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**Regional Economic Development Policy:  
Lessons for Israel**

*Harvey Lithwick*

*Irwin Lithwick*

*This report is published in cooperation with the Negev Center  
for Regional Development.*

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JOINT (JDC) ISRAEL  
BROOKDALE INSTITUTE OF GERONTOLOGY  
AND ADULT HUMAN DEVELOPMENT

JDC HILL, P.O.B. 13087  
JERUSALEM 91130, ISRAEL

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BR-D-205-93  
c.1



22.12.93

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Jerusalem

December 1993

BA-D-205-03/22033  
c.1

JDC-Brookdale Institute of Gerontology  
and Human Development  
P.O.B. 13087  
Jerusalem 91130, Israel  
Tel. (02) 557400  
Fax. (02) 635851

ISSN-0334-9012

## **EXECUTIVE SUMMARY**

The recent arrival of scores of thousands of immigrants from the former Soviet Union and Ethiopia has put great pressure on the Israeli economy. One of the first goals facing the government is to provide housing and employment for the immigrants. Since many of these immigrants have settled along the country's periphery, creating jobs for them will require a major effort to develop the hitherto lagging economies of these areas.

This analysis of regional policy in Israel and abroad reveals that very few efforts at regional economic development have succeeded. The primary reasons for this are the absence of clear and broadly accepted goals, inappropriate organizational machinery, insufficient funding, and unrealistic time frames.

There have been some notable successes, and they provide guidelines for what might be attempted in Israel at this time. The report covers developments up to 1992. Since then, a number of new initiatives relating to regional incentives have been undertaken.

This report proposes fostering a quasi-autonomous regional development agency, which must be properly focused and adequately funded. Specifically, it is suggested that such an effort might best be launched in the Negev, building on the nascent Negev Development Authority.

## ACKNOWLEDGMENTS

We would like to acknowledge the support given this project by Jack Habib, director of JDC-Israel. The authors extend their thanks to Shaul Dritter and Batsheva Shor of JDC's Small Business Program, and to Moshe Sharir and Leah Shinan-Shamir of JDC's Education and Regional Projects Division. Our thanks to Rebecca Caspi of the JDC-Brookdale Institute for smoothing the administrative wrinkles that arose during the course of this study.

Many close friends in Israel gave of their time and expertise, and helped acquaint us with regional economic planning in their country. In particular, we would like to thank Eran Razin of the Department of Geography of the Hebrew University, Jerusalem; Gabriel Lipshitz of the Department of Geography of Bar Ilan University; and Yehuda Gradus, Director of the Negev Center for Regional Development at Ben-Gurion University.

We worked closely with the Development Study Center in Rehovot, whose work represents some of the best material available in Israel. Its director, Rafi Bar-El, and his staff -- particularly Daniel Felsenstein and Daphne Schwartz -- gave generously of their time and wisdom, and for that we thank them.

We would also like to thank all those who agreed to be interviewed, and who thereby contributed immeasurably to this study: Avishag Abtubi, Head of the Municipal Planning Unit of Beer Sheva; Shmuel Cohen, Mayor of Mitzpe Ramon; Chaim Fialkoff of the Ministry of Housing; Shaul Krakover, Chairman of the Department of Geography of Ben-Gurion University; David Newman of the Department of Geography of Ben-Gurion University; Hanna Pesach, Head of the Municipal Strategic Planning and Information Unit of Dimona; Binyamin Shalev, Director of the Galilee Foundation; Avi Srur, Mayor of Yerucham; and Amotz Tal, Director of the Nazareth Illit Business Center.

This paper was edited by Marsha Weinstein, and typed by Jill Rogoff.

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## PREFACE

The JDC-Brookdale Institute's mandate is to conduct research with a view to promoting innovative policies and improving field practice in areas of major national concern. In recent years, the Institute has broadened its original emphasis on the elderly to include health policy, immigrants and children at risk. Particular attention has been paid to systems that deliver required services, including health and immigrant absorption services.

This report provides an initial *tour d'horizon* of regional economic development policy in Israel. It explains why this issue is salient at this time; current theory and practice, and how these are relevant for Israel; what is currently being attempted in Israel and some probable consequences. Much of this material is familiar to the many excellent specialists in Israel. The contribution of this report is to collate knowledge, put Israel's efforts in a wider, international context, and make these findings accessible to an English-speaking audience. It is hoped that the report will benefit the many federations and organizations outside Israel that are playing an important role in this field, helping them to increase their involvement by providing them with more substantive information.

The principal goal of this report is to try to provide some guidance for policymakers and others who wish to play a more active role in this important field. Chapter One describes the circumstances in Israel leading to this policy emphasis. Some of the elements required for formulating and conducting public policy in general, and regional policy in particular, are outlined in Chapter Two. Chapter Three presents an investigation of how those elements have shaped regional policy in a number of countries, and Chapter Four reviews Israel's experience with regional policy. The report concludes by presenting suggestions based on the research, for a viable approach to regional policy in Israel at this time.

# **I. THE RELEVANCE OF REGIONAL ECONOMIC DEVELOPMENT POLICY**

## **Introduction**

In many countries, particularly Israel, whose large wave of immigrants must be absorbed, events point to the need to emphasize regional policy in the coming decade. There is considerable evidence that such policy is made, almost universally, on the basis of surprisingly thin conceptual and empirical evidence. Both demanding policymaking requirements and the unique characteristics of regional policy contribute to this situation. The results have been uniformly poor, in Israel and abroad.

