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Policy of Knowledge Economy *(The Israeli Case)*

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Abstract
Israel is today an industrialized country with most of its manufacturing, including many traditional fields, based on intensive and sophisticated research & development and hi-tech processes, tools, and machinery. This is the outcome of very rapid and intensive development. Israel's economy continues to register remarkable macroeconomic and fiscal performance. Growth is strong and unemployment low and falling. With low interest rates and price stability, financial policy is prudent, and public debt is comparatively low and declining. This article will try to present the main charities of the Israeli economy by mapping the most important factors.

Keywords: Economy, Government, National Policy, Globalization

1. Introduction
The Israel's economy continues to register remarkable macroeconomic and fiscal performance. Growth is strong and unemployment low and falling. With low interest rates and price stability, financial policy is prudent, and public debt is comparatively low and declining. The external position is solid, thanks to a dynamic high-tech sector. The average standard of living is improving, mainly due to higher employment rates.
Continued accommodative macro policies and planned investments in the offshore gas fields in the coming years will spur further growth. To foster stronger social cohesion, a broad set of complementary reforms in product markets, infrastructure and education are critical. Further strengthening product market competition will boost productivity in sheltered sectors.

2. Materials
Israel has a large infrastructure deficit, especially in public transport, which causes considerable road congestion and poor air quality, impedes access to the labour market and accentuates spatial segregation of disadvantaged groups living in peripheral zones [8]. Better infrastructure in disadvantaged areas, especially Arab cities, would improve job prospects and well-being. Above all, reforms and more public investment in education would improve the skills of Haredim and Israeli-Arabs, especially women, allowing them to find well-paid jobs in high value-added sectors [1]. The Israeli economy continues to expand growth has slowed somewhat but remained robust at 3.3% in 2017. Domestic demand, supported by accommodative fiscal and monetary policies, has been the driver of activity, which was a boosted by a probably unsustainable increase in stock building. Strong employment gains, low inflation and minimum wage increases are fueling consumer spending [9].
At the same time unemployment has declined to around 4%, i.e. at or close to full employment, and labour shortages are spreading to all sectors in the economy. In previous years, they were above all prevalent in the high-tech sectors and for high-skilled workers [8]. On the other hand, goods exports have been relatively weak due to still moderate world trade growth and worsening price competitiveness from shekel appreciation. However, led by the high-tech sector, services exports have been much more buoyant and now represent 42% of the total (against less than 30% in 1995), and the external surplus remains sizeable because of the large export share of low price-elasticity high-tech products. Despite the substantial

real exchange rate increase since 2005, market share losses have been limited compared to other advanced economies. This overall robust performance has further improved Israel's financial stability, as reflected in its recent sovereign rating upgrade [7].

The high-tech sector. The knowledge economy organizations and companies share and development in the Israeli economy the high-tech sector in Israel combines the industrial sectors in the electronics, pharmaceuticals and aircraft sectors alongside services – software and research and development. Along with veteran companies in the industry (such as Intel, Teva and Check Point), start-ups have been added in recent decades, financed by venture capital funds as well as research and development Centre's of multinational companies. This sector has grown rapidly and has contributed significantly to the development of the economy since the mid-90s [14]. Employment in the high-tech industry increased from 7% of total employment in 1995 to 9% in 2014, or 12% of employment in the business sector, which is more than double the OECD-country median. This sector, whose share in GDP increased from 6.5% to 11.4% during this period, experienced stronger growth in services than goods [16]. High-tech services accounted for two-thirds of the value added produced in the high-tech sector in 2014. These developments have also benefited aggregate exports, half of which are high-tech goods and services.

The high-tech employment sector development has been based on the remarkable performance of the country in the field of innovation [13]. It has been supported by high R&D spending (at 4.1% of GDP in 2014, R&D expenditure is the second highest in the OECD); universities providing high-quality human capital in science and technology fields; good collaboration between academia and industry; a well-developed venture capital industry. Israel has the largest share of early-stage and seed venture capital funding in GDP among OECD countries; and favorable taxation for high-tech firms.

In addition to these factors, the challenges Israel faces were also an impetus for innovation and creativity [2]. Highly dynamic entrepreneurship in ICT, in particular in the cyber security industry, has emerged partially as a response to security threats. The development of new technologies to respond to water scarcity challenges has also made Israel a world leader in water-related innovation. However, the vigor of the high-tech sector has weakened, and it has no longer been the engine of growth since 2010. Since then, high-tech industry expansion has been about half that of the rest of the economy. Production in this sector, which exceeded 13% of GDP in 2009, fell by 1.7 % points and its share in exports stopped increasing.

