

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

At the end of January 2023, [the first open letter](#) was published by economists who expressed their deep concern about the enormous damage that could be caused to Israel's economy due to the coalition's legislative initiatives. The manifesto was signed by hundreds of faculty members, including Nobel laureates, Israel Prize laureates, former senior executives at the Bank of Israel and the public service, past and present presidents of the Israel Economic Association, deans, and heads of departments. This broad agreement between economists is unprecedented.

Our warnings were joined by many others in the international business community, including credit rating agencies, foreign investors which halted their investments in Israel, and Israeli firms that decided to withdraw their capital from Israel while considering relocating their operations abroad. Additionally, friends of Israel across the world expressed their deep concerns, including President Biden and President Macron, the president of the OECD, as did the international financial press. The Economist wrote that the reforms will "damage the country at home and abroad," the Financial Times stated that "these are dark days for Israel," and Bloomberg raised concerns about "a major judicial regime change."

Unfortunately, our warnings have not been heeded and the Israeli government is advancing the legislative reform while ignoring the warnings stemming from both within and outside of Israel regarding the expected economic damage. For example, in the February 20 meeting of the Finance Committee of the Knesset, the committee determined that "there is no connection between the reform of the judicial system and damage to Israel's economy, and that an attempt to connect the two is a political attempt." This statement was issued after four economics professors warned against the reform at the meeting, and no other economist expressed an opposing opinion. In fact, not only did the government not halt the proposed legislative reform, but also recently acted to weaken the independence of other key institutions besides the judicial system. For example, politicians proposed to intervene in the Bank of Israel's interest rate policy, to appoint a political operator to the post of chief statistician, to interfere in the management of the National Library, and to harm the independence of public broadcasting and academia in Israel. These proposed actions will result in additional damage to the Israeli economy.

Since the publication of our first manifesto, indicators have accumulated showing that the damage to the Israeli economy may be faster and of larger magnitude than our original expectation. In recent weeks, the first signs of capital flight have been recorded, and these will require the Bank of Israel to continue raising interest rates at a rapid pace. Even if markets stabilize in the short term, international evidence from episodes in which countries underwent similar processes show significant long term value destruction, including reduced growth rates and diminished quality of life. We believe that it is not too late to stop the train before reaching the abyss.

The Israeli economy has reached significant achievements in recent years. Reforms that will increase the number of judges, prevent the unnecessary prolongation of legal proceedings, facilitate the resolution of disputes and streamline the enforcement of contracts and the protection of property rights, can help the economy to flourish and prosper. Not only do the currently proposed legislative initiatives not address these important problems, but they prevent important oversight of the executive authority and weaken the protection of property rights. For example, without a strong and independent judicial system, the government may in the future negatively impact pension savings, real estate ownership, or impose retroactive taxes on other economic activity.

We call on the government of Israel to heed the many voices of warning from home and abroad, including the voices of senior economists whom the Prime Minister has consulted with over the years. The experience gained in other countries where politicians ignored the warnings of economists---as happened in the UK just a few months ago---shows that such disregard may cost us all dearly. The Israeli government would do well to consider its steps, lest we all regret that we did not prevent serious harm to the welfare of the residents of Israel and to our common future.