivated to a large extent by the parents’ altruistic and kinship motives. They can provide for their old age securities through alternative market-based and government provided means. This means that parents, who care about the well- being of their children, would bring out relatively small number of children. In such a regime, raising a child is costly. Parents invest in the education of each fertility-education one of them, so that they become skilled and raise their earning capacity. Interestingly, the Kibbutz system at the time I grew up, the investment- in- education decisions are akin to as “children as capital goods” regime in my analytical model . The Kibbutz cut itself altogether from the national education curriculum, had no use of exams and diplomas, and did not allow, as a rule, its members to pursue higher education at the universities. The educational system put an emphasis on skilled required for its own business sector; mostly agriculture. The upshot was that opportunities, which outside of the Kibbutz, require broader proven skills were either unavailable, or very costly to take advantage of, for a typical person who was raised in the Kibbutz. These policies were in part geared to keep the children when they grew up to be productive and innovative only in the confines of the Kibbutz needed lines of work, thereby helping provide for the old age security of their parents, as in the “children as consumption goods” regime in the theory.

However, there were also some important advantages. As expected, growing up in the Kibbutz system I have had intensive social interactions with my peer group (in the Kibbutz system you can develop well your social skills, being together almost 18- 20 hours a day with children of roughly your age; only in the remaining 4- 6 hours a day did, we spend a fair bit of time with our parents). I thus was able to develop good social skills at the very early age; which served me well later in life. In such an environment, “peer effects” seem to be very

important. When your classmate is particularly smart, dishonest or lazy, what does that do to you? Especially important when you are at the formative young age period. Another important influence is the “parent effect”; this balances off some negative peer effects.

## HIGH SCHOOL FOLLOWED BY THE ARMY SERVICE

Israel at the time had a three year draft. Because of young age, I had to volunteer to get early into the Israeli Army at the age of 17, after finishing the regional Maayanot high school in Kibbutz Amir. After four month recruit training in the engineering platoon I started a four month corporal training course in the Negev, near Shivta, on the Sinai border. Then, during live ammunition exercise, I was shot at from close proximity in my lower back, from “friendly fire”.

This is how my brother Ehud describes the aftermath of the almost fatal injury:

....ההודעה על פציעתו תפסה את אימי בשעות המאוחרות של היום עת אבא שהה מחוץ לקיבוץ ולא ניתן היה ליצור עימו כל קשר. בשונה מאבא, אמא הייתה אשת מעש וניחנה בתושייה רבה בגישתה לפתרון של בעיות שצצו ועלו מדי יום ביומו. תוך פרק זמן קצר היא יצרה קשר עם אחותו של אבי, גיטה, חברת קיבוץ עין החורש. שתייהן, בנחישות רבה, שמו פעמיהן אל העיירה באר שבע שהייתה ממוקמת בתודעתם של תושבי הגליל הרחוק מעבר להררי החושך.

המסע המפרך לדרומה של הארץ תוך נסיעה במספר אוטובוסים נמשך שעות שנראו לאימי ודודתי כנצח. כשהגיעו לבסוף למרפאה הצבאית שבעיירה, רצוצות ודואגות, מצאו את הבן היקר שוכב בפינת האולם על אלונקה מכוסה בשמיכת צמר צבאית. חיזור היה ונאנק מכאבים. חבוש באזור מותניו מקום חדירתו של כדור העוזי שנפלט מנשקו של חיל לא זהיר במסדר פריקת הנשק שנערך עם סיומו של תרגיל אש בקורס מפקדי כיתות של חיל ההנדסה. אף פעם לא אדע לאשורם את הפרטים בדבר פינויו של אחי, אל מרכז הארץ אך השמועה מספרת על אימי הלביאה שנלחמה בעקשנות עם מפקדי הבסיס הצבאי על הקצאת אמבולנס לחילוץו של בנה הפצוע מהמרפאה בה נמצא בעירה המדברית שחסרה בימים ההם בית חולים נאות לטיפול ראוי בפציעות כה קשות. כך הובל אחי צפונה בנסיעה על כבישים רעועים צרי שולים אל בית החולים "תל השומר" כשאימי ודודתי יושבות בסמוך לאלונקה המתנדנדת ומצטמררות מכל גניחה ומכאוב אשר חרצו בבשר החי.

הרופאים שהשתתפו בניתוח הוצאת הקליע שהיה תקוע אי שם בבשר שבמעמקי המותן בסמוך לחוליות הגב התחתון, לא הביעו קמצוץ של תקווה בדבר יכולתו בעתיד להשתקם ולהלך על שתי רגליו. כך הוא נותר שוכב על מיטת הברזל מצפה ומקווה לנס כשהוא מגובס בכל חלק גופו התחתון.

אמא לא משה ממיטת חוליו של בנה. היא סעדה ורחצה אותו והקפידה בטיפול המסור בקלה כבחמורה. כך חלפו להם הימים כשהיא אכולת דאגות ומרוטת עצבים, שנתה טרופה מחששה לגורלו של בנה.

בבואה בסופי השבוע לקיבוץ לפגוש בילדיה ולאגור כוחות, החלו להישמע פה ושם מקבוצת חברים "אכפתניקים" סוגי לחושים ארסיים כגון: "הרי זה תפקיד החובשת לטפל בחולים. אז מה אם היא אמא שלו? זאת חוצפה להרשות לה להעדר מהקיבוץ למשך זמן כה רב כשקיימת מצוקה כה קשה בידיים עובדות". ככל שנקפו הימים וההחלמה לא

נראתה באופן תכפו הטרוניות ונימתם התובענית אף גברה. ימי החופשה השנתיים כלו זה מכבר וכל שנותר לאימי לעשות היה לנסות ולשכנע את יענקלה סדרן העבודה בקיבוץ, בחיוניות שבנוכחותה ליד מיטתו של בנה. יום אחד החליט הצוות הרפואי במחלקה האורטופדית להקים את אחי ממיטת חוליו על מנת לבדוק את יציבותו. מסתייע בעגלת תה קטנה החל הוא צועד בהיסוס, כגשש בשדה מוקשים, מזמזם את שירה של נעמי שמר "הדרך ארוכה היא ורבה, רבה, הדרך ארוכה היא ורבת הדרכים הולכים בדרך עד סופה, סופה כולם הולכים בדרך עד סופה המראבל אני, אבל אני, לבד צועד הללו הללויה הללו". נס, נס רפואי החלו להישמע צעקות מכל עבר. אמא שלא יכלה עוד לעצור את שטף דימעותיה, פרצה בבכי של אושר תוך שהיא מחבקת ומנשקת את בנה האהוב. "הוא ילך גם ילך" היא השמיעה זעקה קורעת לב שזעזעה את אמות הסיפים. אכן, תוך פרק זמן קצר, חזר הבן הביתה להמשך החלמה בקיבוץ היישר אל בית המגורים הקטן, "החדר" בלשון הקיבוץ, של אמא ואבא אשר כלל חדר יחיד, שירותים ומקלחת....

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The unfortunate event, however turned out to be transformational for me. It allowed me to think "out of the box" of the ways I brought up. I decided to seize the opportunity that I am now not in a condition to pursue my life as I was expected to do by the Kibbutz members, and instead develop myself into new life goals.

Given that we were a very small group of first-born children in the Kibbutz, the Kibbutz could not afford to establish a separate high school just for the few of us. We moved to the boarding school in the adjacent Kibbutz, Kibbutz Amir. There the three Kibbutzim, which belonged to the Marxist stream of the countrywide movement that Kibbutz Shamir belonged to, formed for the regional high school. The curriculum included history, literature, biology, chemistry and little math. There were no exams. Typically, we used to work in the Kibbutz' agriculture for 2-3 hours a day. A healthy majority of the entire generation of children who attended this High School class did not ever attend college, because they did not have reached the college admission standards. It is therefore an *amazing* coincidence that I became eventually a professor of economics. The lack of incentives in the Kibbutz to put effort in education and readings reminds me of what Doris Kearns Goodwin wrote about the young Abraham Lincoln: "In the pioneer world of rural Kentucky and Indiana, where physical labor was essential for survival and mental exertion was rarely considered a legitimate form of work, Lincoln's book hunger was regarded as odd and indolent. Nor was the community understands the thoughts and emotions stirred by his reading; there were a few to talk to about the most important and deeply experienced activities of his mind". The coincidence has to do with the way I had to end the military service. I was drafted in 1958, before I was 18, and went to my military service in a combative unit as was expected of any young member of the Kibbutz. I managed to go through basic and NCO (non commissioned officer) training, in preparation of going to officer training. Then a tragedy struck me at a very young age. During the NCO training course,

however, I was badly injured (from friendly fire, due in large measure of sloppiness in the enforcement of safety rules in the army at this time). I had been hospitalized for more than a year, in the Tel Hashomer hospital, unable to walk. Thus, after lying in bed for the months in the hospital, I realized that I would not be able to follow the traditional track of every Kibbutz young person: serve the best you could in the military service, preferably in combative units, and soon afterwards return to the Kibbutz agriculture. The whole idea was that you are not supposed to take any job outside the Kibbutz. There was no industry or professional service jobs in the Kibbutz at the time. It is hard to believe that now days Kibbutz Shamir owns the majority shares of one successful public company (listed on NASDAQ) which produces eye lenses, and another public company, which produces textile substitutes. (Shamir Optical company's R& D department, which carries out R& D for lens makers, is considered one of the best in the world. Shamir Optical also makes half- finished lenses for laboratories. It started more than 20 years ago in consultation with Koby Rubinstein and Shmuel Vigder from the Technion who numerically solved a not- too-easy problem of finding the lenses surface with prescribed variable optical characteristics. ) From my hospital bed, I had therefore to rethink my future. I realized that my future must be quite different from the typical career pattern of almost all of the Kibbutz members. The Kibbutz High School system I graduated from was outside the state schools system, with a completely different curriculum, and without the statewide matriculation exam, a key requirement to attend college. (In fact, there were no exams at all in the Kibbutz High School.) Therefore, I did not have even the minimal pre- requisites for attending College. I had to study for the rather demanding matriculation exam that was required in Israel from my hospital bed. I did my studies by high-school correspondence with the British Educational Council. The British Council as we called it was one of the good institutions that the British Empire brought to former colonies. I passed the six matriculation exams, but with mediocre grades only. It took a full year, or two, for me to rebuild up my physical stamina and to be able to walk. I then applied to the Hebrew University, and moved to Jerusalem. Remarkably, I am the only person from my high school class (except one, Hillel Efrat) who went to study at a University! The act of leaving the Kibbutz was traumatic for my parents. My father is standing as a founding member of the collectivist idealistic community was shattered. He had his problems with this egalitarian- pressuring community before because he was one of the few intellectuals in a community was the slogan- like principle “First of all hands (not brains)”; meaning the first priority is a work in the agricultural, income- generating, sector of the kibbutz. But now it was almost the last nail in the coffin, so to speak, because his first born child has left and will not continue his own main agenda in life— living in the kibbutz. Forty years later

came out a new Israeli movie (shown in the 2006 **Sundance Festival**) which have shown a glimpse into the difficulty of being a different persona (in the case of my father it meant intellectually oriented; in the movie it was mental instability) in an egalitarian society. *Sweet Mud* is a powerful coming- of- age drama about Dvir, a 12- year- old boy on a kibbutz in the 1970s with a psychologically unstable mother, and how the seemingly progressive kibbutz lifestyle is unable to deal with her illness and Dvir's dedication to her. The film addresses the conflict between individual freedom and collective constraints as defined by the kibbutz ethics, a conflict which Saul (“Shaul”, in Hebrew) understands well from his days at Kibbutz Kissufim in the Negev. I do not believe in a movie type of “John Wayne individualism” where people pull themselves up by their own bootstraps, as is written in fairy tales. The coincidence that made me, eventually, a successful man of the economics science, had to do with the remarkable opportunities that modern global world offers to so many , and increased number of people, of many backgrounds. Imagine in my case what would have been my career without the benefits I received from winning a fellowship from the University of Chicago, so far away from Kibbutz Shamir where I grew up and lived up to the age of 25 years old ?

### **From the Hebrew University to the University of Chicago**

To minimize “defection” from the a collectivistic community, like the Kibbutz, it chooses not to endow the children with labor- market skills. This is what I came to understand much later in life, when I wrote my recent scholarly books. The social-economic mechanism works through the narrowing of the selection topics, absent of exams to motivate skill-acquisition, etc. Kibbutz parents, bound by the collective rules, tend to endow their children with good skills to help maintain the kibbutz economy; but with relatively poor skills for the labor markets outside of the collective. Furthermore, the kibbutz system excluded itself from the national education system, including the national set of exams which are the pre-requisite for university admission. The community obviously cannot directly control whether a child who later become grown up and free to leave the community. This creates an *incentive problem* between the parents, their children, and the community. While the parents and the community cannot directly influence children’s decisions, they do control the amount of schooling provided for their children, and thus may be able to limit their children’s future choices by erecting barriers on leaving the community.

Indeed, I am the only member of my high school class that was able to go to a university. I recently met Uzi Tsur, a classmate from Shamir (indeed the first-born child of the Kibbutz! Later on, he became the architect of the very successful business of the kibbutz). He reminded me that he was frustrated by the fact that I was

finishing doing home works in school much before anybody in my class. I was thinking that even if it was true, so few home works were assigned, no exam ever were performed that this is not an evidence for good scholarship. I did remain a member of the Kibbutz, after my army service and long hospitalization, when I attended college in Israel. The nature of my college specialization had to be a coordinated collective decision by the Kibbutz and myself. We reached an acceptable compromise that I will be specializing in agriculture, which I pursued at the Faculty of Agriculture of the Hebrew University. However, during my second year in college I became fascinated with economics. As my good friend, Elhanan Helpman said: “You always talk about social problems when you are young. With economics, one can attempt to think in a systematic and somewhat formal way about social problems.” I felt exactly like this. However, I realized that I have to study economics as rigorously as I could. I became also majored in economics. I then commuted every day from Rehovoth to the Tel Aviv branch of the Economics Department of the Hebrew University, which later on became the Department of Economics of Tel Aviv University. I still remember my great teacher in Introductory Economics, Yoram Ben- Porath (the President of the Hebrew University killed at a young age in a traffic accident near Eilat). At the same time in Rehovoth, I became a student of Yair Mundlak, who was influential in my decision at a later stage to apply to graduate studies at the University of Chicago. Among members of the Rehovoth class, I was one of the few to pursue an academic career. However, some of my classmate became very successful in the private business sector (one of them, Israel (Lally) Makov, has been the former CEO of Teva pharmaceuticals, a largest Israeli multinational).

At this stage important stage of my life, I married Shula Hachlilli (from Kibbutz Ein Hachoresheh). We returned to Kibbutz Shamir. We have been together ever since and we have by now “tones” of common memories and a few very good friends.

I had a position as a senior economist in the regional office of the Ministry of Agriculture. We had our first child Ofer (better pronounced in English as Ofair). He lived a relatively short life and died at the young age of 30 from a progressive form of multiple sclerosis. This remarkable person was able to go through the military service, as an officer, and the very demanding academic education while fighting day by day a progressive form of Multiple Sclerosis that eventually led to his premature death. He was awarded a Ph. D. in economics from the Department of Economics in Georgetown University in 1996. (Susan Collins, his adviser, is a well known international economics professor, currently the Dean of the School of Public Policy, in the University of Michigan.)

My parents refused to swallow the “bitter pill” of my leaving the Kibbutz and going to a premier school in the USA. They looked at it like a defection. Their *idée fixe* is the superiority of life in a Kibbutz system, over the capitalistic world around them. They were brought up to despise the American system. . They were also under tremendous pressure by their peer group in the Kibbutz. My leaving the Kibbutz undermined their standing in the Kibbutz. In a communal system like the Kibbutz, where there are no financial rewards to individuals, respect from your peers is the most important reward; “punishment” of being pushed out from the consensus is devastating. My parents stopped any meaningful contacts with Shula, my wife, Ofer, my 6-month son, and me for a few years. Our close relations were gradually restored after 4 years, when we returned to Israel. The tension around our leaving the Kibbutz was very visibly painful to my mother, obviously. If it were to be her choice, she would have not severed the relationship in the first case. However, my father was torn between two conflicting forces, his standing among his colleagues in the Kibbutz (and the ability to function in the Kibbutz if a member deviates from the consensus) and his private feeling towards us. The break in our relationship has never completely mended. I grew up in the generation of the most acclaimed Israeli novelists Amos Oz and Abraham B. Yehoshua (born a bit before me, in the 1930's; I also read with great interest a young novelist, Amir Gutfroind), whom I greatly admire. They, like me, experienced the height of the kibbutz movement, the post- World War II immigration to Israel and the heady years that followed Israel's creation. They wrote critically about the suffocating environment of the “reut “(meaning kinship)” system, where individual aspirations were sanctioned. The founding ethos were dedication to the group, whether the kibbutz, the military, or the labor movement. From my parents’ perspective, when I planned to move up to graduate studies in economics at the University of Chicago I was departing from the ethos. It was a bitter pill for them to swallow. Because, they were disappointed that I did not follow their ideology based way of life. It was also a setback to them since it reduced their stature among their peer group in the Kibbutz. In the absence of any pecuniary incentives in the Kibbutz system, the respect and trust among you peers, a substitute to pecuniary incentives, was highly important. I begun graduate school in the University of Chicago in the fall of 1966, with my wife and our 6-month-old son, ofer. Our plan was to live on a relatively small fellowship from the University of Chicago (about \$1, 500. 00 a quarter, in 1966 dollars), and no other source of support. The year 1967, my first year as a graduate student at the University of Chicago, was tough for me —trying to establish good record and pass the demanding “core exam” (the device used for screening first- year graduate students at the University of Chicago at the time) by the end of the year. End of the year came with an unexpected war in Israel. Luckily it was short and I could go back to prepare for the Core Exam; the main screening device used in Chicago at the end of the first year.



(The Six Day War was fought in 1967 between [Israel](#) on one side and [Egypt](#), [Jordan](#) and [Syria](#) on the other side. From its beginning to the end, the war lasted 132 hours and 30 minutes (less than 6 days). However, the duration was shorter on 2 of the 3 fronts: on the Egyptian side only 4 days and on the Jordanian side only 3 days. It was only on the Syrian side that the war had lasted the whole 6 days. In Israel and the West the war is called the

Six Day War. In the Arab world, it is known as the June War, or simply as "the Setback." Never has a conflict so short, unforeseen and largely unwanted by both sides so transformed the world. The Yom Kippur War in 1973, the wars in Lebanon in 1982 and 2006, the Camp David accord with Egypt in 1981, the Camp David Accords with the Palestinians in 1993, and the one that had not been reached in 2000, the controversy over Jerusalem and Jewish settlements in the West Bank, the Palestinian- initiated turmoil ("*intifada*"), *in 1987 and in 2000*, and the rise of Palestinian terror: all are part of the outcome of those six days of the intense Arab-Israeli fighting in the summer of 1967.)

As a reminder, a few words about the University of Chicago. The University has been an intellectual center in economics. Since 1969, when the Nobel Prize in economic sciences was first awarded, twenty- two recipients of that prize have been faculty, students, or researchers in the Department of Economics, Law School, or Graduate School of Business (GSB) at the University of Chicago, including Milton Friedman and George Stigler. Four Nobel laureates are currently members of the department: Gary S. Becker, Robert W Fogel, Robert E. Lucas, Jr., and James J. Heckman. In addition, four of the six recipients of the American Economic Association's Walker Medal were members of the faculty (J. M. Clark, F. H. Knight, Jacob Viner, in addition, T. W. Schultz). The John Bates Clark Medal, awarded for the most promising US economist under the age of 41, has been awarded to five Chicago economists: Milton Friedman, Gary S. Becker, James J. Heckman, Steven Levitt, and Kevin M. Murphy. Since World War II, the department has had, relative to its size, a larger number of faculty than any other serving as presidents of the American Economic Association.

In 1966, Chicago was a completely new for me, in way of life, social interactions, leaving as a family with a young infant, etc. The tallest buildings in Chicago, which is now known for its special high- rise architecture, in the 1960s, before Sears Tower and McCormick Tower changed the city's landscape, were only few buildings: Marina City and Prudential Building, in the Chicago Loop. The South Shore, where I rented my first apartment in Chicago, immediately after I arrived there on August 1966, looked like a neighborhood the has undergone a

radical demographic change, with old 4- 5 story buildings. I did stay in the South Shore during the record winter snowstorm of 1967, and had trouble to commute to the University. The better time in Chicago is between May and September, when Chicagoans do their best to forget the harsh winters and the tornado season in the summer. Then, the lakefront comes alive with free concerts, events and activities. I moved to the University of Chicago graduate student housing, in the “Fairfax” building on Hyde Park-- on the 51 st street and Dorchester street in the Summer of 1967. There, my oldest son, Ofer, went to kindergarten in Mount Sinai Temple, 53rd Street and Lake Shore Drive in *Hyde Park*. My second son, Ronny, was born in the Michael Rees hospital on 2929 S Ellis Ave, near the Lake Shore Drive.