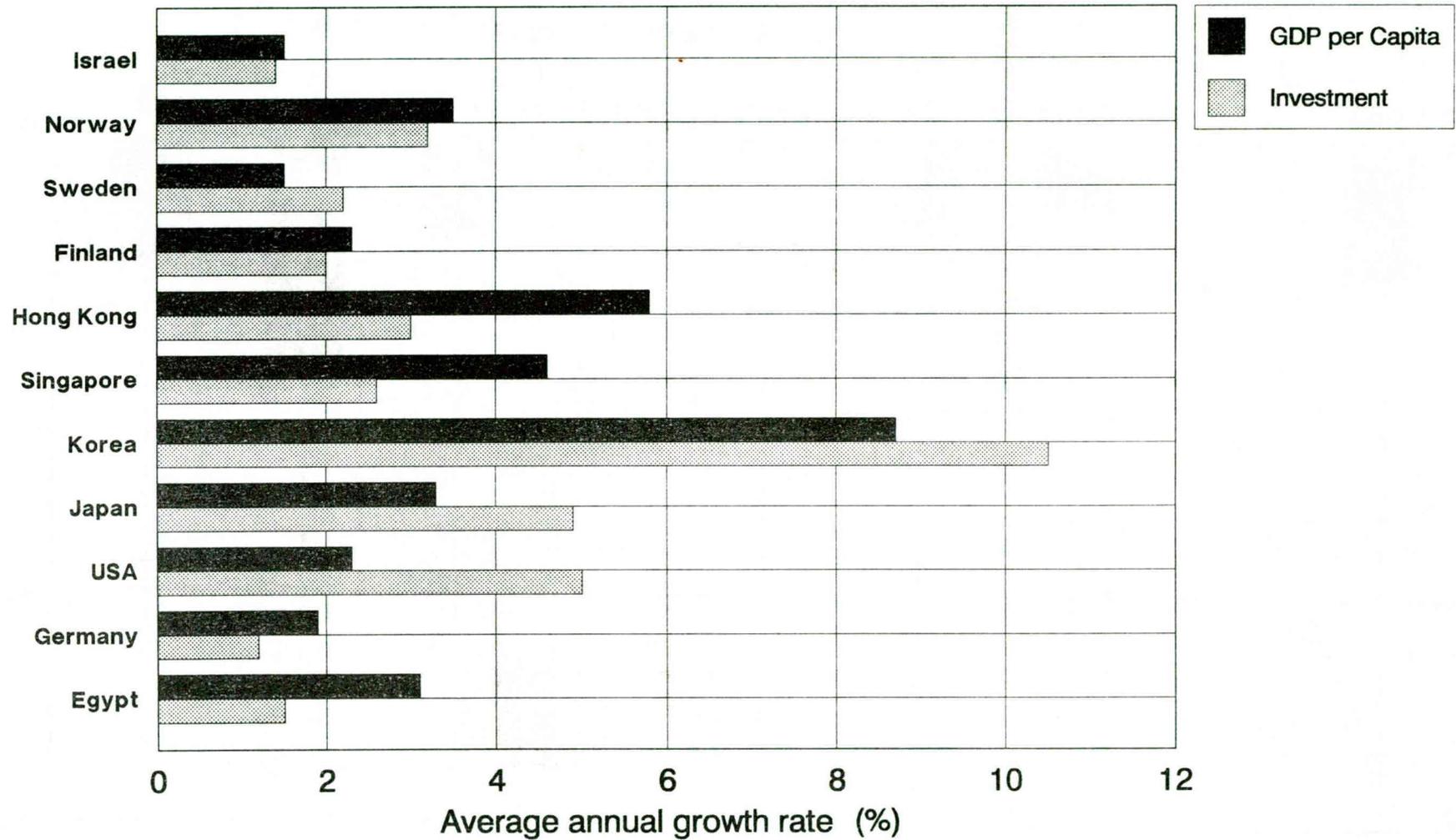
## **The Salience of Regional Economic Development Policy in Israel**

A number of factors make developing regional economic policy an attractive course of action. For one, like so many Western economies, the Israeli economy underwent an extended period of very slow economic growth during the 1980s. During this period, real per capita income increased by less than 1.4% annually, making Israel's performance one of the worst among developed and developing countries (see Figure 1). The causes of this decline were low levels of business investment and increasing competition in global markets (see Figure 2). The consequences were high unemployment rates and marginal real income growth, with the heaviest burden being borne by the peripheral regions of the country (see Figure 3).

Significant resources were and continue to be spent in Israel in the name of promoting economic development, subsidizing industrial expansion, promoting exports, and encouraging research and development. The evidence reviewed suggests, however, that many such efforts are unlikely to have significant developmental impact: first, because high interest and exchange rates (the macroeconomic context) do not support development; and second, because these efforts are not geared toward a fundamental restructuring of the economy. There have been no concerted efforts to clearly articulate development targets using the vast apparatus of the state, the private sector, the large and rapidly growing pool of human resources, and potential pools of foreign capital. Nor are concerted efforts likely to be made, given the fragmentation of policy and the highly politicized approach governments have tended to take toward economic development policies.