The Natural gas & natural treasures in Israel. The most significant challenge facing the sector is the lack of supply of skilled labour [14]. Its employment share in the economy, although still higher than that of other countries, has declined by more than 1 percentage point since 2009. Moreover, investment in R&D and the dynamism of innovation are benefiting only a limited number of sectors and are not spreading to the entire economy [6]. The result is that SMEs and entrepreneurs operating in traditional sectors are largely detached from the high-tech economy, their productivity is low compared with SMEs in other OECD countries, and only 15% of Israeli SMEs are involved in exporting. The economic impact of the natural gas discoveries Israel's natural gas sector has recently taken off, with major offshore reserves discovered in its exclusive economic area in 2009-10. These reserves, which include the two big fields of Tamar (305 billion m3) and Leviathan (580 billion m3) and other smaller fields, are enough to supply the country for probably more than 50 years. Tamar is currently the only deposit exploited. It meets over 95% of the country's current demand of 8 billion m3, and its development and production as from 2013 estimated to have increased GDP by 1.1% mainly due to the over 60% decline in energy imports.

Moreover, replacing imported coal and oil by gas in power generation has cut pollution, and related royalty revenues, even though still modest less than 0.1% of GDP, have been positive for the budget. Because of limited domestic gas demand, Leviathan's operation, due to start in late 2019, will have a small initial positive impact (0.3%) on GDP, while its longer-term effect will depend on export opportunities. Contracts have already been signed with Jordan and in February 2018 with Egypt, and discussions are ongoing with Turkey and EU countries. In addition to royalties and corporate taxes, the gas industry will be liable for a special levy of 20-50% on profits over normal returns on investment, whose proceeds will be placed in a forthcoming dedicated sovereign fund to share with future generations. It could represent 10% of GDP in 2040 and will be invested in foreign currencies to reduce the risks of Dutch disease. This risk is currently being handled by a central bank foreign-currency purchase mechanism.

Employment gender – Haredim (Religious people). Haredi men and Israeli-Arab women two groups have poorer labour-market outcomes and much lower productivity than non - Haredi Jews, and labour force participation remains particularly weak among Haredi men and Israeli-Arab women. The launching ambitious reforms in product markets, infrastructure and education would substantially boost growth performance and living standards. According to OECD estimates, promoting a more business-friendly environment, represented by the OECD average, could enhance efficiency and increase per capita GDP by almost 6% over a 10-year period [15]. Better infrastructure and educational outcomes supported by ambitious reforms also have an essential role to play in improving labour market and productivity outcomes in disadvantaged communities. For instance, further improving the Haredim and Israeli-Arabs' (youth in particular) integration into society through better education and training leading to a lower productivity gap with non-Haredi Jews from around 40% currently to, say, 20% in 2059 would raise average annual per capita GDP growth by 0.2 percentage point. By contrast, if the authorities fail in their enhanced integration efforts and these groups keep their current employment and productivity gaps, average**.**

Israeli incomes would fall to close to 30% below the OECD. Average in 2059, almost double the current gaps Israel has succeeded in reducing its government debt from 90% of GDP in 2002 to 62% in 2016, thanks to the normal deficit-growth dynamics due in part to a prudent budgetary framework, which combines an expenditure-based fiscal rule with deficit targets, and a robust growth performance. In addition, gross debt has been pushing down by the

amortization of mortgages granted to the public until the early 2000s, sales of government owned land and shekel appreciation.

The Israeli national finance budgets. According to analysts and economists, in the Ministry of finance [17], they claim that: to better accommodate the country's economic and social needs, the spending-growth ceiling of the existing fiscal rule should be raised. At the same time, Israel needs to retain ample fiscal room for maneuvers, given its specific geopolitical situation. Therefore, the key fiscal challenge is to maintain fiscal prudence and maintain the downtrend in public indebtedness while providing the additional public resources needed to improve educational outcomes, infrastructure and social cohesion. In particular, since 2017's deficit decline is essentially temporary, adopting permanent tax cuts or unfinanced spending increases would inappropriately weaken the medium-term fiscal position. Savings can achieve on the expenditure side by strengthening the effectiveness of public management, promoting e-government and digitalization and further improving the public procurement process. While the government recently undertook procurement reforms to streamline and standardize tender procedures, centralize e-procurement and encourage staff professionalization, only 10-15% of central government public procurement is processes in accordance with the new-programed [13].

3. Recommendation

Conducting regular spending reviews is a good way to explore priorities and thereby identify areas for spending restraint. Increasing public investment in infrastructure and education and adopting ambitious product-market reforms would have a growth impact, which would, help finance these additional expenditures. Under the assumptions of the "structural-reform scenario". The improved budget balance resulting only from the product market reforms excluding the expected benefits of measures enhancing the education and training system, given their long and uncertain delay of action. Coupled with the gradual removal of identified existing tax exemptions and moderate increases in environmental taxation, would allow the authorities to increase their spending-growth ceiling while keeping the same deficit level and bringing debt down to below 60% of GDP over the 2020-59 period.

In this scenario, increasing the annual spending-growth ceiling from 2.6% to 3.6% between 2019 and 2025, would provide enough fiscal room to bring childcare, training and secondary education spending relative to GDP close to the OECD average and to increase the generosity of the in-work benefit scheme.

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