In the fall of 1966, I am in a new stage of my life, which turned out to be transformational, as a graduate student in the University of Chicago. At the University things were much different, as one may expects. I found, as many people did before me, that the interactions among bright and motivated classmates in a graduate school is extremely important for transforming an ordinary economist into a scholar, who is able to carry out state- of- the- arts research. Many of my classmates at the University of Chicago later became well known academic economists. Among them: Michael Mussa (former chief economist of the IMF), Rudiger Dornbusch (one of the most important international economist of his generation; died at a relatively young age), Jacob Frenkel (a former chief economist of the IMF and a former Governor of the Bank of Israel), Rachel McCulloch (Brandeis University, died recently), Doug Purvis (who died a few years ago, in a ski accident), and Claudia Goldin (Harvard University). The most influential among my classmate was Rudi Dornbusch. His flair for disputation never moderated. Stanley Fischer says that Rudi took as his maxim a statement of Keynes: “Words ought to be a little wild, for they are the assault of thoughts on the unthinking.” Thank heavens, Rudi was indeed a little wild. University of Chicago was at that time one of the leading institutions in the world. For a young student in economics, these years provided heady interactions with the giants of the profession: Milton Friedman, Robert Mundell, Hirofumi Uzawa, and George Stigler. The experience also instilled in me a first rooted ness in the academic world and the state of the art research issues that served me well throughout my academic career. I had an opportunity to indulge in my love of theory and my engagement in the live policy questions affecting social welfare. Members of the Chicago faculty: Hiro Uzawa, Harry Johnson, Bob Mundell (Noble prize winner), Al Harberger, Zvi Griliches, Milton Friedman (Nobel Prize Winner), Frank Knight, T. W. Schultz (Nobel Prize Winner), Robert Fogel (Nobel Prize Winner), George Stigler (Nobel Prize Winner), Lloyd Metzler, and Henry Theil. However, the Nobel Prize in economics did not existed yet when I started graduate

school in Chicago at the end of 1966. As for Milton Friedman, who died in 2006, at an old age of 94, his politics may have generated public controversy, but his scientific contributions yielded a consensus of admiration among his professional colleagues. When students today are taught about the determinants of consumer spending, the history of monetary policy, or the relationship between inflation and unemployment, they owe much to the intellectual legacy of Milton Friedman. I still remember the graduate economics course he gave in 1967 that was later the basis of Friedman's AEA presidential address, in which he demonstrated how short-termism is the inflation- output tradeoff if market participants internalize future inflation and wage expectations into the wage and price contracts. I felt that I am witnessing a breakthrough in economics thinking of this much-debated issue. By the way, of an anecdote, Milton Friedman visited Israel in the late 1970s, and had a meeting with Rabbi Shlomo Lorenz, the head of the Knesset finance committee. The Rabbi asked Milton Friedman whether he could compactly give the essence of the economics paradigm in one sentence as Rabbi Hillel did 2000 years ago.

[One famous account in the Talmud (Shabbat 31a) tells about a gentile who wanted to convert to Judaism. This happened not infrequently, and this individual stated that he would accept Judaism only if a rabbi would teach him the entire Torah while he, the prospective convert, stood on one foot. First he went to Shammai, who, insulted by this ridiculous request, threw him out of the house. The man did not give up and went to Hillel. This gentle sage accepted the challenge, and said that he would convert to Judaism if Hillel could teach him the whole of the Torah in the time he could balance on one leg. Hillel replied... "What is hateful to yourself, do not do to your neighbor. That is the whole Torah; the rest is just commentary. Go and study it."]. Like Rabbi Hillel, Milton Friedman can explain what you need to know about economics while standing on one foot; the rest is commentary. Indeed, Milton Friedman replied to Rabbi Lorenz with what he is always famous for saying: "there is no such thing as a free lunch; the rest is commentary."

Zvi Griliches, without a single year in high school enrolled as a freshman in the Faculty of Humanities in the Hebrew University, at the end of Israel War of independence. Born in Lithuania, Griliches was a holocaust survivor who lost his parents in the Dachau concentration camp. Following the liberation of the camp in 1945, Griliches was sent to a British internment camp where he taught himself to read English. After the war Griliches spent two years in Munich, joining a Zionist youth group, *Hashomer Hatzair*, and ultimately sailing by illegal ship to Palestine, where he was captured by the British and interned on Cyprus for seven months. He arrived in Palestine in September 1947 and served briefly in the pre- state Israeli army. He quickly learned Hebrew, worked on a kibbutz, and prepared himself for the Bagrut, the national high school equivalency exam. "I spent about six months trying to catch up on the 10 years of school that I had missed," he explained. He enrolled for a year in the Hebrew University of Jerusalem as a student in history. Griliches' sister and uncle also survived the war, and immigrated to the United States. Zvi received a fellowship as an undergraduate student in

agriculture in Berkeley, which did not require high school credentials. Shortly after entering the Hebrew University Zvi, was accepted to Berkeley, to study agricultural economics, what he called “useful economics”. Zvi graduated from Berkeley. A nice story about this straight A student is this. When Zvi's adviser at Berkeley gave him the only B grade in Zvi's entire record (as I said, he was a straight A student), Zvi came to the office to raise an issue, because it may downgrade his applications to graduate schools. The adviser replied that that this B grade is good: “Well, this would make your record appear more human like”. Indeed, after a re-check and second thought the grade was restored to an A. Zvi entered the graduate program in economics at the University of Chicago in 1954, and from there on it was a meteoric rise. He completed his Ph. D. in 1957 (the legendary hybrid corn work, which catapulted him into fame), and joined the faculty at Chicago, soon becoming one of the leading applied econometricians in the US. He did very well in graduate studies at the University of Chicago where he wrote an amazing dissertation on the “Diffusion of Hybrid Corn Technology”. He almost immediately became an academic super star, and was awarded the John Bates Clark Medal in 1965, at the age of 35 (significantly, the John Bates Clark Medal is given every two years to the best economist under the age of 40; Paul Samuelson, Milton Friedman, James Heckman, Paul Krugman and others received the medal. It served as a predictor of winning Nobel in economics a few decades later. Some of us in the profession were critical of the Nobel- prize committee for not awarding him the prize.) Zvi died prematurely; never awarded the Nobel Prize.

Zvi and I had two things in common: we both were handicapped by the lack of formal schooling before college, and we both turned into the economics profession through college- level agriculture. I did it because this was the only university field that the Kibbutz ok-ed; he did it because Berkeley admitted also students without formal high school degree.

In a looser sense, the term “Chicago School” was associated with a methodology which is relatively averse to general equilibrium reasoning in favor of more economics intuition obtained from partial equilibrium analysis. The “Chicago School” has had various phases with quite different characteristics. In the 1960s, it was dominated by the monetarist approach. During my student period of 1966- 69, the adherence to neo- classical economics meant that you should be critical of the Keynesian economics’ ad- hockery. Evidently, the Keynesian approach to crises that are triggered in the financial sector (to be distinguished from business cycles that are associated with technology shocks) has been vindicated in the 2008- 2010 global crisis. However, other aspects of the Keynesian model were successfully challenged at the time I attended the University of Chicago.

Importantly, the Chicago approach emphasized the role of expectations' dynamics in macroeconomics. I was especially fascinated by Milton Friedman's course "money and national income" (he always disliked the term, coined by Bent Hansen, "macroeconomics"), where he taught us the remarkable ideas of what later became his 1968 AEA presidential address on the expectations- augmenting Phillips Curve. In his survey, Malcolm Rutherford describes the leadership position Milton Friedman took in Chicago like this: "The key to the development and eventual dominance of the 'Chicago View'" in the post World War II period was the uniting of Milton Friedman, George Stigler, and Kenneth Wallis on the Chicago faculty. Friedman took the leadership in promoting the Chicago View, particularly in his price theory course, his work on macroeconomic and monetary economics, and his methodological viewpoint. Friedman's main targets were Keynesian economics, the work of those associated with Cowles [a pre- eminent theory group that produced some of the best theory work in the 1950s], and the imperfect competition theories. Unlike Frank Knight [the best research persona in the first Chicago School], both Friedman and Stigler undertook considerable amounts of empirical work. The empirical orientation of Friedman and Stigler can be seen especially strongly in their early connections with the National Bureau of Economic Research [known as the NBER, with whom I have been associated since the early 1980s]. Friedman's contact with the NBER began in 1937 when took over Simon Kuznets' study of professional income. Later, at Arthur Burns' urging, he took on the study of the monetary aspects of the business cycle, which resulted in Friedman and Schwartz's *Monetary History* (1963). The Nobel Prize winner, Bob Lucas, who entered Chicago 6 years ahead of me, describes his experience, as follows. "Friedman's class was not devoted to training us in technical nuts and bolts of economics. He assumed that we had already been through this, or would do so later, and focused instead on the use of economic theory in thinking about substantive questions of all kinds. He focused directly and intently on the one student he was engaged with at the moment, never playing to the gallery."

Hirofumi Uzawa, the distinguished economic growth theory scholar (whom Kenneth Arrow brought to Stanford as a young Japanese mathematician with no background in economics) had the greatest influence on my research at the early stage. The summer after my first year as a graduate student was one of the most exciting. Hirofumi Uzawa received an NSF grant to bring around a dozen graduate students from around the country to work together on growth theory. Hirofumi Uzawa is well known to macroeconomists for his seminal contribution to endogenous growth. In his article in the 1965 IER, productivity permanently increases as the result of persistent accumulation of human capital. Uzawa was thus a first mover in the new growth theory. The symbol H (for Human Capital, or for Hiro?) is today everywhere in models of economic dynamics.

My Ph. D. dissertation has been an (and the first one) application to market economy of Hiro's human capital optimal growth theory. Hiro (shortening Hirofumi) has had many successful students and mentees. A very incomplete list of the others would also include Dave Cass, Steve Goldman, Harl Ryder, Hajime Oniki, Bob Lucas, George Akerlof, Joe Stiglitz, Miguel Sidrauski, Morris Teubal, myself, Guillermo Calvo, Bill Ethier, and Lenny Mirman. Hiro is widely recognized and revered in Japan. He was elected to the very selective Japan Academy in 1989 at a remarkably young age. He was named as "A Person of Cultural Merit" in 1983 and elected to the Order of Culture in 1997.

I started to develop the paper at the 1967 summer camp.<sup>1</sup> This summer camp, the 1967 MSSB-NSF sponsored

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<sup>1</sup> From Macroeconomic Dynamics Survey: Endogenous Growth Theory and Models: the "First Wave", 1952–1973 Stephen E. Spear and Warren Young:

The 1967 Chicago summer seminar was characterized by the fact that Uzawa did not actively participated the beginning of the period, as he was obliged to be in Japan that time, and thus the seminar was led, until his return, by his former Chicago Ph.D. student, Sidrauski, who was then an assistant professor at MIT. Graduate students included Calvo, Ethier, Mirman, Narayanan, Nissen, Onitsuka, Razin, and Rhee, and comprised the most diverse group of participants in the seminar's brief history. The group included Ph.D. students from Chicago, Yale, Berkeley, Rochester, and even the University of Kansas (Cutler, MSSB Projects Summary Report, July 12, 1973).

Razin's contributions and recollections are most relevant here. He was a Chicago Ph.D. student of Uzawa's, and a member of the 1967 Chicago summer seminar. In a review essay, he recalled (2008, 132): Theories that explain endogenous technological change were known as early as [the] 1960s. Arrow's (1962) model of learning by doing, Uzawa's (1965) model of human capital driven productivity improvements, and Shell's (1967) model of inventive technological activity. These models are part of the "First Wave" of the literature on [endogenous] economic growth... I contributed to developing the theory of the effect of accumulation human capital, in addition to the accumulation of physical capital, on growth, in my doctoral thesis from 1969 [chapters from which were published in RES (1972a), and Metroeconomica (1972b)].... I noticed that in Uzawa's model private and social returns coincide and applied the Uzawa model to the competitive economy. Years later this theory was extended by Lucas (1988). Interestingly enough, Razin's RES paper "Optimum investment in human capital" (1972a) was first presented in September 1970 at the Second World Econometric Society Congress under the title "The optimum rate of investment in human capital" at the session "Education" chaired by Phelps [Program, Econometrica 1971,23]. Moreover, as Razin recalled (communication 19 November 2015) regarding his 1967 paper and 1969 dissertation: "Actually the dissertation was split into a 'normative' version, later published in RES (1972a) and the market-based version, later published in Metroeconomica (1972b), then a theory journal". In another recent recollection, Razin first wrote (communication 20 November 2015) that: " Uzawa is well known...for his seminal contribution to endogenous growth. In his article in the 1965 IER, productivity permanently increases as the result of permanent accumulation of human capital. Uzawa was thus a first mover in the new growth theory". He continued: "My Ph.D. dissertation ["Investment in Human Capital and Economic Growth: a theoretical study", University of Chicago, June 1969] has been an (and the first) application to the market economy of Hiro's [Uzawa's] human capital optimal growth theory". Because of its importance for our 16 narrative, we present Razin's further recollections in detail below (communication 20 November 2015): I started to develop the paper at the 1967 summer camp. This summer camp, the 1967 MSSB-NSF sponsored Chicago seminar was led by Uzawa. The student group was: Burton, Calvo, Ethier, Marvy, Mirman, Narayanan, Nissen, Onitsuka, Rhee, Smith, Tsushima and me. Miguel Sidrauski was asked by Uzawa to be in charge. Uzawa was absent most of the time since he began his move from

Chicago seminar was led by Uzawa. The student group was Burton, Calvo (Yale), Ethier (Rochester), Marvy (Texas), and Mirman (Rochester). Miguel Narayanan, Nissen, Onitsuka (Chicago), Rhee, Smith, Tsushima (Yale) and me. There I interacted with several bright young students that were working on innovative research projects Hiro was stranded in Japan. Uzawa was absent most of the time since he began his move from Chicago to Tokyo. He asked Miguel Sidrauski (his former student, and then the young star from MIT, who died from cancer less than two years afterwards) to lead the “Summer Camp”. Students, the Miguel, our leader, and we were highly interactive. It was an exciting first experience of an interaction within a research group. I started to develop a paper on human capital and economic growth, following an influential paper by Hiro Uzawa, which demonstrates how a centrally planned economy can efficiently affect growth through the allocation of the economy’s resources between a sector that produces know how and other productive sectors. In my paper, which turned out to be my PhD Dissertation (1969), I applied these ideas to a de-centralized, market-based, equilibrium model of an economy, which accumulates human capital and physical capital. I noted, “Economists have long noticed that people play an important role in the process of production, and in return they are rewarded by an amount which constitutes the largest fraction of income.” I guess I heard it from T. W.

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Chicago to Tokyo. There I interacted with several bright young students that were working on cutting edge research projects: Lenny Mirman (Rochester), Bill Ethier (Rochester), Guillermo Calvo (Yale). Hiro got stranded in Japan. He asked Miguel Sidrauski (his former student, and then the young star from MIT, who died from cancer less than two years afterwards) to lead the “Summer Camp”. We, the students, and Miguel, our leader, were highly interactive. It was an exciting first experience of an interaction within a research group. I started to develop a paper on human capital and economic growth, following an influential paper by Hiro Uzawa, which demonstrates how a centrally planned economy can efficiently affect growth through the allocation of the economy’s resources between a sector that produces know how and other productive sectors. In my paper which turned out to be my Ph.D. Dissertation (1969), I applied these ideas to decentralized, market-based, equilibrium model of an economy which accumulates human capital and physical capital. I noted that “economists have long noticed that people play an important role in the process of production, and in return they are rewarded by an amount which constitutes the largest fraction of income.” I guess I heard it from T. W. Schultz. In my model the accumulation of human capital is the driving force behind a permanent rate of increase in income per capita. This feature was dubbed in the 1980s as endogenous growth. I presented an unfinished paper on human capital accumulation and economic growth at a 1967 conference [the November 1967 Uzawa Chicago Conference on Growth, to be discussed below; see JPE (1969), 574]. The human capital-physical capital growth paradigm turned out to be important, because one stream of the Endogenous Growth Theory, decade and a half later, in the mid-1980s, grew out of another Chicago “school” that my endogenous growth model was almost identical to the Lucas` well cited paper on endogenous growth. Perhaps my contribution which appeared in print (RES,1972), when the profession got a little “tired” of what seems to have been over-occupation in the 17 theory of economic growth after over a decade of significant developments in this area [has been overlooked]. I was extremely successful in terms of visibility and citations with another early endogenous growth paper of mine (in which the endogenous population growth cum education is the driving force for a permanent rise in income per capita because parents trade off “quality for quantity” of their children in the growth model, AER 1975).

Schultz. In my model, the accumulation of human capital is the driving force behind a persistent rate of increase in income per capita. This feature was dubbed in the 1980s as endogenous growth presented a term paper. The paper featured the effect of human capital accumulation on economic growth at a 1967 conference. The human capital-physical capital growth paradigm turned out to be important, because one stream of the Endogenous Growth Theory, decade and a half later, in the mid-1980s, grew out of another influential Chicago "School"; although My contribution has not be acknowledged. Indeed, the endogenous growth model turned out to be almost identical to the Lucas' well-cited paper on endogenous growth. Perhaps my contribution which appeared in print (REStud 1972) when the profession got a little "tired" of what seems to have been over-occupation in the theory of economic growth after over a decade of significant developments in this area. I was extremely successful in terms of visibility and citations with another early endogenous growth paper of mine (in which the endogenous population growth cum education is the driving force for a permanent rise in income per capita because parents trade off "quality for Quantity" of their children in the growth model American Economic Review. 1975). There I met several bright young students that were working on innovative research projects: Lenny Mirman (Rochester), Bill Ethier (Rochester), Guillermo Calvo (Yale). Hiro was stranded in Japan. He asked Miguel Sidrauski (his former student, and then the young star from MIT, who died from cancer less than two years afterwards) to lead the "Summer Camp". We, the students, and Miguel, our leader, were highly interactive. It was an exciting first experience of an interaction within a research group. (The particular style of Uzawa, which followed the great tradition of Robert Solow - simple and concrete models, was directed at answering well-defined questions. Styles of the economics taught in most of the universities were quite different. The abstract general equilibrium models, either for which Berkley was then noted, or the simpler partial equilibrium models for which Chicago (minus Uzawa) was famous.) Hiro is well known to macroeconomists for his seminal contribution to endogenous growth. In his article in the 1965 *IER*, productivity permanently increases as the result of permanent accumulation of human capital. Uzawa was thus a first mover in the new growth theory. The symbol  $H$  (for Human Capital, or for Hiro?) is today everywhere in models of economic dynamics. My Ph. D. dissertation has been an (and the first one) application to market economy of Hiro's human capital optimal growth theory. Hiro (shortening Hirofumi) has had many successful students and mentees. Your *MD* interviewers are lucky to have been among those whom Hiro has influenced profoundly. A very incomplete list of the others would also include Dave Cass, Steve Goldman, Harl Ryder, Hajime Oniki, Bob Lucas, George Akerlof, Joe Stiglitz, Miguel Sidrauski, Morris Teubal, myself, Guillermo Calvo, Bill Ethier, and Lenny Mirman. Hiro is widely recognized and revered in Japan. He was elected to the very selective Japan Academy in 1989 at a remarkably young age. He was named "A Person of



Cultural Merit” in 1983 and elected to the Order of Culture in 1997. Hiro has received significant international recognition. He was President of the Econometric Society. He is a Fellow of the Econometric Society, Member of the American Academy of Arts and Sciences, Foreign Honorary Member of the American Economic Association, and Foreign Associate of the U. S. National Academy of Sciences.

Rudiger (Rudi) Dornbusch, a classmate of mine, writes about these days in Chicago very succinctly, as he always did:” There was the “oral tradition” and there were the “workshops,” the formidable feeling for students and faculty alike of a revolution in the making. The great issue of the day was just how the economy works and what role government must play, if any and what role monetary policy must definitely not be allowed to play.”