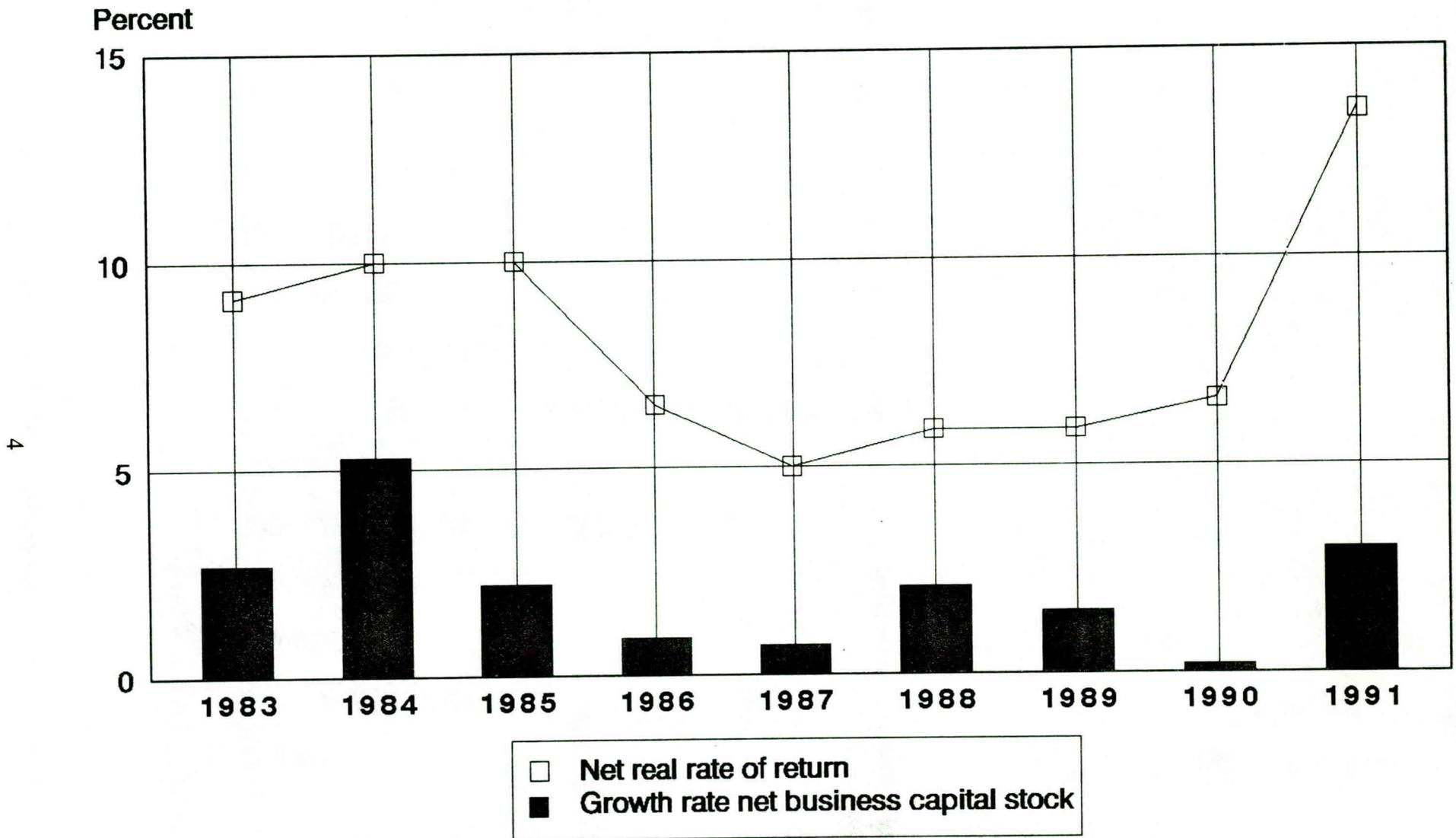
Strong national economic development -- even without explicit regional economic development policies -- could no doubt bring some of the disadvantaged peripheral areas along in its wake, as has happened in the past during boom periods. However, in the absence of momentum during the past decade, some of these areas experienced significant real decline. To this has been added the recent influx of Soviet and Ethiopian immigrants, who are being settled in disproportionate

