

An open letter concerning the economic harm resulting from the proposed reforms in the judicial system in Israel

We, scholars in the fields of economics and management, express our deep concern in light of the legal and public service reforms proposed by the Israeli government, which are expected to undermine the independence of the judicial system and the public service, and which, in our view, will cause unprecedented damage to the Israeli economy.

The Israeli economy is highly regarded by international economic institutions and credit rating agencies. This achievement is the result of a long and continuous effort by Israeli governments on both sides of the political spectrum, and is due, among other factors, to the independence of the judiciary system and the public service. This high regard and the trust that accompanies it are essential to the functioning and prosperity of the Israeli economy, which is a small and open economy that maintains a reciprocal relationship with the largest economies in the world. The undermining of judiciary independence will greatly increase the likelihood of credit rating downgrades of the Israeli government and will increase capital costs for Israeli firms. For example, the surprising credit rating downgrade of the Polish government bonds in January 2016 by the credit rating agency S&P, was explicitly explained as the result of the decrease in the independence of the constitutional court and public broadcasting.

A lower ability of the government and private sector firms to raise capital will cause a decrease in investments and is expected to harm the Israeli high-tech industry in particular, which is the growth engine of the Israeli economy. These harmful effects are expected to intensify given the emerging crisis in the tech industry, and the possibility that high-tech companies will relocate their headquarters and research centers abroad. Furthermore, a combination of a decline in the tech industry and the reduction of civil rights due to the weakening of the legal system is expected to also cause a "brain drain", which will have dire consequences for the economic resilience of Israel.

Beyond the immediate effects of the government's proposed reform, there is a serious concern that the weakening of the judicial system will cause long-term damage to the growth trajectory of the economy and the quality of life of Israeli residents. This assessment is based on some of the most cited studies in economics, including those of Nobel laureate Douglass North, and some of the world's foremost economists, such as Andrei Shleifer and Daron Acemoglu. These studies suggest that the concentration of vast political power in the hands of the ruling group, without sufficient checks and balances, is a major cause of economic backwardness. The literature suggests that without effective limits on the power of the executive branch, legislation becomes specific and personalized and the bureaucratic apparatus weakens and becomes unprofessional. Not surprisingly, in recent years there has been an increase in the level of corruption in Hungary and Poland. Research suggests that a decline in the quality of institutions is almost irreversible. The institutional equilibrium that can foster growth is delicate, and deviations from it can be long-lasting, as harmful political and economic institutions tend to perpetuate for many decades.

Therefore, we alert firmly against the coalition's current initiatives, which constitute a fundamental change to the Israeli political and legal institutions and a danger to the future of the Israeli economy.