Michael Mussa and Russ Boyer, Jacob Frenkel, Rachel Larsen (nowadays, Rachel McCulloch), Hugh McCulloch (not to be confused with the 3<sup>rd</sup> US treasury secretary who served under Abraham Lincoln), Rudi Dornbusch, Ron Hanson, Doug Purvis were graduate students together at the University of Chicago from 1966 to 1971 (I stayed in Chicago from 1966- 1969). Much of the interaction of the international economics students took place in the International Economics Workshop; which was organized by Harry Johnson and Robert Mundell. These persons were the leading international economists in the world, at the time. The leading international economics model was the Mundell- Fleming model. [many years later, I contributed to transform the Mundell- Fleming view of international macroeconomics to micro- based inter- temporal view!] My classmate Russ Boyer told me "the first time I heard Fleming’s name was from Jacob Frenkel in 1969 in the corridor outside the seminar room in which the workshop met each Monday. The name came up in the context of a discussion of Richard Cooper’s (1969) newly published volume of readings, International Finance". In those days there were only very few readings books. They were indispensable in the classroom A remarkable aspect of the volume, Jacob pointed out, was that it did not contain a single paper by Mundell. Being a well- informed student of international finance, Russ wondered about the glaring omission of Mundell’s magnum opus, “Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates” (published in 1963). To his surprise Cooper had found an alternative for that, publication in the form of a paper by Fleming (published in 1962). The hallmark feature of the Mundell- Fleming model (the name was coined by Rudi Dornbusch; the model could also be called Fleming- Mundell model) is that it incorporated into a Keynesian open economy model capital mobility. Most of my work later in the area elaborated on the role of capital mobility in the globalization era. However, Mundell research direction has been reversed after he contributed to the Mundell- Fleming model. He almost never came back to deal with the capital mobility issue. So I realize now that I have not benefited as much from the International economics seminar, which was

regarded as a launching track for the rest of my colleagues' research career. Few economists are aware of the extent of Mundell's reversal with respect to capital mobility. Russ Boyer observes: "In his capital mobility paper, Mundell writes that the assumption of perfect capital mobility has the merit of posing a stereotype toward which international financial relations seem to be heading". That view set the research agenda in international finance for at least 30 years. In stark contrast, Mundell's own research moved in just the opposite direction; he assumed thereafter that the economy under analysis was in a situation of zero capital mobility." Such an assumption is made in his analysis of growth and the balance of payments, which laid the groundwork for the monetary approach to the balance of payments. In fact the defining feature of the international economics seminar, according to Harry Johnson, was this approach, which essentially is due to the classical treatment of fixed exchange rate without capital mobility by Hume. What about the political right wing leaning among the University of Chicago faculty? I have been all my life left off center in my political philosophy. I was obviously not keen of mixing right wing ideology and economics science. Here is what Rudi Dornbusch remembers: "Even though the ideology was patently free market economics, politics was really not to be seen. During the 1968 campus riots, the department continued lectures as if the outside world had not stopped. I remember vividly demonstrators entering Friedman's class only to be told that they were interfering with the freedom and choice to learn; moreover, not having registered they were not even free to stay quietly. In hindsight amazingly, the protesters left and our insular clique went on experiencing the quantity theory of money."

As I was leaving Chicago, I met Stan Fischer. Snippets of Stan Fischer and me:

First, go back to 1969. We both got our PhD: Stan from MIT and me from Chicago. We met when he was coming to Chicago for a post doc and I was going to Minnesota, my first academic job. We talked about two things we had in common: Israel, whom he aspired to be part of while I was growing up there and going to return to; and Miguel Sidrausky, his teacher at MIT, and my adviser in a summer camp at Chicago for US universities graduate students. I felt immediately that I met a person to my liking, from whom I can learn a lot. In addition, I did. Second. I remember the Israel economic turmoil in the 1960s. I was voicing my concerns about Israel hyperinflation and bank stocks crash, in public; after I resigned from a government post. Stan came, with Herb Stein, to do more constructive advice; and they succeed. Inflation was crashed when the political constellation (the establishment of a unity government) permitted.

Third. I in the early 1980s was invited by my classmate, Rudi Dornbusch, Stan's best collaborator and friend, to give a seminar in MIT. I was presenting my work (with Elhanan Helpman) on international trade under uncertainty. The scheduled date happened to fall on a Jewish holiday. He sent me a note in advance to remind

me that I should be sensitive to the fact that some faculty members who were invited to the seminar are of Jewish decent, ; and they be uneasy about the seminar taking place during the holiday. I did change the seminar date and I thanked Stan for alerting me for the sensitivity of the issue; I am a secular Jew and am not observing Jewish holiday in a religious manner. Two years later when Rudi invited me to the seminar, to talk about the intertemporal approach to the current account, I did not repeat the blunder. I am thankful for Stan's advice. It had helped me to conduct myself a little better.

Fourth, the 1990s. Stan is now the DMD of the IMF. I was a summer consultant there working with my friend Gian Maria Milesi Ferretti on current account reversals (notwithstanding the 4-word name, this is just one person; not two, not three). Then came the 1997 Asian Crisis and Stan is literally in the eye of the storm. I remember him cool, always analytical, when listening to my purely academic arguments. Actually, I was happy that he did not find them irrelevant. Fifth, circa 2004, Stan then a new governor of the Bank of Israel. To say that it was a pleasant surprise to us in Israel was definitely an understatement. He left a financially rewarding job in the Citi group to come to help a small, rather remote, country, which was, at the time, in the midst of the Intifada number 2: suicide-bombing occurring in the streets of Tel Aviv, or Jerusalem. However, virtually after landing from the plane, Stan gave the governor inauguration address to the nation, in Hebrew. In addition, he excels in his job. Stan has been definitely a role model for me.

During the formative years at the University of Chicago in the late 1960s, I asked myself why I had gone into economics. The answer, I gave to myself, was essentially very similar to the one the 2006 economics Noble Prize winner Ned Phelps gave: "Without being aware, I think I was being indoctrinated into what was called Vitalism, the idea that what makes life worth living, the good life, consists of accepting challenges, solving problems, discovery, personal growth, personal change. My reading of philosopher David Hume taught him "the importance of imagination in understanding things", while Henri Bergson's *Creative Evolution* argued for free will against determinism; and the Greek heroic epics, Cervantes's *Don Quixote* and Ralph Waldo Emerson argued for self-reliance."

Ronny, my son (and now the father of my grand children) was born during our last few month in Chicago. He received a Ph. D. degree in economics from Princeton University and then moved to become an assistant professor of economics at NYU. In 2005, he joined the economics department of LSE in London as a tenured faculty member. As of now, he is a full-fledged Professor there. I am so proud of his devotion to scholarship

and the way he is mustering meaningful political economics problems at the cutting edge of economic research. In our profession, as well as in others, we tend to have an established way of doing things. Often the academic establishment is hostile to new approaches. There are two major ways open for freshly minted graduates from a Ph. D program. One way is to choose topics and approaches in line with the current fashion. Accordingly, the safest route to publish (something that healthy share of the economists cannot ever do) is to do a minor extension of a published work written by an established leader. At a latter stage, when a number of publications are already secured, an attempt sometimes is made to deviate from such leader- follower track. However, many times an attempt at original work at a late stage is not working well. A second way is to stick to a research agenda independent of the current fashion. I was always attempted to follow this approach. Ronny's first three publications in leading journals (*Econometrica*, *The Journal of the European Economic Association*, *The Journal of Economic Theory* and *the American Economic Review*) deal with genuinely game-theoretic fundamental political- economic issues.

In the beginning, I have had a somewhat rocky road when attempting to do what I believed to be a meaningful research on not-yet--researched issues, as opposed to attempt research projects on well-researched topics, with methods that were in fashion at the time but the value added of the research effort was small.

Issues of human capital and growth were the subjects of my first academic work. An influential paper by Hiro Uzawa demonstrated how a centrally planned economy could efficiently affect growth through the allocation of the economy's resources between a sector that produces know how and other productive sectors. In my doctoral thesis I applied these ideas to a de- centralized, market- based, equilibrium model of an economy, which accumulates human capital and physical capital. I noted, "Economists have long noticed that people play an important role in the process of production, and in return they are rewarded by an amount which constitutes the largest fraction of income." I guess I heard it from T. W. Schultz. In my model, the accumulation of human capital is the driving force behind a *permanent* rate of increase in income per capita. This feature was dubbed in the 1980s as endogenous growth. My job- market paper went through three rounds of reviews in the leading journal, the American Economic Review. The third revision was however rejected by the editor. (I believe that growth economics was much beyond his area of expertise. For more than a decade, he served as the managing editor of the American Economic Review; which, perhaps, made him a bit prejudging and intolerant to new ideas). I decided to divide my Ph. D. Dissertation into two papers, and published them in less visible Journals than the AER. One short piece went to the Review of Economic Studies. Unfortunately, the more integrative piece among the two went to Metroeconomica (a respectable outlet for research in economic theory

at the time, which unfortunately sunk into complete obscurity afterwards). These papers turned out to be important, because one stream of the Endogenous Growth Theory in the 1980s grew out of another Chicago “school” that Hiro Uzawa started, and I extended in my Dissertation. However, I felt that I did not get the right credit for this fundamental contribution. Two years later, however, I was extremely successful with another early endogenous growth paper of mine (in which the endogenous population growth cum education is the driving force for a permanent rise in income per capita because parents trade off “quality for Quantity” of their children in the growth model). It was published by the American Economic Review (although with a different editor), and was recognized as the first paper in a “big industry” of papers that followed. I learned first-hand how frustrating and rewarding at the same time is the publication process in our profession, especially for young economists, as we definitely were at the time. Life may be abundant with disappointments, but it is also full of surprises.

Another example of the less-than-perfect outcome at a young age, falling short in the short run, but eventually turning into a long-lasting scientific contribution is this. In 1975, Elhanan Helpman and I a research project about international trade under conditions of uncertainty. Now there were several papers showing the basic propositions about specialization by a country according to the principle of comparative advantage in the presence of international trade that have been known since David Ricardo, break down in the presence of technological and demand uncertainty. Applying innovative ideas from finance, Elhanan Helpman and I were able to show how you can restore the basic propositions of trade and industry specialization in the presence of financial markets that enable risk sharing between countries, and which were completely ignored in the trade literature. The editor of the Journal of Political Economy (who belonged to a generation that one diagram could be used to make an economic argument, rejected our paper on the ground that the Journal is not interested in modeling per se; and what remains when the argument is stripped down worth only a note. However, when we received the letter from the editor we already wrote several important extensions and applications. Thus, we decided to write a fully-fledged book, which came out 3 years later, and made some impact. The editor happened to be Harry Johnson. At the time, he had almost a "monopoly" on accepting or rejecting papers in international economics across all-important Journals. Ironically, although Harry was then one of the most cited in the profession, he has not much cited since he died.) This is essentially a good example of distortions in the publication process arising from some “market power”. In this case, it is the "market" of submitted papers. The "power" comes from Journal editing. Economists often tend to criticize market power in when they play the role of policy advisers but not when such a distortion involves themselves. The paper eventually appeared in the

Review of Economic Studies. However, by the time the paper appeared we already developed many more ideas that warranted a book. This book would not have been written if the journal publication process were to be smooth. The book turned out to be a gem. It is very rewarding to see that now days, when the real business cycle approach spread into international finance, that the basic notions that we analyzed in our book are resurfacing in the research of new Ph. D dissertations. However, it is a bit frustrating that many times the young economists never heard of the Helpman- Razin work because they do not read the literature carefully, except what they were exposed to in the graduate school. An anecdote comes to mind. In the book, we developed the first truly dynamic general- equilibrium model of the stock markets. The book appeared in 1978. Very few read the entire book and therefore missed the last chapter. Three years later Bob Lucas independently developed a similar model in the journal Econometrica. It attracted tremendous attention by the profession and the young guys in the profession referred to the stock market model as the “Lucas Tree Model”); although a similar model appeared earlier in our book. Today, many international economists are trying to construct dynamic models of international capital flows. Because capital flows, can in principle move in and out of a given country at the same time, there is a distinction between net capital flows and gross capital flows. Without uncertainty, domestic and foreign financial assets are perfect substitutes and therefore only net capital flows can be flushed out in the model. The existence of uncertainty permits two- way capital flows. Ours, was the first dynamic model that coherently generated capital flows; a preoccupation of current researchers.

### **Returning to Israel: Academic Appointment**

Minnesota was my first academic job. As I mentioned before, University of Chicago did not offer any rigorous course sequence in general equilibrium theory. In Minnesota I took advantage of the courses in general equilibrium theory that Hugo Sonnenschein (who at the time worked on the Walrasian Theorem that market demand functions are essentially shapeless) and Leo Hurwicz (who at the time developed single- handedly the new field of mechanism design—important to understand the difficulty of a command economy to achieve economic efficiency, as in a limited sense a market economy can). Interestingly, University of Chicago did not however had a meaningful course sequence in general equilibrium theory; taught in such a masterful way. Minnesota in those days had a remarkable faculty. The mature department leaders were Leo Hurwicz and John Chipman. With Anne Krueger (the Deputy Managing Director of the IMF in the years 2001- 2006) I have maintained a life long friendship.

There, in Minnesota, I was also greatly influenced by Tom Sargent and Neil Wallace, who, along with Bob Lucas, developed the most exciting field in macroeconomics at the time, rational- expectations macroeconomics. Greg Mankiw describes the transformation of the field of macroeconomics like this: “At the time the three new classical waves were first hitting shore in the 1970s and 1980s, one of their goals was to undermine the old Keynesian macro econometric models both as a matter of science and as a matter of engineering. The field has evolved through the efforts of two types of macroeconomist— those who understand the field as a type of engineering and those who would like it to be more of a science. Engineers are, primarily, problem- solvers. By contrast, the goal of scientists is to understand how the world works.” In Minnesota, Chris Sims then introduced elements of the new dynamic macro- econometrics into the graduate curriculum. Students were extraordinary: Andreu Mas Collé, Rob Townsend, Lars Hansen, John Roberts, Rich Kihlstrom, Salih Nefci, Matt Canzoneri, and more. With Andreu (now the academic director of Europe Research Council), who was a second year graduate student at the time he took my course on growth economics, I wrote a paper on the dynamics of growth in the presence of investment costs of adjustment. I continued to have a position in Minnesota for a few years, jointly with becoming a lecturer at the then young Department of Economics at Tel Aviv University in 1970. To these days, I still feel nostalgic about the intellectual environment in Minnesota in those days. Why did I decide to move to Tel Aviv at this early stage of my academic career? Israel was the place that my parents immigrated to at a young age, to start something new, the Kibbutz. I grew up in the Kibbutz, a border settlement in which I sharpened my commitment to contribute directly to the country. It was therefore a relatively simple decision to return to Israel as a young economist. I have never regretted this decision.

In Tel Aviv in 1973 our daughter, Einat, was born. She now has a stable job in one of the banks in Israel. We are happy about the way she matures to be an independent person who aspires to make Progress in her career.

In Tel Aviv University when I started, there was an aura of something very new. We were assembled as young economists all of whom educated in the US graduate schools. I had terrific interactions with Elisha Pazner (died at the age of 35 after a very illustrious career) and Eitan Berglas, who founded the Department of Economics at Tel Aviv University and was one of the best academic economists that contributed to public service in Israel (He died at the age of 63). Later with a new crop of brilliant economists joining the Department, I maintained

an almost life long collaboration with my best friends Elhanan Halpman and Efraim Sadka. My vitae reflect well on the extent of these remarkable scientific collaborations. About 9 years after I started my academic career I was invited by the finance minister, Simcha Ehrlich to serve as the Chief Economic Adviser to the Government of Israel and the Director of the Economic Planning Authority (Israel's equivalent to the US Council of Economic Advisers), located in the Ministry of Finance. At that time, about year and half after the "maapach" whereby a Likud right-wing party unseated the Labor party that ran the government for 29 years, since the establishment of the state; and for decades in the pre- state period. I was an activist in the "peace now" movement at the time, but the top echelon of the ministry of finance was still professional civil servants that were inherited for the old regime. Simcha Ehrlich was liberal in his political views and market oriented. He asked me to join the ministry staff, even though he was fully aware of my political views. However, he was completely inexperienced in his job and the government of Menachem Begin was extremely populist in its economic policy orientation. High inflation erupted within a few months after I took up the position of an economic adviser. I was in opposition to the policy mixture that the government adopted. Fortunately, for my integrity as an economist I left the position within 6 month. The inflation picked up to triple digit rates and stayed at the high plateau for a few years, until the radical stabilization policy the Shimon Peres, as a prime minister, implemented in 1985. This as close as I got to politics to realize that my comparative advantage is in the academia.

### **A (Short) Stint in the Israeli Government**

In 1977, the Likud Party beat the labor party and Menachem Begin formed a Likud led government. The Labor party was ousted from power because of the 1973 military debacle, rampant party corruption, and a sense of alienation of Jewish immigrants from North Africa. If I were more knowledgeable, I should have expected this turn of events. However, I did not. I heard about Begin rise to power after decades in the opposition, on the car while I was driving in lakeshore drive along Michigan Lake, from Northwestern University, where I was a visiting professor, for a presentation in a seminar at the University of Chicago. I was literally shocked, and almost caused a traffic accident. The shock effect is understandable given my left wing background. However, then things brightened, Menachem Begin the prime minister embarked on a peace initiative with Egypt. In January 1979, I was invited by Simcha Ehrlich, the finance minister to serve as the chief economic adviser (something like the chair of the Council of Economic Advisers in the US). I thought hard whether to accept the offer. I was in political opposition to the newly minted, first Likud led government in the history of Israel, after



29 years of Labor party political domination. The 18th government of Israel, from June 20, 1977 to August 5, 1981 consist of: Menahem Begin, Prime Minister; Meir Amit, Minister of Transport and communications; Aharon Abuhazeira, Minister of Religious Affairs; Zevulun Hammer, Minister of Education and Culture; Yigael Hurwitz, Minister of Trade and Industry; Ezer Weizman, Minister of Defense; Simcha Ehrlich, Minister of Finance; Gideon Patt, Minister of Construction and Housing; Eliezer Shustak, Minister of Health; Israel Katz, Minister of Labor and Welfare; Ariel Sharon, Minister of Agriculture; Shmuel Tamir, Minister of Justice; Moshe Dayan, Foreign Minister; Arie Naor, Cabinet Secretary.

Ariel (Arik) Sharon joined the Begin government as agricultural minister and set about constructing Israeli settlements in the West Bank to prevent Israel from relinquishing the territory. Had then his first cabinet office. I saw him in cabinet meeting and I formed an impression about him that turned out decades later completely wrong. He did not yet feel comfortable apparently, to speak on non-military matters. I saw him participating in cabinet discussions by reading comments that his aids wrote to him. He impressed me as one with little intellectual abilities, driven by a single mission: settling Jews in the West Bank. His comments on economic policy were at best mediocre. The fact that he read them made him looks ad lib challenged.

Then of course, his public image was that he is bully and do whatever it takes to gain power. Decades later, when he became the prime minister I had several occasions to be asked to come to his office to discuss economic policies. Personally, I found him charming, full of humor, and most importantly very attentive. He took notes while the discussion was on and at the end asked penetrating questions. Also politically, he became accepted. He was responsible to shift the right wing coalition into compromising positions, including, importantly, the unilateral withdrawal from Gaza.

I learned a lesson. Never form opinion on politicians based on superficial encounters and press images. It could be true that if Sharon were a Prime Minister, with its tremendous responsibilities, he would have never escaped the bad person image. However, in his late life he had the responsibility. He brought into the job also his intellectual brilliance and political courage. The economic crisis began to develop when the opposition “Gahal” (now “Likud”) party gained power for the first time since independence. The political upheaval in 1977, the so-called “Mahapach” (revolution), was a game changer for economic policy in Israel. The newly elected government, adopting populist macroeconomic policy, abruptly switched away from a long-running economic regime, which had been able to maintain fiscal discipline in the presence of strong external shocks

(the Yom Kippur War and the first Oil Crisis). Rudi Dornbusch (my classmate) and Sebastian Edwards, in 1989, address macroeconomic populism in Latin America, which they roughly defined as policies that are favored by a substantial part of the voting population, but which ultimately harm the majority of the population. They found that populism surfaces when the economy has endured a period of external shocks and domestic upheavals, and “a highly uneven income distribution usually presents a serious political and economic problem, providing the appeal for a radically different economic program”. In the first phase after their policies are enacted, the populists are vindicated. Growth and wages indeed rise as a combination of profligate spending and intrusive government control do expand the economy. The surging government spending and mandated wage hikes tend to produce a temporary “sugar high”, followed by a crash. Beneath the surface, however, the country’s economic potential is deteriorating. Financial disorders appear. Rather than make the hard choice of returning to principled economic oversight, the populist leader recommits to harmful policies and steers the country towards decline, capital flight, and sometimes debt crises. In all cases, write Dornbusch and Edwards, “There were disastrous effects for those groups who were supposed to be the beneficiaries of the policies”.

Monetary policy was moderately accommodative, underpinned by a fixed exchange rate regime, and shielded from capital flights by capital controls. Notwithstanding the oil price shock, inflation was low double digit.

A useful way to understand the framework within which the economic policy was conducted prior to the political regime change, and afterwards, is to think about the basic trilemma in international finance. A trilemma is a situation in which someone faces a choice among three options, each of which comes with some inevitable problems. In international finance it is cast in terms of economic regime choices. The international finance trilemma goes back to the classical works of Flemming (1962), and Mundell (1963). For a balance of payments crisis model in the trilemma regime-switch framework In international finance, the trilemma stems

from the fact that, in almost every country, economic policy makers would like to achieve the following goals: First, make the country's economy open to international capital flows, because by doing so, the country's policymakers enable foreign investors to diversify their portfolios overseas and achieve risk sharing. The country also benefits from the expertise brought to the country by foreign investors. Second, use monetary policy as a tool to help stabilize inflation, output, and the financial sector in the economy. This is achieved as the central bank can increase the money supply, reduce interest rates when the economy is depressed, diminish the rate of money growth, and raise interest rates when it is overheated. Moreover, the central bank can serve as a lender of last resort in case of financial panic. Third, maintain stability of the exchange rate. This is because a volatile exchange rate, driven at times by speculation, can be a source of broader financial volatility and makes it harder for households and businesses to trade in the world economy and for investors to be able to plan.