**Figure 1: Growth Performance 1980-1990**



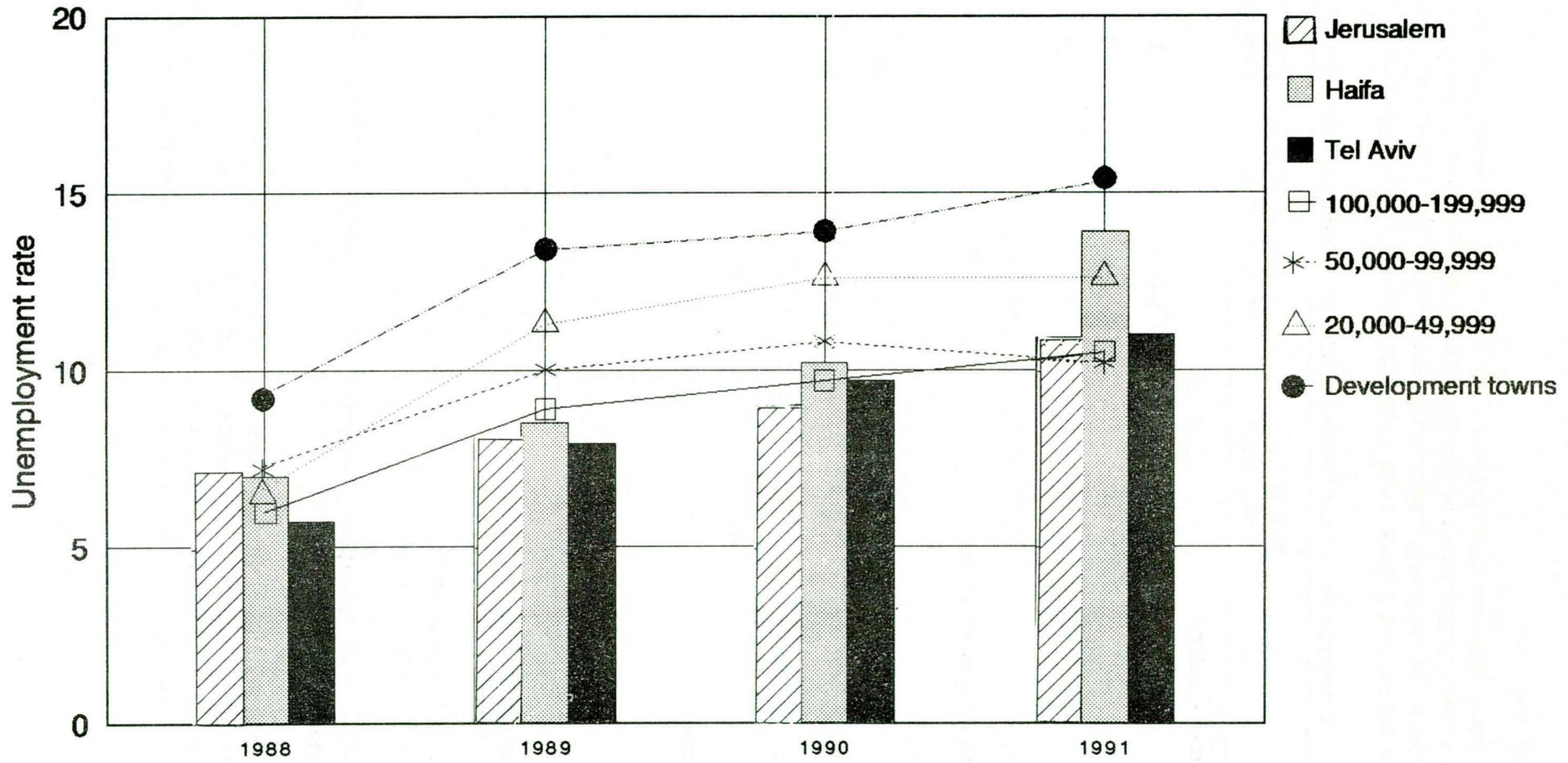
World Bank, World Development Report, Selected Years

**Figure 2: Investment Performance 1983-1991**



Central Bureau of Statistics: Statistical Abstract of Israel, Selected Years

**Figure 3: Unemployment Rates for 1988-1991, by Type of Settlement**



Central Bureau of Statistics, Statistical Abstract of Israel, Selected Years

number in these disadvantaged regions (see Table 1). Effective economic absorption of immigrants through the creation of jobs that provide adequate, sustainable income has become the major priority of governing bodies in the periphery. This "bottom-up" regional economic development has become a much more visible component of national economic development.

Table 1: Immigrant Settlement Patterns in Selected Localities, July 1989 - December 1992

Locality	Number of Immigrants*	Immigrants as a % of the Population	Unemployment Rate (in %)**
<b>Metropolitan Centers</b>			
Jerusalem	50,064	9.0	2.9
Tel Aviv	24,041	6.9	3.0
Haifa	47,574	18.9	5.9
Beer Sheva	24,500	19.0	7.1
<b>Selected Development Towns</b>			
<u>Negev</u>			
Netivot	2,880	24.0	10.1
Dimona	5,295	19.0	10.7
Kiryat Gat	4,279	13.0	10.0
Arad	3,913	22.0	8.5
Mitzpe Ramon	1,850	44.0	11.1
<u>Galilee</u>			
Maalot	2,467	30.0	9.9
Carmiel	7,932	29.0	13.2
Nazareth Illit	8,216	25.0	11.1

Notes: \*as of December 1992

\*\*as of September, 1992

Sources: Ministry of Absorption, December 1992; Ministry of Labor and Social Affairs, monthly report.

The decline of traditional institutional bases of economic activity in the periphery has reinforced the need for regional economic development. Specifically, a depression has seriously weakened kibbutzim in these areas. Previously, when they had the support of a sympathetic national government, kibbutzim could function independently of surrounding entities, such as

economically fragile development towns and moshavim. Now it is necessary for kibbutzim to cooperate with the "losers" in their vicinity, replacing old ties in the fields of marketing, manpower development and finance with territorially-based mechanisms that will help create more viable economic regions. There is evidence that such a revolution in kibbutz attitudes is taking a very long time.<sup>1</sup>

Local and regional authorities require economic development for purely fiscal reasons, as well. Their budgetary situation has been eroded by the national government's retrenchment, which was carried out for ideological and strategic reasons. The ideology of privatization has been far from systematically implemented in Israel. Nevertheless, there has been a move away from central planning and policy responsibility that does have conservative overtones. In addition, it is not a national priority to pay attention to the economy of the periphery. The periphery was and is where housing can be built more cheaply, thereby serving to meet geo-political goals such as filling empty spaces and securing strategic territory. Yet creating viable jobs in these locations has been, at best, a secondary consideration.

The fiscal consequence has been that services formerly provided by the national government have been assigned to local authorities. However, matching, continuous sources of funding have not been provided. Some means of boosting the local tax base must therefore be found. The most promising one appears to be increasing the pace of local economic development within a regional framework.

Other forces that are supportive of regional economic development have come into play. First, a new generation of educated and sophisticated local political leaders who are rather skeptical about the national government's long-term interest in their communities has emerged in some of the poorer areas. They have come to recognize that the government cannot be relied upon to support sustained local economic development: allocation of funds by the government is based on immediate political concerns, creating both greater dependency and uncertainty for these communities.

Second, the new business elite in these communities wants to escape the choke-hold of national politicians and bureaucrats. These entrepreneurs prefer to devote their efforts to achieving market successes, rather than succumb to government handouts.

Third, Project Renewal has given the residents of a number of these disadvantaged communities an enhanced sense of pride and identity, encouraging them to act more and more autonomously. While Project Renewal initially focused on social rehabilitation, the current reality requires economic rehabilitation as well. These communities are finding support for this among key Jewish organizations such as the Jewish Agency, which is reorganizing its settlement and renewal departments to create one unit that will focus on economic development, particularly in the periphery. Some Jewish Federations that were partners in Project Renewal but became

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<sup>1</sup> Pavin (1988) discusses this issue.

disenchanted with both the government and the Jewish Agency, have shown even more enthusiasm for local economic development, and have expressed their willingness to be constructive partners. However, far too often, such good intentions are based on narrow understanding of the prerequisites for economic development in general, and regional economic development in particular.

While the desire for regional economic development is both authentic and valid, it will require a much more sophisticated understanding of the issues than is presently evident if it is to be of lasting value. It is hoped this monograph may also serve as a handbook for those entering or already working in this field, reviewing what has been tried and describing what works, and what does not. It seeks not to provide unattainable standards of academic purity, but rather to offer practical advice to those who are serious about making policies in this often romanticized, but rarely consummated, enterprise.

## **II. REGIONAL ECONOMIC DEVELOPMENT POLICY: FRAMEWORK AND CONCEPTS**

### **Basic Elements of Policy Analysis**

It is useful to begin with a very brief summary of what considerations usually go into the formulation of public policy. These comprise the organizing principle behind this monograph.

#### **Policy Goals: What is Desired?**

In any area, policy must be based on a reasonably clear idea of what ends or goals are being pursued, and why. When goals conflict, tradeoffs between them must also be articulated. Finally, policy must aim to achieve specific results that are milestones on the road to meeting the more fundamental goals.

#### **Policy Field: What is Possible?**

Contrary to the claims of politicians, public policy initiatives are often the least significant determinants of real world outcomes. Rather, outcomes are the result of the workings of social and economic forces whose complexity makes them difficult to fully comprehend. Both the factors that contribute positively to the achievement of desired goals, and the factors that constrain that achievement, operate through direct and indirect channels within policy fields, often producing counter-intuitive results. Unless there is some in-depth understanding of these forces, public action can well make things worse.

The role of policy analysis is to explain how policy fields behave, so as to provide an understanding of how they will respond to different initiatives. Models based on theoretical developments and the best possible data provide the basis for analysis. They enable researchers to understand how complex systems operate. However imperfect these models may be, they are essential for informed policy making.

#### **Policy Instruments: How to Do It?**

Policymakers have at their disposal both a wide array of existing instruments and the capacity to conceive new ones. What is often not well known is how these instruments actually work: whether they are effective in reaching stated goals and efficient in advancing toward these goals; and how they interact with each other (whether they are in direct conflict or are complementary). All too often, it is easier to introduce new instruments than to try to understand why existing ones did not yield the expected results.

#### **Policy Management: Who is in Charge?**

Finally, policy is not implemented in an ivory tower. Politicians and their organizations, public officials, citizens and community agencies, and even foreign agencies all have an interest in policy outcomes. As a result, they attempt to influence the entire spectrum of policy action,

from definition of policy goals to selection of policy instruments. An intrinsic aspect of policy analysis must therefore include a sophisticated appreciation of these factors.<sup>2</sup>

## **Essential Characteristics of Regional Economic Development Policy**

### **Policy Goals**

Among the goals being pursued is that of achieving greater interpersonal "equity". The reason geographic locations are the focal point of policies is that poor people tend to live in underdeveloped regions. As a result, reducing disparities among regions may help reduce inequities. Interestingly, even this superficially self-evident assumption should not be taken for granted, as was proven by a study of regional equalization policies conducted in Canada: resources tend to be transferred from average-income taxpayers in wealthier regions to above-average-income beneficiaries in poorer regions (Gillespie and Kerr, 1977).