The problem, however, is that a country can only achieve two of these three goals. In order to maintain a fixed exchange rate and capital mobility, the central bank loses its ability to control the interest rate or equivalently the monetary base—its policy instruments—as the interest rate is anchored to the world interest rate by interest rate parity, and the monetary base is automatically adjusted. This is the case of individual members of the European Monetary Union (EMU) In order to keep control over the interest rate or equivalently the money supply, the central bank has to let the exchange rate float freely, as in the case of the United States. If the central bank wishes to maintain both exchange rate stability and control over the monetary policy, the only way to do it is by imposing capital controls, as in the case of China.

Following the 1977 political change, the economic regime switched from pegged exchange rate, capital controls and fiscal discipline to loosely managed exchange rate, relaxed controls on outgoing capital flows, and fiscal laxness. Right from the beginning, the new government lifted some capital controls without putting safeguards in place; that is, no prudent financial and banking regulatory measures existed. Intensive shifts in demand and supply for foreign exchange followed almost instantly. Key to the steady increase in inflation, the new

populistic government also embarked on an uncontrolled path of fiscal expansion facilitated by monetary accommodation. Exchange rate and capital flow fluctuations called for the Bank of Israel to intervene occasionally, at first, and significantly later, in the foreign exchange market on a day-to-day basis to smooth out these fluctuations. A massive wave of capital flight over a few years caused a rapid depletion of the stock of international reserves, which weakened the Bank of Israel's ability to intervene in the foreign exchange market. Pursuant to the open economy trilemma is the assertion that a fixed exchange rate regime and perfect capital mobility must erode the ability of the central bank to stabilize employment and price fluctuations. As such, Israel lost control over inflation. Lax safeguards brought stock market crashes. The lesson learned from the first-generation currency crisis literature is that such an inconsistent set of policies quickly becomes unsustainable; leading to massive speculative attacks on international reserves, followed rounds of financial and stock market crashes.

A severe economic crisis started to develop when the opposition party, Gahal (now Likkud), gained power for the first time since independence. The political upheaval in 1977, the so-called *Maapach*, was a game changer for economic policy in Israel. The newly elected government abruptly switched away from a long-running economic regime, which had been able to maintain fiscal discipline in the presence of strong external shocks (the Yom Kippur War and the first oil crisis). Monetary policy was moderately accommodative, underpinned by a fixed exchange rate regime and shielded from capital flights by capital controls. Notwithstanding the oil price shock, inflation was in the low double digits. Menachem Begin surprised everybody by initiating peace talks with Egypt. This made him "kosher" in my view. The top civil service at the government, inherited from previous governments, was at that time extremely competent. The top two persons in the Finance Ministry, Amiram Sivan, the Director General, and Eitan Berglas, The Director of the Budget, who was a colleague and friend, were regarded as the most qualified persons. It looked to me a good opportunity to shape up economic policies. I accepted the offer with great enthusiasm. Indeed, as soon as I started I found easy access to policy makers, and I was frequently invited to cabinet meetings. I regard as my chief achievement in this short position

the fact that I was able to get a cabinet decision, which ended decades of a practice whereby government loans were given to the private sector development projects un-indexed, notwithstanding the permanent inflation that was taking place. There were two huge problems with this practice: (1) new investments in development projects were subsidized on a random basis; according to how the inflation turns out to be; and (2) the current huge stock of private sector accumulated private sector debt to the government was shrinking. This meant a big government fiscal deficit and a huge gift to business. (I remember that I designed the new policy with the aid of a then young economist at the treasury, Aharon Fogel, who in the 2010s was the chairman of the boards of Migdal Insurance Company and Ness Technologies; very successful enterprises). I regard the policy as the pinnacle of my short stint in Begin government. Especially significant development-loans is the achievement, in my mind; because Begin as the prime minister had been a Latin- American style populist leader on almost every economics matters!. In addition, here I am, almost single- handedly, able to lead Begin and his Cabinet, to change course; against a very strong business lobby. (You cannot take from Begin, of course, what Anwar Sadat and Him were able to achieve on a more important front: the historic peace treaty between Israel and Egypt). However, as a month or two elapsed I realized that a big problem started to emerge: a quick entry to hyperinflation stage, unless some budget and monetary policies are enacted quickly. Israel's inflation accelerated in the 1970s, rising steadily from 13% in 1971 to 111% in 1979. Some of this higher inflation was "imported" from the world economy, instigated by extreme oil price rises in 1973 and 1979. Inflation kept gathering pace. From 133% in 1980, it leaped to 191% in 1983 and then to 445% in 1984, threatening to become a four-digit figure within a year or two. After several failed efforts, the successful phase of the stabilization of the Israeli economy began with the heterodox program introduced in July 1985. The initial success of the stabilization program included a decrease in inflation, from 445 percent in 1984 to 185 percent in 1985 and 20 percent in 1986. There was also an increase in real economic activity, with the annual growth in business sector product per capita rising from 0.4 percent in 1984 to 4.3 percent in 1985 and 3.6 percent in 1986. But, in the second-half of 1987, the economy slid into recession, an after-shock event. Inflation however did not converge to advanced countries' inflation.

The populist Menachem Begin was not interested in economics at all. He was not the one to lead a radical anti inflation policy package. Indeed, Simcha Ehrlich, the finance minister, even did not try to push for any such package. I left the government position after I went public with my warnings. The rest, the big hyperinflation that lasted until 1985, is, as they say, a history. The experience did solidify my determination to stay out of politics, forever. Upton Sinclair pointed out that it is hard to get a man to understand something when his salary

depends on his not understanding it. It is likewise hard to get a politician to understand something if his image among his constituency depends on not understanding it. Indeed, I found out during this intensive but short experience in public life that my own integrity is at danger if I stay in public office. I knew that such integrity is to be kept if I return to academia. In addition, I enjoyed life in the academia so much more. I have never regretted the way I conducted myself in this short episode.

Based on my experience in policy-making I continued to provide public commentaries (in newspapers, radio and television) on Israel economic affairs for at least three decades after my return to academia. I did fill a void, because at the time, there were very few independent voices who can criticize the government policies from a non-political vantage point. Especially vocal I was during the high inflation episode (see the book I edited, *Calcelanim al Calcala*).

Following this experience, I occupied temporarily some academic administration positions. I was the Dean of the faculty of social sciences in the early 1990s and the deputy provost of Tel Aviv University in the early 1990s. You could speculate that in these positions I suffered from my lack of interest in marketing myself to the Academic “constituency” and doing the necessary quid pro quo deals with deans, provost and president; Although I had some management skills and a clear reform agenda. Over all, though, I was never in my element in these positions. I am happy that I did not get absorbed into the world of some power, but very little intellectual challenge.

I thought a lot what amounts to a success, and what counts as a failure in my own life. As John Kay remarked, “The survivor in any Bureaucracy, private or public, is not the person who gets things right – rarely a popular figure – but the one who attaches himself to success and distances himself from failure. In the clumsy hands of Gordon Brown, UK prime minister, this behavior is so transparent as to be almost comical. Nevertheless, Alan Greenspan, former chair of the US Federal Reserve, deserved the label “maestro” for the skill with which he deployed this strategy for two decades. Like Napoleon, “he did nothing harmful to the progress of the battle, he inclined to the most reasonable opinions, he made no confusion, did not contradict himself, did not get frightened or run away from the field of battle, but with his great tact and military experience carried out his role of appearing to command, calmly and with dignity”. But, just as Napoleon’s run of victories ended at Borodino, Mr Greenspan’s ran out in the credit crunch.”

In academia, however you can better trace out the individual achievements. I am glad that I was inspired to persist in my academic career, given the many of the twists and turns that happened to me.

## **Tragedy, Memories, and Memorials**

Throughout life, we inevitably suffer losses. That is true for most of us. Many can gently let go of what they have lost and develop new passions to replace their losses. However, it is never easy. Personal tragedy struck again, and it turned over the years to be devastating. My oldest son, Ofer, was diagnosed with (progressive) multiple sclerosis (MS) at the young age of 21. Even now, the medical establishment does not know how people contract MS. Ofer Razin, was born on January 27, 1966 in kibbutz Shamir in Israel, the place where I was born too. At the age of six months, we took him with us to Chicago, where I started my doctorate studies. When we returned to Israel, he attended pre and primary schools, and later the Alliance high School at Ramat Aviv, a suburb of Tel Aviv. After graduation from high school, he started his army service where he became an intelligence officer and served almost 4 years. We, his parents, could very well have had an early warning signal about his problem in the summer of 1984, but the doctors missed it completely. In the summer of 1986, I participated in the NBER Summer Workshops in Cambridge. We spent a happy summer there. However, in the middle of it Ofair (he insisted on this spelling of his name in order to have a better pronunciation of the Hebrew name in English) felt sick and he lost his eyesight; it turned out to be a temporary loss. The source of his problem was not diagnosed at this time as Multiple Sclerosis (MS), an autoimmune disorder that that affects the central nervous system. No one suggested using MRI tests, which are now daily routine procedures used in such cases. The actual diagnosis had to wait until Ofer's last year as a junior officer in the Israeli army. Piece by piece he lost control of his body; but Ofer still took the deterioration of his motoric functions in his stride. He was always smiling and interested in the person he talked to; hiding the inside concerns he had about his future life. In the next year when he graduated from high school and was drafted to the army, as every young person in Israel at this age is supposed to do, Ofair's enlistment to the army had been postponed because of the Cambridge episode. However, he decided to volunteer and made a smooth transition to a career as an intelligence officer. Although already handicapped, he had to undergo an intensive officer- training course. He did it because he wanted to make the army service a Meaningful service. But in the fourth year of service (as required for officers) the eye infection episode came back. At that point, the MRI diagnosis of multiple sclerosis had been made with certainty. It turned out later to be one of the most debilitating forms of the MS disease.

With the MS diagnosis already confirmed, Ofer courageously started a real-life marathon race against time to

complete his college education and built a career. His physical condition was progressively deteriorating: first, he had to use a stick, then a walker. I still remember our experience in the first Persian Gulf War.

*The First Persian Gulf War, Jan. – Feb. 1991, was an armed conflict between Iraq and a coalition of 32 nations including the United States, Britain, Egypt, France, and Saudi Arabia. It was a result of Iraq's invasion of Kuwait on Aug. 2, 1990; Iraq then annexed Kuwait, which it had long claimed. Iraqi president Saddam Hussein declared that the invasion was a response to overproduction of oil in Kuwait, which had cost Iraq an estimated \$14 billion a year when oil prices fell.*

Saddam Hussein fired Scuds missiles at Israel every night continuously for 6 weeks, and Tel Aviv was targeted for obvious strategic reasons. Everybody in the A- zone of the country (Tel Aviv being one of them) braced every afternoon for the Scuds to hit the targets in the evening, when the anti- Saddam coalition forces can discover dark sets in on Iraq and the launching sites. During the period of terror, Ofer stayed first on the second floor of our house (address 16 Pilichovsky Street, Ramat Aviv, and Tel Aviv; near Tel Aviv University, my workplace). He had to rush two floors down the first few nights to the bio- chemically secured shelter in the basement. After a few nights, he moved himself to the basement to save the nightly trips down and up to and from the sheltered basement.

I tend to cite the words of Bob Dylan's Blowin' in the Wind, paraphrased a bit:

How many roads must a man walk down before you call him a man?

Ofer walks down one treacherous road to become a man.

Alas, the answer my friend is blowing in the winds.

Ofer attended college at Tel Aviv University, double- majoring in Economics and Psychology. After graduating, he entered the Ph. D. Program in Economics at Georgetown University. He and I moved together to Washington DC, where he was supposed to begin graduate studies in economics at Georgetown University, in the summer of 1991. Ronny, my second son, who is very technically skilled helped to equip the Toyota car that



we bought second hand with devices so that Ofer would be able to get the wheel chair into the trunk, and then walk to the driver seat. In a matter of months, he lost the ability to walk. With all the things, you have to pay for In University, paying for health insurance is typically small potatoes. However, what is last on the list for healthy students. Pre-existing conditions are not covered. We knowingly spent a lot of money outside the realm of the insurance coverage, on all sort of treatments and experimentation. A shocking episode came once after Ofer participated in an HIH medical trial on a new drug. Ofer had to stop taking all other drugs during the trial, where he could have been only in a placebo group of the patients; and therefore risked a further deterioration in his condition which was very grave. After the end of the trial period, the NIH doctor in charge of the trial told the two of us that because commercial companies are going to continue the trial for a few more years, and they would like to demonstrate success of the treatment the hard stricken patients could no longer continue with the treatment. Ofer was among those who were thrown out. The Doctor brought the news in fact. We left the NIH campus in Bethesda, Maryland, in great despair!

My former student from Minnesota, Matt Canzonneri, then the department chairperson, was extremely helpful in easing the transition period for Ofer once the school year started. Ofer then faced two challenges; the increased level of incapacitation and a rigorous course of study. During the final stage of the doctoral program, Ofer worked mostly at home under the guidance of his dissertation advisor, Professor Susan Collins. In the summers while at Georgetown, Ofer had the opportunity to work in the research department of the World Bank. He gained good experience of dealing with data, which was useful for writing his dissertation. The dissertation was completed a few weeks before his death on December 16, 1996.

Ofer, all alone by himself, made the fatal decision to end his life. He had fulfilled all commitments he took while still in control of his body. Rather than falling into the imminent stage of complete paralysis, while still in control of himself he decided that he should go. On the very last day, he sent an e-mail to Ronny who was at Princeton as a graduate student of economics, and Ronny immediately called us in Tel Aviv. I still remember the telephone very well. An hour later I was already on a TWA flight to New York, and then through a connecting flight to Washington DC. In Ofer's apartment, I met Ronny and Dafna, who already arrived a few hours before me. Letters to the family members (including one to my mother, the only surviving grandparent), bills to be paid, and checks, were lying on his desk ready to be delivered. A complete Ph. D. dissertation manuscript was ready to be sent to Georgetown University. The funeral (at which I asked that the second movement from Beethoven's Eroica—the "funeral March"—will be played aloud during the funeral) took place in Kibbutz Einat (for a secular burial), and the Jewish tradition of the seven days sitting after the dead (the

*shivah*) took place at our home at Tel Aviv. The *shivah* was an opportunity for us to see a few hundred of our friends, from different stages of our life, who all came to our home during the week.

On his grave, I cited the Hebrew song (lyrics-Avi(noam) Koren, Music- Shmuel Imbermann, the popular singer of the song is Shlomo Artzi):

Et hageshem ten rak be'ito,  
ube'aviv pazer lanu prachim,  
Veten lannu lihyot shenit ito,  
yoter mize anachnu lo tzrichim.

(translation: Give us the rain when the time is due,  
scatter flowers for us in the spring,  
And, let us see him once again,  
we really do not wish for more than that.)

The official Ph. D. degree was awarded to Ofer by Georgetown University posthumously. Professor Collins prepared the main chapter of his dissertation for publication after his death.

It now appears as Chapter 3: "Real Exchange Rate Misalignments and Growth," by Ofair Razin (Ofer thought that Ofair can be pronounced better by non-Hebrew speaking people) and Susan Collins, in *The Economics of Globalization: Policy Perspectives From Public Economics* (Assaf Razin and Efraim Sadka, eds., Cambridge University Press, April 1999). Before his death at the age of 30, Ofer was able to complete working on the PhD dissertation at Georgetown University. The publication based on his thesis received 378 citations in scientific journals. I am very proud of his remarkable achievements!

The book, the Razin Prize in Georgetown University, and The Ofair Auditorium in the Eitan Berglas School of Economics' building at Tel Aviv University, are all dedicated to my son's memory. Past Speakers over the last 9 years in the Razin Prize event at Georgetown University are

leaders in our fields: Jacob Frenkel, Kaushik Basu, Ken Rogoff, Paul Krugman, Jeff Sachs, Michael Mussa, Elhanan Helpman, Stan Fischer, and Dani Rodrik (I gave the first annual lecture.) Our friend Bob Flood has been at every one of the events. He knew Ofair well; he is one of my heroes for the way he has conducted himself in pursuing a brilliant research career, notwithstanding the daily struggle with MS. I feel that this is a tiny bit of what I owe Ofer for his courage and for what I learned from him throughout his short life, as to how

one can conduct oneself with dignity under a non stop stream of adversities, and still be such a harming person to talk to. How many years can a mountain exist before it's washed to the sea? The answer, my friend, is that 30 year of lifetime is blowing in the wind; just like that (paraphrasing Bob Dylan again).

Ten years after Ofer's death I remembered him in memorials by singing quietly a paraphrased version of Bernie Taupin's lyrics of the famous Elton John's song, Daniel.

Ofer is traveling tonight on a plane, all alone  
I can see the red taillights heading for Zion  
Oh and I can see Ofer waving goodbye  
God it looks like Ofer, must be the clouds in my eyes

They say that Zion is nice, though I've never been  
Well, Ofer says that it's the best place that he is ever seen  
He should know, he's been there enough  
Oh, I truly miss Ofer, I miss him so much

Ofer is traveling tonight on the plane, all alone  
I can see the red taillights heading to Zion  
I can see Ofer waving goodbye  
God it looks like Ofer, must be the clouds in my eyes  
Oh God, it looks like Ofer, must be the clouds in my eyes.

At the time when Ofer's illness became more and more, acute I shifted my place of work more in addition, more from Tel Aviv University to America: first, one stint at Yale University and several stints at the University Chicago; second, a yearlong visit at the IMF in Washington DC (to be even closer to Ofer). I had to quit my position as deputy provost at Tel Aviv University, which originally was supposed to put me on a track to top university administration positions), in order to stay with Ofer in the US. Ironically, the shift of emphasis in my career, back to full- fledged academic activities, has been an extraordinarily good move. I must admit that I much more enjoy academic research life over academic administration! My academic activities led to a level of professional

recognition and great intellectual fun that the son of two Kibbutz pioneers never dreamed would have been possible.

## **“FIRST SEMESTER” OF LIFE**

To quote [Proust](#): “Ideas come to us as the successors to griefs, and griefs, at the moment when they change into ideas, lose some part of their power to injure the heart.”

The first 60 years of my life were occupied with tragedies, challenges. However, I was able to rebound with putting myself in an effort intellectual mode.

I suppose the effect of becoming 60 on me was stronger than I thought it was going to be. I took it quite heavily and began to review my life a lot more than I had before. At my 60th birthday conference, I noted that in the Jewish tradition, everyone lives for 120 years, and I viewed the conference on my sixtieth birthday as “a wonderful break between two semesters of my life.” I briefly summarized the highlights of my research career— one in which I have written a dozen books, edited a dozen others, and published over 120 articles. I observed that a rejected paper in 1975 led to my first book on globalization— a subject that still fascinates me. The book “A Theory of International Trade under Uncertainty”, written with Elhanan Helpman, argued that as capital markets became more integrated; there would be a strong tendency for countries to specialize according to their comparative advantage. Three subsequent books continued to explore the implications of global integration. *Fiscal Policy in an Integrated World Economy: An Inter-temporal Approach*, written with Jacob Frenkel in 1987, looked at the dynamics of the current account in a flexible price world; *International Taxation*, written with Jacob Frenkel and Efraim Sadka, examined the constraints that globalization imposes on the conduct of fiscal policies (the main problem is a “race to the bottom” among national tax authorities in a globalized tax market); and, more recently, *Labor, Capital, and Finance: International Flows*, coauthored with Sadka, analyzed the side effects (good and bad) of globalization.

## **Research: Past and Present**

There is a saying academics are only as good as their publications. Publications are also my legacy, I think.

Like many other peripatetic Israeli scholars, (see later on the gap between conditions for scholarship in the US and Israel) I have, over the course of my career, combined an academic affiliation at home (Tel Aviv

University) with visiting positions at several U. S. (Minnesota, Penn, Northwestern, University of California at Berkeley, University of Chicago, Yale University, Harvard University, Stanford University, and now- a -days Cornell University) and European institutions (University of Stockholm and London School of Economics), Including many stints as a visiting scholar at the IMF, World Bank, Bank of England and Hong Kong Monetary Authority. My professional life as an economist is covered in my vitae, as I already indicated in the opening sentences. A Bio, which addresses a non-professional audience, is not the right forum to go into a serious discussion of my research. Nevertheless, I would like to highlight what I consider my main contribution to research.