Another, widely-held belief is that concentrating economic activity in the center of the country produces excessive costs, due to dis-economies of scale or negative externalities (environmental pollution, congestion) which could be alleviated by transferring activity to the periphery. However, this presumption is far from indisputable. Certain cultural, educational, and recreational amenities simply cannot be provided outside of large, prosperous population centers; for many citizens, the benefits of these may outweigh the costs incurred. Trying to induce people to move to the periphery may actually reduce social welfare and efficiency.

There are many different policies for dealing with these goals. Some would simply redistribute income to individuals; some focus on short-term employment creation; others stress housing. The emphasis of this study is on an even narrower aspect of regional policy: regional economic development. As such, this paper does not address broader issues of society, culture and environment. While these concerns are far from unimportant, it seems the most urgent issue facing Israeli policymakers is the need to foster economic development. Successful economic development will lay the foundation for attending to these wider concerns. Without it, nothing of a lasting nature can be built.

Regional economic development means transforming a region into a dynamic entity capable of sustaining economic growth and contributing to the development of the national economy. It is in contrast to policies designed to continually bail out peripheral regions, which are seen as burdens on the national economy, and which promise only dependency and retardation.

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<sup>2</sup> This study does not provide place to go into detail on these conceptual issues. To grasp their complexity, the reader is advised to select just one relatively well-behaved policy field (such as economic stability, health, or housing) and to conduct a mental experiment by applying the matters raised in the four areas noted above to that field. This approach has been presented primarily to help organize thoughts about one particular policy field that suffers inordinately from a lack of disciplined thinking: regional economic development.

However, the notion of regional economic development used in this paper is much broader than that in popular use; usually, this term refers almost exclusively to business promotion (attracting new firms, expanding existing ones, and encouraging sales). Such activity may not necessarily promote structural changes and other activities conducive to authentic economic development. The landscape is littered with the remains of firms that were attracted to cities, regions, and even countries that offered huge incentives: they took advantage of those incentives to build industries that were fundamentally not viable, and left behind nothing of lasting value. Moreover, selectively assisting some firms puts others -- often the most efficient ones -- at a competitive disadvantage, so that there may be no net gain.

The specific goals of economic development as defined in this paper include the growth of employment, output, and income, which requires continuous adaptation of an economy's structure to enable it to respond effectively to ever-changing circumstances. The conditions for structural adaptation are rigorous:

- \* suitable infrastructure
- \* propensities to save, invest, innovate, work in a disciplined fashion, manage, and market
- \* supportive research, education, and finance of institutions
- \* sound governance

These conditions encourage flexible responses to new situations, promote competitive behavior and augment productivity. Although flexibility, competition and productivity are fundamental to economic growth, putting them into practice has proved difficult almost everywhere, as they are rooted in cultural and institutional arrangements that are often hard to influence.

- \* **Flexibility** requires rapid change, adaptability, and risk taking -- the antitheses of the natural human desire for stability, familiarity and security.
- \* **Competitive behavior** requires that what is not viable be discarded, and that aggressiveness be rewarded -- the antithesis of cooperation and veneration of established ways of doing things.
- \* **Productivity growth** demands discipline, creativity, and deferment of instant gratification -- the antithesis of consumerism and leisure.

It is hardly surprising that most of the Third World has found it virtually impossible to achieve significant development gains. Nor have the extremely successful Japanese model of economic development, its variants in Singapore, Hong Kong, Taiwan, and Korea, or the radically different German model been readily adapted by other economically advanced societies like the United States, the United Kingdom, and Israel.

Although this understanding of economic development is conceptually simple, in practice it is frequently confused with other goals, leading to serious policy breakdown. It is particularly important to appreciate that the goal of economic development, which is the transformation and dynamizing of an economy, is the antithesis of the goal of redistribution. Whatever their distributional merits, policies that compensate firms, individuals or communities by bailing them out or providing unemployment relief often deter efficient economic adjustment to changing realities. They create what has been termed "transfer dependency" (Courchene, 1978), reducing

competitive behavior, destroying entrepreneurial initiative, keeping archaic enterprises afloat, and hence dragging development down.

Emphasis on compensatory policies is tied up with strongly held views about equity. Since "backward" regions have a proportionately larger number of low-income households, tax-transfer payments and social services are meant to equalize income. Some Canadian studies have suggested that tax-transfer payments may in fact deter economic adjustment, especially migration from regions with high unemployment to those where jobs may be found, leading to long-term persistence of disparities. It goes without saying that there is also a macro-economic cost of slower growth and higher unemployment -- once known as the "British disease" -- to creating such a protective environment.

It is also important to distinguish the short-term and long-term components of objectives. In the area of employment, for example, a short-term goal might be to find work for the unemployed, and a long-term goal might be to create appropriate jobs. Short-term goals tend not to be concerned with increasing future economic potential, but with improving the utilization of existing potential. However, these need not be dichotomous; both short- and long-term needs can be met by a carefully selected blend of policies.

Finally, the economic dimension of development must be distinguished from its demographic dimension. Often, increasing the population (or at least preventing its decline) is viewed as an appropriate goal of regional development policy. However, rarely are conditions suitable for demographic equilibrium. Encouraging people -- be they immigrants or residents of a crowded metropolis -- to move to target regions will only have a long-term impact if income and employment conditions can induce them to remain. Although this is well known, very few demographic policies have economically viable foundations. More often, policymakers focus on the incomparably simpler task of providing housing on the tenuous assumption that housing can keep people in one place.

### **Policy Field**

A unique aspect of regional economic development policy is its focus on **geographic areas** rather than on entire countries. However, it is rare for various influential government departments to focus on consistently defined "regions". Rather, each department tends to favor a given regional framework, based on considerations that may or may not be related to economic development.

It is interesting to examine policymakers' beliefs regarding how regional economic problems occur and why some regions undergo rapid development while others lag behind. In most fields, policymakers' beliefs are based to some extent on models of how the system operates. It might thus be expected that policymakers would have in mind a model of how national economic development influences regions. Scholars generally agree that economic development favors locations that provide unique comparative advantages due to resource endowments, natural superiority of location (ports, crossroads, termini) or, in industrial and post-industrial societies, economies of scale, externalities, and agglomeration economies. The extent to which

development in urban centers influences the periphery is a function of the extent and nature of the link between them. Moreover, strong links among urban centers help spread economic development (Nijkamp, 1992).

Contrary to popular belief, however, not all links are mutually beneficial. One urban center may in fact undermine another by capturing the latter's domestic market or by attracting firms away from it.<sup>3</sup> While competition may ultimately be good for the population of the stronger urban center, it harms that of the weaker center.<sup>4</sup> In underdeveloped economies, the links between urban centers and the periphery tend to be asymmetric, causing "dualistic" development: the strong get stronger, at the expense of the weak. In more developed economies, regions grow at similar rates with only the most remote regions failing to be influenced by general economic advancement.

The question of why some regions remain disadvantaged is central to the current debate over regional policy. According to the market-oriented view, some regions remain disadvantaged because the economic forces that would eliminate their disadvantages are not permitted to work. For example, even when migration of surplus population is called for, regions take every step possible to retain them, giving heavy subsidies and tax breaks to fatally ill firms and employing various forms of protectionism. Wages, which should be permitted to fall to reflect lower productivity, are kept artificially high due to concern for "equity". As a result, firms in the weaker regions cannot compete with those in the more productive urban centers. Those who hold the market-oriented view recommend eliminating interventions in market processes, which they see as the major source of difficulty.

According to the alternative view, the market-oriented approach is too narrow. The following are among the arguments raised to justify this view: population decline accelerates reduction in spending and income in poorer regions due to multiplier effects, (neo-Keynesian mechanisms); the strongest migrate, leaving an older, weaker population to manage in the periphery (demographic factors); colonial relationships exist between urban centers and the periphery (neo-Marxist "dependency theory"); markets fail due to the economies of scale, agglomeration, and uncapturable externalities that enable rich regions to get richer without benefitting poorer ones. In many ways, this view is the antithesis of the market-oriented one; it calls for highly interventionist solutions.

This debate is crucial, because it has affected how countries approach regional economic development policy. Thus far, the debate has no definitive resolution, because satisfactory empirical proof is difficult to find. While some argue that intervention is the problem, others

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<sup>3</sup> In the 19th century, the city of Halifax, Nova Scotia favored building a railway line to Montreal, expecting to benefit by gaining access to the latter's market. In fact, the railway permitted the more efficient firms in Montreal to capture a large share of the Halifax market.

<sup>4</sup> The distinction between "people" and "place" prosperity has been effectively used by Scott (1978), who defined policy concerned with geographical areas as "regionary" rather than regional.

argue that intervention is essential; if it has been unsuccessful, it must be because interventions were insufficient or misguided, and additional, "appropriate" intervention is called for. Since both sides base their arguments on firm ideological positions, there has been little success in arriving at a consensus (see Chapters 3 and 4). The pendulum-like swing from one position to the other which has been observed in many countries,<sup>5</sup> is made possible precisely because of the failure to reach consensus.

Regardless of the vehemence of the debate, important conceptual lessons may be learned from both camps. From the market-oriented approach regional policymakers have learned to take into account basic considerations that are familiar to economists, but which all too often have been misunderstood or neglected in policy formulation. These include:

- \* the prevalence of interdependence (negative and positive feedbacks) in complex systems;
- \* competition as a positive force that increases efficiency;
- \* the prevalence of diminishing returns to any particular program;
- \* the importance of what Schumpeter has called "creative destruction": getting rid of archaic and inappropriate firms and replacing them with dynamic, new ones;
- \* some trends may not be self-correcting, and in fact may keep getting worse;
- \* the availability of substitutes that yield a rich variety of policy options; and
- \* the need to consider opportunity costs when assessing policy and program design.

At the same time, the alternative view has taught policymakers that regional economic issues are much more complex than those presented in elementary economics courses. Issues to be taken into account, in a no less rigorous fashion include:

- \* monopoly power;
- \* property rights;
- \* the role of social and political determinants;
- \* the centrality of community concerns; and
- \* the nature and role of externalities.

### **Policy Instruments**

The selection of appropriate policy instruments must first derive from an understanding of the nature of unequal regional development. Since there are many ways of understanding this problem, there are also divergent approaches to selecting policy instruments.