In the early 1970s, I believe that made a contribution to the theory of endogenous economic growth that Became popular in the 1980s and 1990s. The book “A Theory of International Trade under Uncertainty”, jointly written with Elhanan Helpman, dealing with what is now called “Globalization” (the market regime were both goods and financial assets are internationally traded in the presence of uncertainty), which put research in international economics on a new track, is still cited today. Our other project on the comparison between fixed and flexible exchange rate regimes (The Canadian Journal of Economics, 1979; International Economic Review, 1982; and the American Economic Review, 1987) was quite influential in the literature which attempted to nail down fundamental differences across exchange rate regimes. My joint work with Lars Svensson (The Journal of Political Economy, 1983; Economic Letters, 1983), followed by my joint work with Jacob Frenkel (Fiscal Policy in the World Economy: Inter- temporal, dynamic, Approach, 1986), set up very early on (and independently of the great contributions by Jeff Sachs and Maury Obstfeld) the inter- temporal approach to the analysis of the dynamics of the balance of payments.

In 2005, I completed a monograph, The Decline of the Welfare State: Ageing and Globalization , with my colleague and life- long collaborator, Efraim Sadka. The main theme of the book is this: In much of the developed world, the proportion of the population aged 60 and over is expected to rise dramatically over the coming, which may necessitate higher tax burdens and greater public debt to maintain national pension systems at current levels. Low- skill migration produces additional strains on welfare- state financing because such migrants typically receive benefits that exceed what they pay in taxes. Higher capital taxation, which could potentially be used to finance welfare benefits, is made unlikely by international tax competition brought about by globalization of the capital market. Applying a political economy model and drawing on empirical data from

the EU and the United States, we draw an unconventional and provocative conclusion from these developments. We argue that the political pressure from both aging and migrant populations indirectly generates political processes that favor trimming rather than expanding the welfare state. The combined pressures of aging, migration, and globalization will shift the balance of political power and generate public support from the majority of the voting population for cutting back traditional welfare state benefits. In my earlier joint work with Efraim Sadka (Economics Letters 1989, and the book: *International Taxation*, 1991), about tax studies, many researchers viewed harmonization as a standard model to evaluate tax competition when national capital markets are integrated, set a trend in research. The book *Population Economics*, written jointly with Efraim Sadka in 1995, became quite influential in the public economics literature. My work on international migration with Efraim Sadka, in *Labor, Capital, and Finance: International Flows*, provides a useful analytical framework in which migration policy can be rationally discussed. [As many people know, the forecasts of population trends make gloomy reading. The old age dependency ratio (the ratio of those aged 60 or older to those aged 15– 59) is already rising fast and will rise even more dramatically in the next few decades. In the 15 countries of the European Union (EU), that ratio is set to increase from 35 per cent in 2000 to 66 per cent in 2050. For the USA, the figures are 27 per cent and 47 per cent, respectively. These trends dealt with in my work with Efraim Sadka, on the political economics of the welfare state (integrated into the 2005 MIT Press book: *The Decline of the Welfare State: Demography and Globalization*) has been a great intellectual joy to write. A reviewer had this to say:” The (book) is a compelling political economy analysis that concludes that the welfare state is not sustainable, as it currently exists in most of the OECD (Organization for Economic Cooperation and Development) countries. ” In 2007, I completed a monograph, *Foreign Direct Investment: Analysis of Aggregate Flows*, written jointly with Efraim Sadka. The main theme of the book is this. The 1990s saw global flows of foreign direct investment increase some sevenfold, spurring economists to explore FDI from a micro- or trade- based perspective. The book is one of the first books to analyze the macroeconomics of FDI, treating FDI as a unique form of international capital flow between specific pairs of countries. By examining the determinants of the aggregate flows of FDI at the bilateral, source- host- country level, we present the first systematic global analysis of the singular features of FDI flows. Drawing on a wealth of fresh data, they provide new theoretical models and empirical techniques that illuminate the vital country-pair characteristics that drive these flows. Uniquely, *Foreign Direct Investment* examines FDI between developed and developing countries, and not just between developed countries. Among many other insights, the

book shows that tax competition vis-à-vis FDI need not lead to a "race to the bottom". That is, a situation that governments vying for incoming FDI that benefit their industries, compete to the point that at the equilibrium the business taxes are reduced to zero. **The study of foreign direct investment is interesting because this type of international capital flows are both an engine and an outcome of globalization. The project started a few years ago by an attempt to find the unique aspects of foreign direct investment (FDI) that distinguish this type of international capital flows from bank loans and portfolio flows. The process of developing the ideas worked through the writing of several working papers (a few of my own, a few with Efraim Sadka, a few with Prakash Loungani, and a few with the young economists, Yona Rubinstein and Itay Goldstein; Itay was my student at Tel Aviv University. As a reviewer of my forthcoming book with Efraim Sadka *Foreign Direct Investment : Analysis of Aggregate Flows* (Princeton University Press, 2007) writes: "It is commonly heard in policy circles that FDI is illiquid and that foreign direct investors trade off any potential cost or other advantage they may bring against the fact that their investments will be illiquid. This chapter provides a very nice model that captures this intuition formally. In particular, ownership is modeled as conveying earlier access to information about the productivity of the firm. This conveys a benefit in terms of planning investment. However, because this information is private to the foreign direct investor, it also leads to a market failure phenomenon known as lemons problem. That is, if the investor needs to sell the project, they face the problem that potential buyers fear that the sale is motivated by private information about low productivity (instead of a genuine need for liquidity). This means that firms that are sold attract a lower price than otherwise: they are illiquid. In the light of this and other issues, this book seems especially topical and ambitious."**

My collaboration over the last 30 years with Efraim Sadka have been intensive and always great fun. It has been a good double act! We also became very close. In a most tragic moment of my life, December 16, 1996, my son Ronny called me from Washington DC to Tel Aviv to let me know that Ofer died. I called my friend Efraim within minutes to let him know. He came to our Tel Aviv house, on 16 Pilichovsky Street,

In addition, drove me quietly to the airport, to catch an overnight flight. My mission was to carry Ofer back to have the funeral in Israel . This was a memorable moment of a strong support, when I needed it mostly. I recalled how I had a window seat on this night flight through NYC that lasted more than 18 hours. I was not able to sleep. I had been crying in a non-visible way throughout the flight. I arrived in Ofer's rented apartment in Virginia and met Ronny and Daphna there. I plunged into the complex logistics of moving

the casket and arranging the funeral. We were able to have at the end a most dignified in Kibbutz Einat. Efraim never missed the annual event of the Alyiah al Hekever since Ofer's death! This speaks volumes about his rather exceptional generous character.

### **Frank Knight is Right!**

Frank Knight was a Professor at the University of Chicago and one of the greatest economists of the middle part of the twentieth century. Here is an application of his wisdom to my family.

He said: "The Ultimate Difficulties of any rational reconstruction of society center around maintaining social continuity in a world where individuals are born naked, helpless, untrained and must spend a third of their lives in acquiring the prerequisites of a free contractual existence. The existing order, with the institutions of the private family and private property (in self as well as goods), inheritance and bequest and parental responsibility, affords one way for securing more or less tolerable results in grappling with this problem."

I can see the miracle in my own eyes when I observe my grandchildren Iddo (ten year old) and Neeve (five year old). My aunt Gita Alexandroni, who is now the only person who can testify about how helpless and much untrained I was when I was born in Kibbutz Shamir, when it was still in a temporary place near Kibbutz Ramat Yochanan. In 1941, and what was the role, played by my father and mother (and by my aunt during my father's service in WWII), in my upbringing. However, I have also traveled a long distance since then. At the age of 67, I still feel a bit like Bob Dylan (who is almost exactly my age, and in 2016 awarded the Nobel Prize in literature)) when he writes: "You think I'm over the hill/ You think I'm past my prime/ Let me see what you got/ We can have a whoppin' good time". In addition, in December 16 2010, 14 years after Ofer's death, Einat, Shula and I were all alone in the annual memorializing grave even in Kibbutz Einat. Ronny, daphna, Iddo and Neeve were in London. We asked Iddo to prepare for us something. This 11-year-old gifted boy said no problem. He emailed us in literally 5 minutes this poem which he wrote to read on the grave:

#### **Ofer**

I knew you not.

Your string was cut so soon,

And mine so slowly formed.



If only god had mercy.  
Man would roam atop this world,  
Without death grasping the innocent.  
But my wish does not come true.  
I plead and beg but matter it does not,  
For god has no mercy and death cannot be stopped.

### **Two Major Historical Transformations in Israel during my Life**

Thinking about what my father witnessed in his (short) lifetime concerning the collapse of things he believed in, I should feel rather lucky. My father, and many in his generation, believed in Marxism, and the Soviet Union as its implementation on earth. To him this sets a good example as to where civilization is heading. But, according to the Black Book of Communism, published in 1997 by a group of French scholars, communist regimes were responsible for the “class genocide” of almost 100m people during the 20th century. Apologists for Joseph Stalin used to justify such brutality by arguing that you could not make an omelette without breaking eggs. But, as George Orwell once famously responded: where’s the omelet? It seems that the communist idea could never be successfully modified or revived. Here is where I have witnessed some of my beliefs tested harshly.

Two of the Israel greatest Israeli institutions, the Kibbutz and the research universities, most prominently Tel Aviv University, which during almost my entire life I have been affiliated with, are currently undergoing thunderstorms of major transformations. These changes are so fundamental that some say that the very principles behind them are being challenged. *Built to Last* is the title of a best-selling management book that analyses what makes a company succeed over the long term. It also happens to two great institutions in Israel: the Kibbutz system and graduate economic departments, that unfortunately were not built to last. The Kibbutz system, a unique institution in the history of mankind, is now in the midst of an irreversible privatization process. The transition, as in the case of the collapse of communism in East Europe, is painful. The transition to a private- property based economy in the Soviet Union started with Mikhail Gorbachev. In a series of remarkable statements and speeches in 1988, he threw out what Marx, Engels, Lenin and Stalin

had bequeathed over more than a century. Class struggle, the need for a violent revolution to overthrow capitalism, the state ownership of the means of production, distribution and exchange, all fell before what he called, in his great speech to the United Nations in December 1988, and co- development”. He said the new world order would be “co-creation driven by “the compelling necessity of the principle of the freedom of choice” The transition to a private- property based economy in the former of China has been long but relatively smooth process. On March 16, 2007 — after more than a quarter- century of market- oriented economic policies and record- setting growth, communistic-economy China on enacted its first law to protect private property explicitly. The landmark measure, which was delayed for years amid vocal opposition from resurgent socialist intellectuals and old- line, left- leaning members of the ruling Communist Party, is viewed by its supporters as building a new and more secure legal foundation for private entrepreneurs and the country’s urban middle- class home and car owners.

The transition in the Kibbutz economy to a private property based system is only in its initial stages. The beginning is full of difficulties. Many of the Kibbutzim are virtually bankrupt. Even in those that are not, there is no minimal pension system in place. Patched up benefits to retirees are even below the minimum wage. I am thinking about my parents (Kibbutz Shamir, where I was born, is still an exception). The “victims” in the transition process are typically the old. The system’s safety net, with defined benefits pensions, is emerging slowly, a bit too late to comfort them.

*A defined- benefit pension system should be backed up by funding plans that are demonstrably capable of meeting the promise to pay the retiree certain fraction of her /his wage in most circumstances. We expect trustees to give the interests of the pension scheme their proper status: any shortfall must be recognized as a key material unsecured creditor of the business. In designing a pension system there are concerns of two types: the sponsoring employer is concerned that the pension rules may be too generous and as such will impose burdens on business; and the potential retiree’s concern is that the employer will not put sufficient cash outside the firm to be able to meet its obligation . There must be a Pension Regulator, which regulates the funding regime for any defined benefit firm pension scheme, be it in a Kibbutz, or in the rest of the economy. None of these exist during the present transition of the Kibbutz from collective system to a privatized system.*

How lucky they are that they died before they had to see members of their generation fall into poverty because solidarity among members of the Kibbutz and egalitarianism vanish, while modern social insurance institutions are yet to be developed. The working age population, to a large extent, lacks skills necessary to rebuild decent rewarding life. A counter-factual in which I am still a member of the Kibbutz at an old age, makes me feel that I am lucky. I gave my children and grandchildren a more sustainable and rewarding way to live, than my parents gave to me. As I just said, a truly great Israeli institution, the research university, is currently enduring a big change and faces its biggest challenge ever. Main problems are the internal organization within the university, the inter-university allocation of funds by the state, and the lack of leadership on the national political level in regard to higher education. A grand coalition of politicians from the left to the right of the political spectrum, joined by vested interest groups within the academic institutions, block necessary structural reforms, by repeatedly raising equity, or student accessibility issues, for the wrong reasons. The case of providing large-scale subsidies to higher education, in the form of low tuition is dubious, because subsidies for higher education are fundamentally regressive. The vast majority of students in higher education belong to the richest half of the population. They can afford to pay real cost tuition. Low tuition does not entice them to attend the university, at all. In other words, low tuition amounts to a “pure rent” (in the economics jargon). The state does not provide the requisite funds (as Scandinavian countries do), or allow universities to charge realistic tuition (as the US universities do). The German-based model that Israel took on, of how to organize higher education and research, is an anachronism. We did not adopt the more successful US model (State as well as Private universities) that provides access to higher education to those who deserve it (poor and rich), provides salary incentives to faculty members to concentrate their intellectual energy on advanced teaching and research.

Brain drain from the Israel Universities is becoming widespread; especially in my field, economics. Perhaps, in my generation our identification with the life in Israel helped us to trade off a fulfilling life in Israel for better academic careers abroad. The fact that a group of us chose the same resolution of the trade off, and chose to be a full fledged member of the Israeli University, rather than be on the faculty of one of the top 20 US university, allowed our school to prosper, thanks to immensely successful academic interactions among us. This feature served as a magnet for young faculty members. I could not have asked for a better research interactions than the one I had in the Berglas School of Economics. But this is not the case today. Our school is not able to get almost anyone who is academically successful abroad. To make the problem even more acute, it was enough that one prominent member of our school decided to pursue his own non academic agenda, in direct conflict of the school needs for resources, the recruitment of young faculty fields of

teaching and research that the that dried up, that the positive interactions among members of the school had collapsed. The “bad blood” among us serves as a deterrent for young faculty members from joining the school. Existing members chose early retirement, some middle aged active faculty turned to either successful business, or to policy making careers. The School of economics as we have known it over the last 3- 4 decades is now virtually gone. Has it gone for ever?

Few events have served the Israeli economy as well as the collapse of the Berlin Wall. As the Soviet bloc started to crumble, a wave of Jewish immigrants headed for Israel from present- day Russia, Ukraine, Belarus, Georgia and central Asia. Many of the 1m newcomers were highly educated. They placed a great emphasis on the education of their Israeli born children. They included scientists, engineers and doctors – providing Israel's soon- to- sparkle [high- technology industries](#) with an able corps of workers and inventors. In recent years, however, the flow of talent has not been going Israel's way, sparking frequent complaints about a “brain drain”. About one in four Israeli academic scholars is currently employed at an American university – a far higher share than those from European countries. The proportion of departed academics rises even further in some fields that are important for Israel's future economic development, such as economics, engineering and computer sciences. The problem with the Israeli University system is that it is devoid of incentives for excellence among its academic staff, and that the state has starved Israel's higher education system of funding, There are too few staff positions available and pay is almost always much lower than in the US.

The main reason for the success of the US- based research university Model lies in their superior organization. The first principle is that the government plays a limited part in the allocation of funds, which means the tuition and philanthropy are an important part of the funding, especially the teaching aspect of a University. The second principle is better incentives in the internal allocation of the budget among the different academic units, and differential salaries producing more adequate incentives . But the hurdles for a change in Israel are paramount. Political parties typically compete for the student votes, swing voters in national elections. This political setup does not allow top- up tuition. Self government, by the academic faculty, coupled with a strong faculty union, are a barrier to the introduction of more efficient incentive system, which could have attracted young scientists with good academic alternatives abroad, by offering them better working conditions to compete with the working conditions offered by US universities. It seems to me that the decades- old era of the great Berglas School of economics at Tel Aviv University will have become a one- shot episode in history;

unless the reformers on the national and university levels, could get its act together. I really hope I will have been proven wrong on this.

It is not likely that in the current higher education system Israeli universities will be able to recreate centers of excellence. Because to do this they will need greater freedom: for example to increase tuition fees and differentiate salaries in a new internal governance structure. Their governing structure will need to become more effective and less beholden to the union. On the difficulty of doing a substantive reform we can cite a quote from Machiavelli's book "The Prince": "It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order, this lukewarmness arriving partly from fear of their adversaries, who have the laws in their favor; and partly from the incredulity of mankind, who do not truly believe in anything new until they have had an actual experience of it. Thus it arises that on every opportunity for attacking the reformer, the opponents do so with the zeal of partisans, the others only defend him halfheartedly, so that between them he runs great danger."

The phenomenon that I am passionate about my research subjects and related policy issues, such as the collapse of the Kibbutz system, could be illustrated by the following story (told by the archeologist Magen Broshi). Herod, born in the 72 B. C. (one of the greatest builders in human history) was mentally ill. This has long been recognized by historians. A king who murders three of his sons, his beloved Hasmonean wife, Mariamne (whose death sent him into a deep depression), and countless other members of his close circle, is obviously not in his right mind. Now fast forward 2000 years. Walking down the street, the archaeologist Pesach Bar- Adon (whom I remember from the days I was recovering from a bullet wound shot, after my release from the army, preparing to take the matriculation exam to enter the Hebrew University) bumped into a colleague, the historian Abraham Schalit. Schalit told him he had just come from Prof. Lipman Heilprin, a famous psychiatrist, who said something about a clear case of paranoia. Bar- Adon, assumed that Schalit was talking about a family member, tried to console him. There are all kinds of therapies and medications today, he said. But Schalit was talking about Herod.

In this context I look at the way my son Ronny has been developing a splendid academic career (now tenured in LSE), as something that I would have liked to be doing in my time, had not the shape of Tel Aviv economics not been then so excellent in terms of its academic environment, with great colleagues, great students. Indeed, in the last two decades the Tel Aviv School of Economics was ranked at the top of non- US economics departments, along with LSE. But, currently, our school is dramatically deteriorating. A whole generation of top economists is stepping out, with no new academic staff with the same academic caliber in sight. No leader who can turn things around has emerged. Recently, my colleague, Elhanan Helpman, commented on the quick response of Hezbollah, immediately after the recent Lebanon war ended, where they started to give money to refugees to rebuild their homes, which were severely destroyed in the month- long war. Hezbollah has been the fastest and, without a doubt, most effective organization doling out aid to the shattered towns and villages of southern Lebanon. In contrast, the Lebanese government which already secured grants from rich Arab countries and from Europe and the USA was not even in the planning stage of the reconstruction effort. This shows how a small and dedicated number of people with great motivation can always outperform governments manned by officials without the right motivation. This is in analogy to what we have had in the Department of Economics in Tel Aviv University. At the initial stage of its development (I was the chairman in 1974 to 1976) we had a group of well motivated members (Elhanan Helpman and Efraim Sadka among them, together with a good leadership from Eitan Berglas, who was older than us) that cared about recruitment of new members, promotion, research facilities and research centers, etc. Today, with all these facilities already in place, governed a bit mechanically by members of the new generation that lack similar motivation, the crisis in the system gets no constructive response from its officer holders.

### **The Never- Ending Military Conflict**

The Israel- Arab conflict occupies my thoughts almost from birth. I grew up in a family who was always politically minded. I was brought up with a great sensitivity to racial and ethnic hatred behavior. I always believed that reconciliations among ethnic and national conflicts are unavoidable. When I was younger I was always optimistic about the prospects for some resolution of the conflict. But as I grow old I am more pessimistic. This is how the Economist describes it: “After the ignominious defeat of 1967, the Arab states again rejected the idea of peace with Israel. That was, indeed, a wasted opportunity. But even though the Israel of 1967 discussed how much of the West Bank it was ready to trade for peace, the Likud governments of the

late 1970s and 1980s wanted it all. For Israel fell in love with the territories it had occupied. This was the period of Israeli rejection. Israeli prime ministers such as Menachem Begin and Yitzhak Shamir asserted a God-given right to a “greater Israel” that included the West Bank and Gaza Strip, in which Israeli governments of all stripes continued to plant (illegal) settlements. In some Israeli minds the Palestinians became a non-people, to be fobbed off with under Israeli or perhaps Jordanian supervision. self-government It took an explosion of Palestinian resistance, in the *intifada* (uprising) of the late 1980s and the far more lethal one of 2001-03, to convince Israel that this was an illusion.”

As economist, I tend to view the conflict between the Israelis and the Palestinian as a Prisoner’s Dilemma game.

The prisoner's dilemma game was popularized by a simple story. Two men are captured by the police and separately offered the same plea-bargain: "If you confess and he doesn't, you walk free; if you both confess, you'll both get five years; if neither of you confess, you'll both get one year; if he confesses and you don't, you'll get 20 years." Rational prisoners will confess, wishing there was a way to commit each other to silence. The equilibrium outcome is much worse than if the two prisoners would not confess; and get one year in prison. But each player, taking the strategy of the other player, has an incentive to deviate from this equilibrium because it looks to him/ her that by confessing, while the other player doesn't, he/ she can walk free. Game theorists have known since the 1950s that when the prisoner's dilemma is repeated indefinitely, more cooperative strategies can flourish. Most important, the "prisoner's dilemma" is merely a two-player game. This is a crucial omission. Most social arrangements stand or fail with the help of third parties.

A keen observer of the global conflict, Anthony Cordesman, writes: “It is now all too clear that the war of attrition between the Palestinians and Israel that began in September 2000 unleashed a “war process” that will be difficult to turn into any kind of peace process for years to come. The death of Yasser Arafat clearly solved nothing. The weak, corrupt and divided Palestinian Authority he left behind cannot be fixed by a handful of good leaders. Hamas may not reflect a Palestinian majority, but it and the Palestinian Islamic Jihad have much better internal discipline and are widely seen as an alternative to a hopeless peace process.”

For many of us who have lived in Israel from birth, there was a grim awakening, after Yasser Arafat rejected the only feasible solution offered by Bill Clinton for the decades long conflict. Arafat not only rejected the

peace proposal, but he also started the second Intifada; first by proxies, such as Hamas military wing; and then by his own PLO militia.

For most of my adult life I have been involved in trying to push our own government towards accommodation with our neighbors. I have been always against the occupation of the West Bank. I was active as one of the leaders of the then emerging “Peace Now” movements in the 1970s. Indeed met in 1990 the PLO leadership in a Dutch town Nijmegen, when meeting a PLO leader was outlawed in Israel. We bypassed the law by meeting them in a group; like in any academic seminar. When the Oslo peace track started, followed by both sides, the Israelis and the Palestinians, I remember how hopeful I became. The most difficult conflict is now moved into a “peace process”. I will see peace in my life; an almost like a dream comes true. Intellectually, I feel now a bit guilty of the fact that I ignored in the way my political thinking evolved, almost completely, one aspect of the complexity of the Israel Palestinian conflict. That is, the inability of the emerging Palestinian Authority to create democratically run institutions, such as one army under well structured civilian control, checks and balances, well functioning and transparent institutions, etc. Once you build such an institutional set up it is very difficult to allow yourself to resort to war, rather than peace. Arafat’s leadership in the period of transition from the Diaspora to statehood was nothing but a disaster to his own people. Because he made himself a dictator who pursues his own agenda, which never focused on bread and butter issues such as improving the well being of his own society. He was unwilling to confront the growing opposition to peace by the Hamas. He was making strategic miscalculations because he surrounded himself with only yes men. In a sharp contrast, remarkably, successful, transparent, and democratically run institutions were built in the then Palestine by the Jews, when Israel has emerged as a sovereign state from its war of independence in 1947-1949.

This is in my way of thinking, the “secret” of Israel’s remarkable development in years to come; a performance which is almost unmatched by the new states that gained independence since 1949 for a country constantly at war with its neighbors. I took the Israeli experience for granted; as something that every other society, including the Palestinian society, which faces similar challenges, would do. Especially because the Palestinians had such a favorable initial conditions: the support and advice of most of the civilized world around them. But the Palestinians failed so miserably to meet the challenge to peace by the Hamas, in their own backyard. My optimism throughout most of my adult life about the possibility of reaching an end to the conflict sadly evaporated.



Peace, it now seems, will come during my children's life time, not mine. Especially, because in the present time when the government in Israel is dominated by the Jewish settlers. This set of events may meet the classical Greek definition of tragedy: hubris (arrogance), Ate (folly) and Nemesis (destruction).

### **Multiple Careers vs. Single Career**

I have had opportunities to switch career in three junctures of my life. At the age of 38- 45 I had an opportunity to move to policy making career, or politics. I was the chief economist to the Israeli government when I was 38. At this point, Israel economy was in a big crisis and highly educated economists were on demand by both coalition and opposition parties. At the age of 50 to 60, I could have developed a career in academic administration; either as a president of one of the Universities; or as a Rector of my own University. At the age of 60 to 65, I could have developed a career in business on boards of directors. At those junctures of my life I always decided to stick to my academic career. Looking back I am blessed in the fact that I was not tempted to leave academia.

[The contrast to the career path of one the most talented academic economists in the US the leading economist Larry Summers cannot be sharper. The difference is of course firstly the talent; but also the opportunities for a US born person relative to an Israeli born person. At age 52, Larry Summers already finished his first three careers. A swift rise to tenure at Harvard- career one, he then moved to a high policy making role in Clinton's first term; promoted to deputy Treasury secretary; and in the last year of the Clinton presidency became the Treasury secretary: career number two. Career number three is in academic administration; the president of Harvard. After rocky five- year tenure, he starts the fourth career path: back to economics with a lucrative part-time job at a big hedge fund, D. E. Shaw. And when Obama became the president in January 2009, Larry became his chief economic adviser to fight successfully the 2007- 9 financial crisis, which could have but did not follow the downward path of the Great Depression. I cannot of course compare myself to Larry Summers in terms of intellectual capacity; he is one of a kind. But, in terms of my own sphere of opportunities, though, I am glad I have stuck to the academic economics career path.]

### **What is Happiness?**

“Happy families are all alike; every unhappy family is unhappy in its own way.” This is how Lev Tolstoy begins in Chapter 1 of Anna Karenina. Are we a happy family? We had our tragedy when Ofer, our oldest son, acquired a unimaginable debilitating and cureless disease; and passed away at the young age of 30. For this we are of course an “unhappy family”, in our own unique way. Perhaps the way we bounced back to be optimistic in our outlook, at least me. But, with regard our children, Ronny and Einat, and our grandchildren, Iddo and Neeve, we are a “happy family”, but contrary to Tolstoy, somewhat distinguishable from many other happy families. Nearly everyone has been stung by an insect at one time or another. It is an unpleasant experience that people hope not to repeat, but for most people the damage inflicted is only temporary pain. [Stinging insects are limited to the order Hymenoptera, which includes wasps, bees, and ants. The stinger is a modified egg- laying apparatus; so, only females can sting.]

When Ofer’s MS disease got worse, we heard about a possibility that the bee venom could help. We used to drive south of Alexandria, Virginia, to get Ofer get stung by captured bees, for training. Then, we got shipments of stinging bees by mail, and Ofer learned to perform the stinging therapy on him. It did not help much. Now, fast forward by 8 years, I was riding on a double- decker bus in London with my grandchild, Iddo, who was then only 6 years of age, in the company of Joe, his classmate, and Raffie, Joe’s brother. I overheard Iddo telling his young friends of the bee stinging story. I felt like I have been suddenly linked to my cute grandchild, through Ofer’s heroic struggle story, in the most intimate way. In the memorial we have been doing annually on December 16, 2008, I “recruited” the 8 year old Iddo to play the Beatles’ song, Eleanor Reagby, for us, family and friends who gather in the cemetery of Kibbutz Einat. Iddo instantly became a trustable friend. My granddaughter Neeve, is smart and also a partner for interesting conversations. Our family had tragedies but also great bits of luck.

## **Apples and Trees**

"The apple doesn't fall far from the tree," quipped an academic friend of mine, on seeing how Ronny is doing well. I must add that this seems also true to how my grandson, Einat became independent and caring. Grandkid

Iddo, is quickly emerging as a curious, talented and well disciplined, who is likely to excel in an exciting future endeavor, even though we do not know yet what direction in life he is going to choose for himself. Grandkid Neeve is a jewel, best in school and writes like a mature very literate and inventive writer. It seems though that the apple fell not so close from the tree, when one thinks of the different life my father had, compared with mine. But, we have to remember that the society my father chose to live was extremely confining, not allowing to him to fulfill his aspirations based on his most evident talents and extremely unique traits. I was obviously lucky not to be in such a confining environment. This, I was able to make, what turned out to be good choices, when lucky opportunities came around. But, I believe that the differences in life- long outcomes between my father and I resulted only from stark differences in opportunity sets we were confined by which led to stark different choices of directions. They are not due to any intrinsic differences in our personal makeup. We had very similar make ups. Indeed, my father's outlook of what is important in life and worthy of devoting your talents to, and his outlook and my mother's of how to raise a good family, guided my choices in critical stages of my life.

### **World View is Turning Upside Down**

In an article which flashes out key elements of my mindset and academic history. In a short article, entitled **Economics and Hillel the Elder**, Maayan Hoffman writes:

In 1924, the late English economist John Maynard Keynes deliberated on what makes a great economist: “The master-economist... must be mathematician, historian, statesman, and philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future.”

Keynes was eulogizing a colleague economist who died 17 years before Israeli economist Assaf Razin was born in 1941. However, if you ask colleagues and students, Keynes's words could have been describing the ideal this 2017 EMET Prize winner for social sciences aspires to achieve. Razin studied and shared ideas about globalization before many modern commentators on the subject even heard of the word, according to Prakash Loungani, an adviser at the International Monetary Fund. Migration and its impact on welfare states, economic policies that would have to shift in a world that is smaller and more accessible – “All the issues we are dealing with now, he was writing about all of it 20 or 30 years ago,” said Loungani.

Razin's accomplishments are most surprising, considering his upbringing in Kibbutz Shamir in the Upper Galilee. He was born to a family of modest means with Marxist ideals. The professor describes his life as one of extremes – from the kibbutz to Tel Aviv University; from Israel to different parts of the world; and from his childhood in the nursery bed of socialism to the Economics Department at the University of Chicago, the cradle of intellectual capitalism, from where he received his Ph.D. in economics.

Despite some rather dramatic personal events, including the death of his son in 1996 at the age of 30, Razin's academic and professional achievements are truly outstanding, said Lars E.O. Svensson, a professor in the Stockholm School of Economics.

"Assaf has an excellent standing in the international community of scholars," said Svensson. "He is a most welcome visitor to universities, research institutes and international organizations all over the world, and he is a highly appreciated participant in international conferences."

Razin's portfolio is likewise unusually diverse. He did work on human capital, fertility, and growth. His early book with Elhanan Helpman, "A Theory of International Trade under Uncertainty" (Academic Press 1978), was an eye-opener, and brought a new and fruitful approach to understanding international trade. His work on exchange-rate regimes and a cash-in-advance approach to the demand for money with Helpman, inspired many. His work with Jacob Frenkel on fiscal policy, summarized in the book "Fiscal Policies and the World Economy" (MIT Press 1987), has been very influential, as have several papers on international taxation. Later, his work on population, immigration, and welfare economics in several papers and books with Efraim Sadka received considerable attention.

“With Assaf, working hard gained a new meaning for me,” said Svensson. “My future work and career benefitted enormously from this experience.”

On a sunny, Tel Aviv afternoon, Razin spoke matter-of-factly about his life’s work, from his corner office on the top floor of the Eitan Berglas School of Economics at TAU. A black office chair, rows of books – mostly in English – a handful of pens, in different colors and sizes strewn across his desk, set the backdrop for a detailed discussion on economic policy.

“The European crisis is something that we international economists studied for decades,” Razin told *The Post*. “But while many economists look at migration as just a form of movement of inputs – labor – across borders, that’s not the way I see it. Migration is not just a movement of labor, it is movement of people,” said Razin, loosely quoting the Swiss playwright Max Frisch who recently quipped, “We wanted workers, but we got people instead.”

Grossly simplified, Razin argues that immigration of low-skilled workers, as we see in Europe, creates winners and losers. Low-skilled immigrants, who compete for their jobs and depress their wages, typically harm Low-skilled native workers. Low-skilled immigrants are also more

likely to be net beneficiaries from a generous welfare state, the burden of which low-skilled workers share.

“Brexit, the United Kingdom's withdrawal from the European Union, was partly the result of an anti-immigration feeling in Europe,” said Razin.

However, the impact of immigration on receiving countries depends on the conditions that motivated the exodus, on the immigrants, and on the conditions the immigrants encounter when they arrive in their new homes, said Razin. This coming December, Razin’s latest book, “Israel and the World Economy: Power of Globalization,” will be published. In it, he tells the story of the migration to Israel of people from the Former Soviet Union. Israel, Razin said, is unique; because it is the only country in the world that allows free migration.

“After the collapse of the Soviet Union, the Soviet Jews were free to choose to stay in Russia, go to America (despite its quotas) or Western Germany, or Canada, or Australia. But the majority came to Israel because there were no barriers to entry,” explained Razin. “This new 20 percent of the population led to a transformational change in Israel’s political-economic system.”

First, unlike the recent Mideast and African migrants, these skilled immigrants helped increase the productivity of the low-skilled population. In addition, likewise, they were two-earner families, meaning they had a tradition of both the mother and father working. This led to an increase in the wages of other high-skilled workers, and rather than imposing a financial burden on the welfare state, “they are, of course, the basis for the emergence of Israel as a startup nation.”

At the same time, Razin said, it did “move Israel as a welfare state a bit down – decreasing child welfare payments, lowering taxes on higher income groups, and things like that. We have a majority voting parliamentary system, so over time these immigrants were able to impact government priorities.”

Razin likewise focuses on the challenge of high fertility and anemic skill acquisition, meaning that children born into large families often achieve less educationally and academically – also a concern for the State of Israel.

“Among OECD countries, Israel has the highest fertility rate. From an economic point of view, this is a concern,” Razin said.



If you look at Western populations, parents make rational and altruistic decisions about how many children they will have and how much they will be able to invest in the education of those children. However, in some communities, including in the Israeli ultra-Orthodox community, it is not only the private incentives of parents that matter, but also social incentives or peer pressure. In other words, parents who cannot afford – from a time or financial perspective – to have so many children, may do so out of a feeling of social obligation. The solution is therefore very complicated, because you would have to change not an individual's mentality, but the social behavior of an entire group of people.

“If a family has limited resources, then if you have larger families you can spend less per child. What can help change the equation of high fertility, less market-skill acquisition? A strong public education system,” said Razin. “Therefore, the core curriculum is essential in haredi public schools – and in all public schools, both here and in America.”

Razin can also talk about the need for regulation in the banking sector, or why the government should be engaged in the healthcare system. His eyes light up when he speaks about his work.

“Economics is complicated,” Razin said, his finger outward. “People on the outside often don’t really appreciate it.” For Razin, winning the 2017 EMET Prize represents a meaningful step in his life’s trajectory. “Receiving the EMET Prize 76 years after being born in a Kibbutz is a nice endpoint for this traveler,” said Razin, though he has no intention of retiring.

Razin said he always tried to be a role model for his children and now grandchildren. He sees that each generation of his family has increased opportunities. He hopes the prize will influence their decisions about how they conduct themselves in life and work.

However, he said he does not live by economics or achievements. Rather, he lives by a statement made thousands of years ago by Hillel the Elder: “That which is undesirable to you, do not do to your fellow. This is the entire Torah. The rest is just commentary.”

“I talk about anti-migration and immigration, economic policies and all of that,” said Razin.

“But the most important thing – I got it from my parents – is this statement by Hillel. When it comes to Arab-Israeli relations, black and white, refugees or whatever is going on in the world, no matter the economics, love your neighbor as yourself is my strongest view.” (Jerusalem Post, July 26, 2017.)

Misgivings for those who know me about the direction my country has been headed since the 1990s which brought the Oslo accord and new hopes which were shattered by the assassination of Itzhak Rabin, are all too plain. My misgivings have only grown with time with the rise of the settler right that come after decades of enforcing a military occupation on the Palestinians.

The post-world war II liberal democratic order has been blown by the whole slew of alt-right anti-globalization forces. The most alarming has been the rise to power of Donald Trump. He, and the Republican majorities in the Senate, and the Congress are poised to wipe out the signature victories of Barack Obama in areas ranging from health care to the environment. Trump will enter office as the first explicitly anti-free trade president since Herbert Hoover, committed to unraveling a series of agreements that underpin the root assumptions of global commerce. His list of potential Supreme Court nominees include judges who reject not simply the jurisprudence that led to the gay marriage and abortion decisions, but the arguments that led the Court to uphold New Deal legislation some 80 years ago and to bind states to the protections of the Bill of Rights.

## **Working When I am Old**

At this point in my life, I already retired from Cornell University and moved back to Tel Aviv University as a Professor Emeritus. My blood disease worsened and I needed immunotherapy combined with chemotherapy in Hadassah Hospital. I was not sure I would have sufficient energy to keep my own research activity going. My life style was about to change drastically. In the previous years, I was constantly active on the international academic circuit—running from one place on the globe to another, doing teaching and seminars. At this point in 2016, I was by Reuven Gronau from the Falk institution at the Hebrew University, to be included in a book on the economy that he planned to edit. Thinking about the research issues, and how I can approach them, I decided to write a full-fledged book of my own. I realized that Israel can provide a counter example to the anti-globalization view, both with respect to good and capital international links, and with immigration flows. Globalization is currently facing some challenging political tests, more than in the past decades. Brexit may have been the first wave of

anti-globalization and rising populism that gushes over the most advanced nations. Globalization and new-technology forces trigger a steady decline in low-tech manufacturing industries, a rise in global financial centers, and increased immigration flows, brought up the 2017 change of guards in the US. Meanwhile, European countries like France, Greece, the Netherlands, Spain, Denmark and others witness the anti-EU forces gather strength. The EU refugee crisis, the EMU crisis, the political backlash against trade treaties in the US; which threatens the proposed multi-lateral trade agreements such as the Trans-Atlantic Trade and Investment Partnership (US-EU trade deal) and defeated the Trans-Pacific Partnership (US-Asia trade deal), and more. The open-border model, which governed the global economy for more than 70 years after World War II, is unravelling. However, the acceleration of finance, technology and telecommunication and supply chains makes the reversal from globalization self-defeating. Against this background, it is worth surveying how through domestic and external crises Israel has been able to advance the political-economy process of globalization. Israel's globalization experience provides a counter example to the current trends. Interestingly, the defense of globalization came from an unexpected source, a communist. The Chinese Leader, Xi Jinping, said: "Pursuing protectionism is just like locking oneself in a dark room. While wind and rain may be kept outside, so are light and air"; in answering repeated threats of re-imposing of tariffs.

I felt that in writing such a comprehensive review of the history of the country I was also closing a life-time circle. My first official involvement with economic policy in Israel was in 1979. I had then a short stint in the Israeli Government in the wake of the hyperinflation-budget crisis. Subsequently, I have been consulting to various government bodies and commissions, making occasionally media and press commentaries, and monitored events up close. Following the Soviet-Jew exodus from the collapsing Soviet Union, and the first Palestinian *Intifada*, two game-changing events, I had written The Modern Economy of Israel: Malaise and Promise, jointly with Efraim Sadka (University of Chicago Press, 1993). So, twenty some years later, with the

benefit of hindsight, I return to the same old subject of inquiry: reviewing past and present, and where Israel is heading, going forward. The book is coming out by MIT Press with the title *Israel and the World Economy: Power of Globalization*. It covers several unprecedented economic episodes. They have rocked the global economy during the past several decades, and turned out to be inflection points in the development of Israel's economy. Some of these extraordinary events, external as well as domestic by origin, are:

1. The collapse of the Soviet Union, and the massive wave of high skill immigration to Israel which followed;
2. The Great Moderation, in inflation and employment fluctuations in the advanced economies, and the convergence of Israel's inflation to the low world inflation rates;
3. The 2008 Global Financial Crisis (epi-centered in the US; spreading violently to Europe), and the surprising robust performance of the Israeli economy;
4. The rise of the Asian markets, recently opened up to Israel's exports, which became abundant source of outward foreign direct investments;
5. The global information technology surge, and its spillovers to the emerging high-tech Israel;
6. The cascade of Palestinian uprisings stretching over the last few decades, their cyclical effects, as well as their long term uncertain economic implications;
7. Brain drain of top talents, facilitated greatly by Israel's advanced higher-education system, and the pro-skill bias in receiving-country immigration restrictions.
8. The rise in income inequality and social polarization in advanced economies with anti-globalization consequences.

As of 2017, I completed the Hadassah treatment and completing the work on the last book, I am resuming some world travels to talk about the work. I feel accomplished, and with resumed energy.

On June 2017 I received a telephone from the EMET prize administration. **The EMET Prize for Art, Science and Culture** is an [Israeli](#) prize awarded annually for excellence in academic and professional achievements that have far-reaching influence and make a significant contribution to society.<sup>[1]</sup> Prizes are awarded in the following

five categories: the [Exact Sciences](#), [Life Sciences](#), [Social Sciences](#), [Humanities](#), and Culture and the Arts. I was chosen as a recipient for the 2017 EMET prize in economics!

## **Rear View Mirror**

Prakash Loungani wrote about me for the IMF's [Finance and Development](#) (March 2021) this piece:

### **The Guru of Globalization**

*Well before globalization became a buzzword, Assaf Razin was writing of the promise and the perils of global economic integration.*

In 1958, 17-year old Assaf Razin suffered a near-fatal injury from friendly fire while fulfilling his draft requirement in the Israeli army. He was hospitalized for a year, during which it became evident that an active life toiling in the fields of Kibbutz Shamir, the community on the slopes of the Golan Heights where he was born, would be precluded. He turned instead, he has written, toward “the remarkable opportunities the modern global world offers to so many,” in his case to graduate school at the University of Chicago and then to a stellar career as a leading exponent of how countries can make the most of globalization. With Tel Aviv University as a secure home base, he has been “a most welcome visitor” at institutions all over the world, says Lars Svensson of the Stockholm School of Economics. In 2017, Razin was awarded the EMET Prize, Israel’s highest award for “excellence in academic and professional achievements that have far-reaching influence and make a significant contribution to society.”

“So the unfortunate event of my injury turned out to be transformational,” Razin says, displaying a trait his friends and family say is ‘classic Assaf’: never dwell on personal tragedies but keep moving ahead resolutely to fulfill your obligations. Marxist ideals ruled in the kibbutz—his father, one of its founding members, made it a point to visit Karl Marx’s grave when in London—and, after his injury, the kibbutz elders thought he could best serve the community by gaining expertise in agriculture through taking courses at Hebrew University. Razin

however became fascinated with his economics courses and, with a strong recommendation from a mentor, won a fellowship to pursue graduate studies at the University of Chicago, then as now a bastion of free market economics.

“What a remarkable journey from a Marxist commune to capitalist Chicago, then to a career of tremendous achievements, all the while being humble and helpful to everyone,” says Jonathan Ostry, deputy director in the IMF’s Asia and Pacific department, who has known Razin since his own graduate days at Chicago in the 1980s. Ostry, along with Tom Krueger—also now a deputy director at the IMF—wrote the companion guide for Razin’s noted 1987 book *Fiscal Policies and the World Economy*. It was a “vade mecum [an essential guide] for the international economics community” to navigate a rapidly-changing world, says Ostry, with flexible exchange rates and increased capital flows. Relationships among countries’ policy choices, were becoming “incredibly complicated,” says Ostry; “today we would turn to computer simulations to understand the complex channels that in those days were clear in Assaf’s mind and book.”

### ***Promise and perils***

The book, written with Jacob Frenkel (a future chief economist at the IMF), displays the hallmark of Razin’s work: laying out the promise and perils of globalization, a world in which countries are bound to each other not just through international trade but by flows of capital and labor across national boundaries. To trace out the channels of an integrated world, Razin and his co-authors frequently had to cross boundaries among fields of economics, a feature which raised the work’s practical value, according to Atish Ghosh, the IMF’s historian. “Policy issues don’t fall neatly within one field of economics. And topics that Assaf and his co-authors worked on in one decade seem somehow to have become hot policy issues over subsequent decades,” says Ghosh. With Elhanan Helpman (then at Tel Aviv University and now at Harvard), Razin studied how capital flows could affect the pattern of international trade. Helpman characterizes their 1978 book *A Theory of International Trade Under Uncertainty* as an early attempt to break the silos between the study of international trade

(considered part of *microeconomics*) and study of capital movements (within the realm of *macroeconomics*): “it was silly to think independently of trade and macro,” he says. Through an integrated treatment of the two, the book showed that the greater risk-sharing among countries due to capital mobility in turn enabled greater specialization in trade, which was good for productivity. But greater interdependence due to increased specialization also meant countries were more vulnerable when there were disruptions to the global system, say due to financial crises or political turmoil in major countries. Razin developed the theme in subsequent work with other authors, which stress tested economists’ belief that some capital flows such as foreign direct investment could confer greater benefits than other flows such as ‘hot money’ (short-term portfolio flows).

In the 1980s, Razin’s research with Frenkel showed how in an integrated world, the monetary and fiscal policy choices of one country could affect and constrain policy choices of other countries—policy ‘spillovers’ in today’s jargon. National governments jealously guard their independence to tax and spend; but to gain the benefits of an integrated world they have to give up some of this precious sovereignty. “This demonstration of the need for fiscal policy coordination in a world with capital mobility is a defining contribution,” says Ghosh, noting the echoes of this theme in many policy debates. Indeed, the issue is one that the countries of the European Union are grappling with today, as they seek to agree to fiscal rules that will succeed once they fully unify their economies under a single capital market.

Razin had done pioneering work with Lars Svensson on understanding the micro-foundations of the link between terms of trade changes and the current account when there is capital mobility.

### ***Current and capital accounts***

In the 1990s, Razin worked on the interaction between capital and labor mobility, on the one hand, and tax and welfare systems, on the other. Much of this work was done with Efraim Sadka, another colleague at Tel Aviv. While the mobility of capital could be beneficial to countries, the desire to attract foreign capital by lowering taxes could also lead to a ‘race to the bottom’; lower tax revenues in turn could keep governments from offering the public services that their societies needed. The relevance of Razin’s early work on this topic has risen to the



fore as countries compete for foreign capital through tax breaks that deplete their finances, leading many to question how well foreign capital serves the general good.

Razin's work on understanding the benefits and costs of capital flows made him a welcome visitor to the IMF over the 1990s. After the 1994 Mexican 'tequila crisis,' there were concerns that other countries might be at risk. In times past, economists had used simple rules to measure vulnerability, such as a current account deficit (a close cousin of the trade deficit) that exceeded 5-6 percent of the country's income. But with countries tapping into foreign capital, it seemed that they could run higher current account deficits as long they enjoyed the confidence of foreign investors.

Razin worked with Gian Maria Milesi-Ferretti, who recently retired as deputy director of the IMF's research department, to identify candidates, such as low foreign exchange reserves or deteriorating terms of trade, that might signal that a current account deficit was likely to be suddenly reversed. "I had many conversations with Stan Fischer [then the IMF's first deputy managing director]," says Razin. "Fischer understood that, despite all the insights from my theoretical work and Gian Maria's diligence with the data, it was difficult to predict exactly when certain countries would face a sudden reversal and crisis." Indeed, the timing of current account reversals in some Asian economies in 1997-98 proved difficult to predict and the quest for a reliable early warning system for crises remains an elusive one to this day.

Razin's research also forewarned about the interaction between labor mobility and welfare systems, an issue relevant today in the United States and Europe, where populists often allege that migrants to their societies are 'welfare shoppers'—foreigners taking advantage of the native countries' generous support.

### ***Tragedy amidst triumph***

This period of remarkable research activity and intense engagement with policy issues came about against the backdrop of another personal tragedy, his son Ofair's death in 1996 at the young age of 30 after a courageous battle with progressive multiple sclerosis. Displaying his father's tenacity, Ofair had managed in the days

before his death to complete his Ph.D. dissertation in economics at Georgetown University. Razin says he cried the whole time during a long plane journey to Washington D.C. after he got the news, but tried to do so “in a non-visible way” to avoid bothering other passengers.

Razin has honored Ofair’s memory by establishing a prize for the best research paper by a Georgetown economics graduate student and a lecture series in which he has spoken himself, as has his son Ronny (now a professor at the London School of Economics). Other speakers have been the elite of the economics profession, including Stan Fischer, Cecilia Rouse, Jeff Sachs, Dani Rodrik and Nobel Laureate Paul Krugman who has characterized the annual event as “a family reunion” of Assaf’s wide circle of admirers.

In 2001, Razin’s 60<sup>th</sup> birthday celebration attracted the profession’s leading international economists to Tel Aviv—including Krugman and Anne Krueger (former IMF first deputy managing director). Deflecting the praise heaped on him on the occasion, Razin quipped that he wished his parents could have been on hand: “my father would have liked to hear all this praise and my mother would have believed all of it.” He said he had no signs of retiring but was merely taking a “a wonderful break between semesters.” True to his word, he has been very active over the past twenty years, teaching in the graduate program at Cornell University (he retired in 2016), continuing with research, and publishing several books including a well-received analysis of how Israel has made the most of globalization.

While he has been intimately following and writing economics developments in Israel for decades, he put together his ideas in a 2018 book *Israel and the World Economy*. Phillip Swagel, head of the U.S. Congressional Budget Office and a research collaborator of Razin’s, wrote that the book clearly explained why other countries had “experienced problems with globalization [but] Israel had found success.” Unlike many other countries, Israel had been able to guide them large foreign capital flows toward its growth industry—startups in its high tech sector. And Israel was able to absorb a million immigrants—about 20 percent of its population—from the former Soviet Union in the 1990s in a way that helped its high tech sector and overall

growth. But Swagel also notes “Razin’s frankness on the potential pitfalls” of globalization, including growing inequality within Israel—the highest in the developed world.

### *Secrets of success*

Razin turns 80 this year and, true to form, is marking the occasion with the release of a book on how globalization can be set back on track after setbacks due to populism and the pandemic. In an interview with *F&D*, Razin attributed his successful career to the “good fortune to be surrounded by great people ... and to discover and stick to my comparative advantage.” At Chicago, his professors included future Nobel laureates like Milton Friedman and Robert Mundell and his classmates were a future ‘who’s who’ of the field of international finance, including Rudi Dornbusch and also Frenkel and Mike Mussa, both future chief economists of the IMF. At Minnesota, his first job on graduation, “he learnt “GE’ [general equilibrium] -- since Chicago didn’t teach it -- from the finest minds” Razin says; ‘GE’ , refers to the study of interactions among the various sectors that comprise an economy, which can often reveal insights not apparent from studying the workings of one sector alone (‘partial equilibrium’). From Anne Krueger, who was also teaching at Minnesota at the time and has been “a life-long friend and influence,” Razin learnt the importance to taking theories to the data.

Stints at other jobs convinced him that he was best suited for academia. From time to time, he took on administrative jobs at Tel Aviv University but he says the “was never in my element” in those jobs. He did not take to government jobs either. In 1979, he was appointed to one of the top positions in Israel’s treasury. The government had been on a spending binge that had fueled inflation and threatened to bring Israel to the verge of hyperinflation. Razin was public in his warnings about the need to reverse the course of policies, which led to his ouster after only six months in the job. “It was akin to Marty Feldstein having to leave his job under Reagan because he warned about the dangers of deficits,” says Razin. The brief stay in government convinced him that it “academic life was my comparative advantage.”

While staying out of government, he has remained active in commenting on economic and political developments in Israel. His mind is “always preoccupied” with the prospects of peace between Israel and its neighbors. He is reconciled to the likelihood that “peace will come not in my time but in the time of my children and grandchildren.” But it is important not to give up hope of better world however utopian that seems, he urges, citing the last line of a poem by his young grandson: “The kingdom of Utopia is hidden hope amongst a heartless world.”

I appreciate Prakash’s generosity!

### **Jewish People who fascinated me**

**Moses ben Maimon— the RAMBAM** (mimonides), 1135– 1204, Jewish scholar, physician, and philosopher, the most influential Jewish thinker of the Middle Ages, b. Córdoba, Spain, d. Cairo. He is sometimes called Rambam, from the initials of the words Rabbi Moses ben Maimon. His organization and systemization of the corpus of Jewish oral law, is called the *Mishneh Torah* [the Torah Reviewed] and is still used as a standard compilation of [halakah](#). He also produced a number of discourses on legal topics; a work on logic; a treatise on the calendar; and several medical books, including an important work on hygiene. His great philosophical work is the *Moreh Nevukhim* (tr., *Guide for the Perplexed*, 1963), written in Arabic, in which he explained the esoteric ideas in the Bible, formulated a proof of the existence of God, expounded the principles of creation, and elucidated baffling metaphysical and religious problems. The *Moreh Nevukhim*, which reflects Maimonides's great knowledge of Aristotelian philosophy, dominated Jewish thought and exerted a profound influence upon Christian thinkers.

Moses Maimonides was a Renaissance man before there was a Renaissance: a great physician who served a sultan, a dazzling Torah scholar, a community leader, a daring

philosopher whose greatest work—— The Guide for the Perplexed—— attempted to reconcile scientific knowledge with faith in God. He was a Jew living in a Muslim world, a rationalist living in a time of superstition. Eight hundred years after his death, his notions about God, faith, the afterlife, and the Messiah still stir debate; his life as a physician still inspires; and the enigmas of his character still fascinate. Told by Sherwin B. Nuland

**Shi Kefa** (1601- 1645 CE), he came from the Shi family of Kaifeng (Capital of the Northern Song Dynasty) which was one of the seven Jewish families there. The names were assigned by the government, and Shi corresponds to Simon, so it must be something like 'Ben Shimon', in the beginning.

Shi was not only a brilliant general but also a great calligrapher. In fact, after his capture, the Manchus tried their best to offer him a high position with praise, but was firmly but civilly refused, and only for considerable time, the Manchus granted his wish to become a martyr, and established a memorial hall to honor his memory in order to promote the spirit of loyalty in the entire Manchurian Empire.

Kefa in Chinese means, 'worthy to be emulated' since 'fa' means both emulation and the LAW. Kaifeng Jews were very observant in those years. Chinese record noted that in eating meat, they avoided the sciatic nerves for religious beliefs. Without emphasizing the depressive aspects of his end, one can still feel that without understanding Masada (or what is mathematically 'the Josephus Problem'), one cannot gain complete insight regarding the Chinese historical record about Shi Kefa (History recorded, he chose to hurt himself, but stopped short of taking his own life, when his personal aides could not follow his personal instruction, and presumably his admiring captors satisfied his wish). This history has been conveyed to me by Henry Wan.

**Lev Nussimbaum**, a Jew, transformed himself into a Muslim prince and became a best-selling author in Nazi Germany. Born in 1905 to a wealthy family in the oil-boom city of Baku, at the edge of the czarist empire, Lev escaped the Russian Revolution in a camel caravan. He found refuge in Germany, where, writing under the names Essad Bey and Kurban Said, his remarkable books about Islam, desert adventures, and global revolution, became celebrated across fascist Europe. His enduring masterpiece, *Ali and Nino*— a story of love across ethnic and religious boundaries, published on the eve of the Holocaust— is still in print today. But Lev's life grew wilder than his wildest stories. He married an international heiress who had no idea of his true identity— until she divorced him in a tabloid scandal. His closest friend in New York, George Sylvester Viereck— also a friend of both Freud's and Einstein's— was arrested as the leading Nazi agent in the United States. Lev was

invited to be Mussolini's official biographer— until the Fascists discovered his true origins. Under house arrest in the Amalfi cliff town of Positano, Lev wrote his last book— scrawled in tiny print in half a dozen notebooks never before read by anyone— helped by a mysterious half- German salon hostess, an Algerian weapons-smuggler, and the poet Ezra Pound. The story is told by Tom Reiss.

### **Albert Einstein, the Zionist**

Einstein had initially thought that his first visit to America might be a way to make some money in a stable currency in order to provide for his family in Switzerland. “I have demanded \$15, 000 from Princeton and Wisconsin,” he wrote his friend and fellow scientist Paul Ehrenfest. “It will probably scare them off. But if they do bite, I will be buying economic independence for myself – and that's not a thing to sniff at.”

The American universities did not bite. “My demands were too high,” he reported back to Ehrenfest. So by February of 1921, he had made other plans for the spring: He would present a paper at the third Solvay Conference in Brussels and give some lectures in Leiden at the behest of Ehrenfest.

It was then that Kurt Blumenfeld, leader of the Zionist movement in Germany, came by Einstein's apartment with an invitation in the form of a telegram from the president of the World Zionist Organization, Chaim Weizmann. Weizmann's telegram invited Einstein to accompany him on a trip to America to raise funds to help settle Palestine and, in particular, to create the Hebrew University in Jerusalem. When Blumenfeld read it to him, Einstein initially balked. He was not an orator, he said, and the role of simply using his celebrity to draw crowds to the cause was “an unworthy one.”

Blumenfeld did not argue. Instead, he simply read Weizmann's telegram aloud again.

“He is the president of our organization,” Blumenfeld said, “and if you take your conversion to Zionism seriously, then I have the right to ask you, in Dr. Weizmann's name, to go with him to the United States.” “What you say is right and convincing,” Einstein replied, to the “boundless astonishment” of Blumenfeld. “I realize that I myself am now part of the situation and

that I must accept the invitation.” One person who was not only astonished but dismayed by Einstein’s decision was his friend and colleague in Berlin, the chemist Fritz Haber, who had converted from Judaism and assiduously assimilated in order to appear a proper Prussian. Like other assimilationists, he was worried (understandably) that a visit by Einstein to the great wartime enemy at the behest of a Zionist organization would reinforce the belief that Jews had dual loyalties and were not good Germans. In addition, Haber had been thrilled that Einstein was planning to attend the Solvay Conference in Brussels, the first since the war. No other Germans had been invited, but Einstein was (in the words of Rutherford) “for this purpose regarded as international,” and his attendance was seen as a crucial step for the return of Germany to the larger scientific community. Story told by Walter Isaacson.

## **Appendix: Intellectual upbringings, writing books/papers/grandchildrenpoems**

### **Chicago Days: The Intellectual Transformation**

Stephen E. Spear and Warren Young, economic historians write on the transformative 1967 Summer camp in the University of Chicago, as follows.

The 1967 Chicago summer seminar was characterized by the fact that Uzawa did not actively participated the beginning of the period, as he was obliged to be in Japan that time, and thus the seminar was led, until his return, by his former Chicago Ph.D. student, Sidrauski, who was then an assistant professor at MIT. Graduate students included Calvo, Ethier, Mirman, Narayanan, Nissen, Onitsuka, Razin, and Rhee, and comprised the most diverse group of participants in the seminar's brief history. The group included Ph.D. students from Chicago, Yale, Berkeley, Rochester, and even the University of Kansas (Cutler, MSSB Projects Summary Report, July 12, 1973). As noted above, the 1967 Uzawa Chicago summer seminar was composed of a heterogeneous group of a dozen or so graduate students. It was, at first, led by Sidrauski, Uzawa's former graduate student, due to his absence at the beginning of the workshop. Moreover, it was focused, as was the 1965 summer seminar, in the main, on growth. Among the members of the 1967 group who presented papers based upon their Ph.D. work were Calvo and Razin. Ethier and Mirman, attended, and were influence, to one degree or another by Uzawa. Theories that explain endogenous technological change were known as early as [the] 1960s. Arrow's (1962) model of learning by doing, Uzawa's (1965) model of human capital driven productivity improvements, and Shell's (1967) model of inventive technological activity. These models are part of the "First Wave" of the literature on [endogenous] economic growth... I contributed to developing the theory

of the effect of accumulation human capital, in addition to the accumulation of physical capital, on growth, in my doctoral thesis from 1969 [chapters from which were published in RES (1972a), and *Metroeconomica* (1972b)].... I noticed that in Uzawa's model private and social returns coincide and applied the Uzawa model to the competitive economy. Years later this theory was extended by Lucas (1988). Interestingly enough, Razin's RES paper "Optimum investment in human capital" (1972a) was first presented in September 1970 at the Second World Econometric Society Congress under the title "The optimum rate of investment in human capital" at the session "Education" chaired by Phelps [Program, *Econometrica* 1971,23]. Moreover, as Razin recalled (communication 19 November 2015) regarding his 1967 paper and 1969 dissertation: "Actually the dissertation was split into a 'normative' version, later published in RES (1972a) and the market-based version, later published in *Metroeconomica* (1972b), then a theory journal". In another recent recollection, Razin first wrote (communication 20 November 2015) that: "Uzawa is well known...for his seminal contribution to endogenous growth. In his article in the 1965 IER, productivity permanently increases as the result of permanent accumulation of human capital. Uzawa was thus a first mover in the new growth theory". He continued: "My Ph.D. dissertation ["Investment in Human Capital and Economic Growth: a theoretical study", University of Chicago, June 1969] has been an (and the first) application to the market economy of Hiro's [Uzawa's] human capital optimal growth theory". Because of its importance for our narrative, we present Razin's further recollections in detail below (communication 20 November 2015): I started to develop the paper at the 1967 summer camp. This summer camp, the 1967 MSSB-NSF sponsored Chicago seminar was led by Uzawa. The student group was: Burton, Calvo, Ethier, Marvy, Mirman, Narayanan, Nissen, Onitsuka, Rhee, Smith, Tsushima and me. Miguel Sidrauski was asked by Uzawa to be in charge. Uzawa was absent most of the time since he began his move from Chicago to Tokyo. There I interacted with several bright young students that were working on cutting edge research projects: Lenny Mirman (Rochester), Bill Ethier (Rochester), Guillermo Calvo (Yale). Hiro got stranded in Japan. He asked Miguel Sidrauski (his former student, and then the young star from MIT, who died from cancer less than two years afterwards) to lead the "Summer Camp". We, the students, and Miguel, our leader, were highly interactive. It was an exciting first experience of an interaction within a research group. I started to develop a paper on human capital and economic growth, following an influential paper by Hiro Uzawa, which demonstrates how a centrally planned economy can efficiently affect growth through the allocation of the economy's resources between a sector that produces know how and other productive sectors. In my paper which turned out to be my Ph.D. Dissertation (1969), I applied these ideas to decentralized, market-based, equilibrium model of an economy which accumulates human capital and physical capital. I noted that "economists have long noticed that people play an important



role in the process of production, and in return they are rewarded by an amount which constitutes the largest fraction of income.” I guess I heard it from T. W. Schultz. In my model the accumulation of human capital is the driving force behind a permanent rate of increase in income per capita. This feature was dubbed in the 1980s as endogenous growth. I presented an unfinished paper on human capital accumulation and economic growth at a 1967 conference [the November 1967 Uzawa Chicago Conference on Growth, to be discussed below; see JPE (1969), 574]. The human capital-physical capital growth paradigm turned out to be important, because one stream of the Endogenous Growth Theory, decade and a half later, in the mid-1980s, grew out of another Chicago “school” that my endogenous growth model was almost identical to the Lucas’ well cited paper on endogenous growth. Perhaps my contribution which appeared in print (RES,1972), when the profession got a little “tired” of what seems to have been over-occupation in the theory of economic growth after over a decade of significant developments in this area [has been overlooked]. I was extremely successful in terms of visibility and citations with another early endogenous growth paper of mine (in which the endogenous population growth cum education is the driving force for a permanent rise in income per capita because parents trade off “quality for quantity” of their children in the growth model, AER 1975).

## **First Generation**

### **Books of my father:**

#### **1. The Origin of Ancient Isrsael's Kingdom**

**By Shunia Bendor and Mordechai Razin**

#### **2. מוצא המלוכה בישראל (מבוא לספר שמואל) מאת ש. בנדור ומ. רזין**

**( שמואל לספר מבוא ) בישראל המלוכה מוצא : הכותר שם**

**בנדור . ש רזין . מ : המחבר שם**

**: ההוצאה שנת 1959**

**כריכה : קשה**

הוצאת ספרית פועלים

מפקדים ומגילות יחס ומשמעותם לימי שאול ודוד מאת מרדכי רזין, ספרית אורנים, תש"ל.2

## Second Generation

### **Books of mine:**

1. Elhanan Helpman and Assaf Razin,

#### **A theory of international trade under uncertainty**

Academic Press, 1978;

This is how Elhanan Helpman describes the joint project which resulted in the book: "My first major project was undertaken jointly with Assaf Razin. We were both familiar with international finance and with international trade. We were puzzled by the fact that assets play important role in the theory of international finance but hardly any role in the theory of international trade. Where this dichotomy comes from? We concluded that trade in assets may interact in an important ways with trade in goods and services. As a result it would be interesting to develop a theory that clarified these interactions. It should also help in the understanding of the effects of capital- market policies on trade in goods and assets." The result was a series of papers which were synthesized into the book. One chapter of the book, chapter 11, which was not published as a paper, became 30 years later the base line for the modern theory of international equity flows.

2. Jacob Frenkel and Assaf Razin, Fiscal Policies and the World Economy

MIT Press, 1987, Japanese Edition 1990, Spanish Edition, 1991,

Second Edition, 1992, Third Edition 1996;

3. Marc Nerlove, Assaf Razin and Efraim Sadka, **Population Policy and Individual Choice :**

**A Theoretical Investigation**, (Research Report/ International Food Policy Research

Institute, 60) Paperback (June 1987), International Food Policy Research Institute;

4. Marc Nerlove, Assaf Razin, and Efraim Sadka

**Household and Economy: Economics of Endogenous Fertility** (Economic Theory Econometrics, and Mathematical Economics), Academic Press, 1988;

5. Jacob Frenkel and Assaf Razin, Spending, Taxes, and Deficits : International-Intertemporal Approach (Princeton Studies in International Finance, No 63), (December 1988) Princeton University, International Finance;

6. Jacob Frenkel and Assaf Razin,

**Fiscal Policies and Growth in the World Economy: An Inter-temporal Approach** 1986, MIT Press;

7. Amnon Neubach, Assaf Razin, Efraim Sadka,

**Israel's Economic Growth** (Hebrew)

"Maariv" Publishing House, 1988.

8. Amnon Neubach, Assaf Razin, Efraim Sadka,

Challenges to the Economy of Israel (Hebrew)

"Maariv" Publishing House, 1990.

9. Jacob Frenkel, Assaf Razin, Efraim Sadka

**International Taxation in an Integrated World**

(January 1992) MIT Press;

The ongoing process of increased integration of national economies, culminating in the single European market of 1992, still leaves as virtually separate the national fiscal systems. In this book we provide a new treatment of international taxation, one that focuses on the interactions between fiscal policies of sovereign nations and the magnitude and directions of international capital and goods flow in an integrated world economy. They unfold a lucid and clear analysis of the implications of tax competition, tax harmonization, capital flight, external imbalances, and the terms of trade for the design of efficient national tax systems. The book reviews the principles

of international taxation and international macroeconomics, analyzes the international transmission of various tax and budget policies, and provides a rigorous analysis of optimal open economy tax policy in an integrated world economy. Special emphasis is placed on the interdependence between direct and indirect taxes and on the international allocation of saving, investment, and production.

10. Assaf Razin and Efraim Sadka

**The Economy of Modern Israel: Malaise and Promise**

Hardcover (September 1993) University of Chicago Press;

The book covers the entire economic history of the state, focusing on links between Israel's economic growth, its integration into world markets, its tax and welfare systems, and the political conflicts in the Middle East. It presents the first detailed economic analysis of the Palestinian uprising, showing how the unrest has led to a fall in Arab employment in Israel and serious economic loss to the occupied territories with some loss to Israel. The book also examines how the uprising has affected Israel's financial standing internationally and the inflow of foreign aid. The book, written at the very start of the waves of immigration from the former Soviet Union, sees the long run promise for Israel's economy, despite the initial difficulties in absorbing the immigrants. The book flashes out the coexistence of a flourishing and highly competitive private sector with a relatively large public sector, which is undergoing privatization; and a tax structure that encourages long-term saving and business growth. By examining the interplay between the exchange rate, interest rates, and monetary and policies, the book investigates the possibilities for renewed growth and concludes, anti-inflation at the point of time it was completed, 1991, before the Oslo agreement and the peace with Jordan, that the future of Israel's economy crucially depends on serious efforts to secure peace in the Middle East.

11. Assaf Razin and Efraim Sadka

**Population Economics** (January 1995)

MIT Press;

In the book we analyze two family education -fertility regimes which we refer to as “children as capital goods” and “children as consumption goods”, respectively. The as “children as capital goods” regime

means that parents treat their children as a “capital good” , bringing them up and investing in them with the goal that the children when they grow up will take care of their parents who reach an old age. This is a good model to analyze fertility choices in traditional economies (especially rural economies) where the representative household has no good access to financial market in order to save for old age. Social so-called security and public education do not exist. In the “children as consumption goods” regime financial markets are well developed and the government provides old age social security. Fertility decision is based on altruistic and kinship motives, predominantly. Parents, who are caring for the welfare of their children, bring out fewer children, but invest more in the education of each one of them. Children in this regime are costly, because of the high level of education invested in them.

12. Gian Maria Milesi- Ferretti and Assaf Razin

### **Current- Account Sustainability**

(Princeton Studies in International Finance, No 81)

(November 1996) Princeton University, International Finance Section;

Two key questions that arise in macroeconomic policy analysis are whether a given level of the current account deficit is "appropriate" or "excessive," and whether the current account balance is sustainable. <sup>1</sup> Researchers who try to quantify these concepts face several difficulties. Establishing whether a given level of the current account is excessive requires a model or a framework that can determine what the "optimal" or "appropriate" level of the current account is— clearly not an easy task. Defining current account sustainability is also a difficult endeavor: the current account is the quintessential endogenous variable, and it is determined not just by public policy but also by private agents' saving and investment decisions. Therefore, automatically extrapolating the current level of this variable into the future, in order to assess whether a country will be able to service its liabilities and/ or secure access to external financing for future liabilities, is an exercise fraught with uncertainties. Notwithstanding the difficulties highlighted above, a substantial portion of research at the IMF on the current account has indeed focused on these two related questions of "optimal" levels and sustainability. Some other papers have instead studied current account determinants and responses to shocks in both industrial and developing countries. A literature review of the two research approaches is presented below.

13. Jacob Frenkel and Assaf Razin,

### **Fiscal Policies and Growth in the World Economy**

2nd edition (1992) MIT Press

Third Edition, with the cooperation of Chi- Wa Yuen (October 1992)

MIT Press;

14. Assaf Razin and Efraim Sadka

### **Labor, Capital, and Finance: International Flows**

Cambridge University Press, Paperback (September, 2001)

Chinese edition 2003

15. Assaf Razin, and Efraim Sadka,

### **THE DECLINE OF THE WELFARE STATE: POLITICAL ECONOMICS OF DEMOGRAPHY AND GLOBALIZATION**

MIT Press, 2005.

In the coming decades, the population of the industrialized world is forecast to age dramatically. In the European Union, before the 2004 enlargement, old- age dependency, defined as the ratio of the population aged 60 and older to those between ages 15 and 59, is projected to rise from 35 percent in 2000 to 66 percent, in 2050. Within the European Union, aging is expected to be most pronounced in Germany, Italy and Spain, where this ratio is forecast to rise to 71, 76 and 81 percent, respectively, by 2050. Aging trends are almost as severe in Japan, where old- age dependency is forecast to rise from 36 to 70 percent over the same period. In comparison, the projected population trends in the United States look almost benign. The Census Bureau currently forecasts that the old- age dependency ratio will reach 47 percent in 2050, up from 27 percent in 2000. The aging of the population has far- reaching implications for national pension systems. In the continental Europe, most state pension systems are unfunded (pay- as- you- go systems) and the benefits are quite generous. This

will necessitate a sharp rise in taxes if benefits are maintained largely intact.

The O. E. C. D. predicts that France, for example, will have to spend 33 percent more as a share of gross domestic product than it does now.

Similarly, the widespread low- skill migration also puts a strain on the public finance soundness of the welfare state. Being relatively low earners, migrants are typically net beneficiaries of the welfare state, that is, they are expected to receive benefits in excess of the taxes (contributions) they pay.

## 16. Assaf Razin and Efraim Sadka

### **Foreign Direct Investment:**

#### **Analysis of Aggregate Flows**

Princeton University Press, October 2007

The traditional portrayal of international capital flows is hardly reminiscent of the FDI flows among developed countries, which are much larger than those from developed to developing countries. Although net aggregate FDI flows from, or to, a developed country is typically small, the gross flows are quite large. Flows among the developed countries mainly seem to be the ownership of productive assets, moving them to owners who want them re-shuffle more than their current owners and who are willing to pay the most for them. Presumably, capital flows move assets from less efficient to more efficient owners, or from owners who are technologically or commercially backward in their industries to firms that are technological leaders. In none of these cases do such flows necessarily change the location of the production, assets, or employment of these industries, though. There arises a question whether FDI plays any useful economic role except the mere shift of asset ownership. Similarly, in many cases FDI to developing countries is also merely a round-tripping of capital. Savers in a developing country which does not have developed round-tripping and well- functioning saving and financial intermediation institutions export their capital to a location which specializes in exporting back FDI to this country (China and Hong Kong are a notable example). In this case too there arises the same question of whether this

round-tripping of capital, which created no net import of capital, serves any useful economic role.

17. Assaf Razin, Efraim Sadka, and Ben Suwankiri

**Migration and the Welfare State: Political- Economy Based Policy Formation**

MIT Press, 2011

*"Give me your tired, your poor,  
Your huddled masses yearning to breathe free,  
The Wretched refuse of your teeming shore.  
Send these, the homeless, tempest-tost to me,  
I lift my lamp beside the golden door!"*

*Emma Lazarus, 1883*

In the 19th century, these words were so emblematic of the spirit of the free-immigration era in the US that they were engraved in bronze at the base of the Statue of Liberty. These words might not be so popular if they were written today. Back in 1883, the idea of the welfare state and the threat it would bring to free immigration was still in its embryonic state in Europe and had yet to be brought to the US shores. From one hundred years before to one hundred years after, economists have argued in favor of the free movement of peoples. In 1776, Adam Smith labeled the restriction on immigration as being just as debilitating as a restriction of capital movements. Towards the end of the 20th century, Milton Friedman remarked that free immigration and a welfare state are mutually exclusive. A welfare state with open borders, he argued, might turn into a haven for the poor and needy from all over the world, draining its finances and bringing the welfare system to its knees. Yet whereas free capital mobility is now widespread, free migration is rare indeed.

The Nobel Laureate economist, Milton Friedman, had it right: "It's just obvious that you can't have free immigration and a welfare state." That is, a generous welfare state would be under constant attack by the many would be immigrants who yearn for its many benefits. Sooner or later there be formed a political coalition in the welfare state that will either curtail its generosity or restrict in-migration, or both.

On the other hand, a welfare state, especially an aging welfare state, may welcome young and skilled



migrants. Thus, the attitude of the native- born population towards migration depends on the skill composition and age distribution of the would- be migrants; and migration policies may be “tailored” for different categories of potential migrants. Also, within the welfare state there is typically no consensus with respect to the generosity of the state. How these conflicts are resolved in a [political- economy set up--- this is the subject matter of the book.

**18.** Linda B. Glaser from Conell writes: For economist Assaf Razin, 2015 has proven a defining moment in his career, with the release of two new books representing more than a decade of work. Razin calls it a “consolidation moment,” though both books having a November release date is entirely coincidental.

*Understanding Global Crises: An Emerging Paradigm* (MIT Press) is based on Razin's graduate lectures that synthesize the differing views of economists. The first chapters give a comprehensive historical account of major financial crises in the last 30 years around the globe, identifying the essential elements to be understood: the currency crisis, the stock market, the banking crisis, the macroeconomic mismanagement that leads to crisis, and the birth and bursting of bubbles.

The subsequent chapters are targeted to graduate students and professionals who can penetrate the analytics Razin applies to these elements of financial crises. In the epilogue he addresses the “emerging paradigm” of the title. “I offer no definite conclusions,” says Razin. “We don't have an overarching framework in economics to understand a crisis of this global proportion.” But, he adds, the very heated exchange over austerity vs. stimulus policies has produced new ideas and new literature.

The second book, co-authored with Efraim Sadka of Tel Aviv University, is based on research the two have been collaborating on for the last 15 years. “Migration State and Welfare State: Why Is America Different from Europe?” (Palgrave-MacMillan Pivot) examines two key policy differences between Europe and the U.S. While both are welfare states without free migration from the rest of the world, the European Union has more generous welfare state provisions, higher taxes and more liberal immigration policies than the U.S. ([video](#))

“There's no free migration because they are welfare states and thus are magnets to immigrants who could burden and undermine the welfare state,” explains Razin. But while both Europe and the U.S. employ restrictions on migrants, 60-70 percent of world migrants who are skilled come to the U.S. In contrast, Europe attracts a majority of unskilled labor.

The key difference, the researchers found, lies in the organization of the U.S. as a federal system of states, with federalized taxation and welfare and migration policies. The EU, in contrast, is a collection of 28 independent states with little coordination of fiscal and migrant policy. The EU's financial fragmentation results in competition between states, which leads to greater welfare-state generosity and less screening migration policy.

19. In 2017 I closed the circle, starting from the brief top position in the Israeli Government in 1979 to today, and wrote an economic history book: *Israel and the World Economy: The Power of Globalization*. The book, that MIT Press publishes, is forthcoming in 2018. In the Preface I wrote:

Globalization is currently under attack. Brexit may have been the first wave of anti-globalization and rising populism that gushes over the world in 2016; particularly in the most advanced nations. Meanwhile, European countries like France, Greece, the Netherlands, Spain, Denmark and others see anti-EU forces gathering strength, and their parties gaining more votes in domestic and EU elections. Anti-globalization forces engage in fierce battles in different fields involving more countries both in and outside EU. Globalization forces which force a steady decline in low-tech manufacturing industries brought 2017 change of guards in the US.

The Israeli economy is a remarkable development success story. A middle-income economy in the midst of a hyperinflation in the early 1980s, Israel grew into one of the most thriving economies in the world: and this despite the ongoing security challenges, that are most certainly a drain on its resources. Israel's successful economic trajectory is particularly interesting given how enthusiastically policymakers rode the late-20th and early-21st century globalization wave. The fall of the Berlin wall brought up the unification of Germany. The disintegration of the former Communist Block allowed full integration of Central Europe into the world economy. Both Russia and China became members of the WTO.

The state of Israel, founded in 1948, benefited immensely from the post-1945 globalization wave. Steadily reforming its financial and commercial institutions, and becoming increasingly globalized in trade, labor market, and finance, Israel became a member of the OECD; the accession took place in 2010. Currently, Israel's is a thriving economy, integrated tightly into the world economy, Israel also features a remarkable technological prowess.

The book objective is two-fold: First, there is much interest to spell out, rigorously, and forcefully, major historical experiences where globalization played a significant role for advancing economic progress. This is vital because the globalization has taken a somewhat defensive position in the general public economic-policy

debates. Second, a rigorous analysis of some of the major globalization episodes during the decades long emergence of the economy of Israel, can teach economists and policy makers how a globalized economy takes advantage of international trade, labor mobility, its international financial links, and at the same time weathers headwinds, such as those triggered by the 2008 global financial crisis. More generally, how economic progress come about. The book highlights the power of globalization in contributing to the fast evolution of Israel's emerging economy. An economy that despite of its many unique features, still bears important similarities to other economies, at a corresponding stages of their economic development. A lesson is that once a gradual opening up process is set, time-consistent macroeconomic policy is adapted, and well-regulated institutional setup is put in place, Israel's economy has been able ride on growth-enhancing globalization flows, and weather its chilly storms.

The book addresses several unprecedented economic episodes, explicitly. They have buffeted the global economy during the past several decades, and turned out to be inflection points in the development of Israel's economy. Some of the extraordinary events, external as well as domestic by their origin, are:

- (1) The collapse of the Soviet Union, and the massive wave of high skill immigration to Israel which followed;
- (2) The Great Moderation, in inflation and employment fluctuations in the advanced economies, and the convergence of Israel's inflation to the low world inflation rates;
- (3) The 2008 Global Financial Crisis (epi-centered in the US; spreading violently to Europe), and the surprising robust performance of the Israeli economy;
- (4) The rise of the Asian markets, recently opened up to Israel's exports, which became abundant source of outward foreign direct investments;
- (5) The global information technology surge, and its spillovers to the emerging high-tech Israel;
- (6) A cascade of Palestinian uprisings stretching over the last few decades, their cyclical effects, as well as their long term uncertain economic implications;
- (7) Brain drain of top talents, facilitated greatly by Israel's advanced higher-education system, and the pro-skill bias in receiving-country immigration restrictions.

Israel has an unusually high fertility rate among the developed economies,. The high fertility is linked to a flagging labor-force participation. It leads to diminished skill attainment of increasing portions of the labor

force. A rise in income inequality in all advanced economies take place in Israel, with a potential for setting off social-political divide.

The book compares the developments of Israel to a select group of developed and emerging- market economies, to clarify both similarities and differences. To accomplish this task, I offer a rigorous survey of unique defining moments and events that took place during the fast development of the economy. To gain broader historical perspective, the book also looks back into history, at the unique saga of Israel's high-inflation; the period where it had to restructure under developed financial, and monetary, institutions. The inflation conquest had been aided by the development of institutions permitting monetary and fiscal policies, as well as the buildup of well-regulated financial sector. These elements provided better macroeconomic stability and help mitigate business cycle fluctuations.

In the case of Israel, its fast development came, however, at the cost of rising income inequality and social polarization. Israel now has the most unequal distribution of income among OECD countries and its public education has declined from one of the best to one of the worst in the OECD. Israel's income redistributive policies, from rich to poor, from healthy to the sick and from young to old, is significantly less comprehensive in scope, compared to the European systems. It has been becoming even less so over the last decades.

Other major flaws in the social and economic fabric, are the on-going brain drain, and emerging elements of reversed-demographic transition. That is, high fertility rates by ultra-orthodox families together with feeble investment in job- market skills of their children. This group poorly participate in the job market and impose an increasing fiscal burden. The unresolved Israeli-Palestinian conflict generates uncertainty about the political-economic structure of Israel in the near future. These weaknesses remain major long-term challenges.

The book attempts to marry economic theory and empirical evidence and narrative and does so in a way that is enlightening to the specialist, but it is also digestible for the non-professional reader. It provides an opportunity for the reader to look through the rear mirror at the saga of Israel's high-inflation, and the inflation conquest. To connect to the earlier literature, the book provides a review of books surveys of the earlier phases in the development of the economy of Israel. There could be at least two potential groups of readers: a. Policy makers, academic and non-academic (international institutions, banks, etc.) researchers and students interested in the Israeli Economy. b. Policy makers, academic and non-academic researches, and advanced undergraduate and graduate students interested in the effects of globalization.

## Second and Third Generations

### **Ronny's first published paper**

Razin, Ronny (2003) **Signaling and election motivations in a voting model with common values and responsive candidates.** *Econometrica*, 71 (4). pp. 1083-1119.

## Fourth Generation

### **Iddo's Winning Poem, 2010**

Utopia

Polluted air invades his lungs.

Out looms a breeze so soft and clean,

Atop his head grow fields of green,

Like tender sheets shielding the young,

Dwellers roam upon his shores,

Like ants dashing through their holes,

Suddenly the great bell tolls,

To end what the king deplores.

Fruit grows hanging from his veins,

Ripe and sweet and cold as stone,

There he sits on a gold throne,

Ruler of the land he reigns.

All bow down before his might

monarch of this flawless land,

Never did such power stand,

For he supplies his realm with light

So bright it blinds the mortal eye,

The kingdom of Utopia,

Is hidden hope amongst a heartless world.