The market-oriented view asserts that there is little if anything positive the government can do to alter the underlying forces shaping economic development. It therefore holds that the best regional economic development policy is to assist where market forces might be communicating incorrectly due to imperfect information, the exercise of foreign (or domestic) monopoly power, excessively short time spans or undue uncertainty. The market-oriented approach calls for facilitating free trade and increasing competition, stabilizing macro-economic performance, and assisting firms in adapting to the newest technology through adequate research and development

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<sup>5</sup> See Hansen et al. (1990), especially the Introduction.

support. It also supports the establishment of infrastructure in the nature of "public goods". Beyond these, however, this approach asserts that it is best to let the natural forces of the market determine where people and firms should locate themselves and what they should do.<sup>6</sup>

The more "dirigiste" view calls for much greater intervention, including direct support of private investment (through capital or labor subsidies), export assistance and import substitution, direct location of government enterprises, government purchasing policies, and training programs.

Both approaches must deal with the issue of the appropriate locus of policy effort: a region's core, its periphery, or both. Approaches that focus on the core, like the so-called "growth pole" approach, tend to assume that links with the periphery are strong and appropriately directed, so that initiatives in the core will invariably bring the periphery along in their wake. This is also known as the trickle-down effect. Proponents of this approach favor policies that enhance the economy of the core, such as investments in infrastructure (serviced land, internal transport and communications) and subsidies that will encourage private investment. The fact that a substantial economic and physical infrastructure is usually in place in a regional core makes these policies relatively inexpensive, except when existing infrastructure is pressed to capacity. The most extreme version of this approach sees the national core as the engine of the entire country's development, with the rest of the country pulled along by it. Clearly, few regional cores would readily abdicate their centrality to a national core. Indeed, many if not all urban centers insist on being designated as regional cores. Choosing among them becomes a political rather than an economic matter, with the predictable results of overextension, diffusion of the modest resources available, and ineffectiveness.

Other approaches focus on the periphery, arguing that direct development must be initiated throughout the region either because links to the core are too weak or because market mechanisms are inefficient. Sacrificing agglomeration economies is, according to this view, an acceptable price to pay for ensuring prosperity in hitherto disadvantaged regions. Unfortunately, the weak economic bases of peripheral areas usually lack local suppliers. This means that most spending in these areas has a high "leakage" rate, significantly reducing the multiplier effect.

Proponents of this approach sometimes argue further that urban cores suffer from overdevelopment and agglomeration dis-economies, such that slowing down their growth and transferring resources to the periphery would be desirable. As noted, this view is all too often based on a one-sided calculus that accounts for the costs but not the benefits (private as well as public) of core development. In fact, there is little hard evidence to support either the euphoric or the catastrophic views of major urban cores nor, given the complexity of the matter, is there ever likely to be such evidence.

Interestingly, much less attention has been paid to the possibility of taking a non-ideological approach, that is, in fact, complementary both to approaches that favor the core and to those that

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<sup>6</sup> This assumes that all countries play by the same rules. When faced with a country that provides export subsidies, even neo-classical economists will argue for countervailing measures, if somewhat ruefully.

favor the periphery. The only issue here is an empirical one: to discover what links exist, and which ones should be reinforced to ensure that positive developments either at the core or in the periphery are transmitted throughout a region (Friedmann, 1966). As the relevant links are usually a function of industrial structure and factor and product markets, the analytical requirements for regional development are usually more sophisticated than what traditionally goes into improving a road network or building a new airport. The neglect of this middle-of-the-road approach is surprising, as it might be expected to garner wide support. One reason it has not been adopted may be political: local authorities naturally attempt to favor local firms using a variety of informal barriers, such as purchasing policies and implicit subsidies, which they would be loath to have reviewed. It may also be that, by ducking ideological confrontations, this "technocratic" approach satisfies no one.

As to what particular instruments should be selected, it goes without saying that virtually everything government does has some effect on regional economies. What must be distinguished is whether a government is trying directly and deliberately to affect the distribution of economic activity, or whether the distribution of economic activity is an incidental side effect. While instruments that directly affect the regional distribution of economic development activity are important, some non-regional policies are also likely to have a significant effect on regional distribution. At first glance, monetary policy would appear to be the most important of these, followed by the closely-related exchange rate policy. This is because peripheral regions tend to have high rates of unemployment and low rates of export, such that what is good for the core of such regions may actually hurt their peripheries. To date, the dominant instruments of direct regional economic development policy have been tax-relief and expenditure programs, including grants and loans to industry (to create jobs), to builders (to construct housing), and to local government (for provision of services and infrastructure, including industrial parks).

The prevalence of expenditure programs has encouraged a number of studies of their efficacy, many if not the majority of which have found such programs to be of limited effectiveness or efficiency (Lithwick, 1978). Attempts to conduct these studies have been partly frustrated because the agencies in charge of regional policy often refuse to release sensitive data. As might be expected, the agencies' own "evaluations" tend to be somewhat biased and technically primitive, as they substitute selective description for objective analysis. They tend to emphasize the amount of funds expended or the gross number of jobs created in the first year of a program, rather than the long-term, sustainable results achieved. Of course, the former are suitably "political" yardsticks, even if they are uninformative and misleading.

In many cases, tax relief (tax expenditures or tax preferences) is preferred to actual expenditures, because the former is less obvious and does not appear explicitly in the budget. It may also be much easier to administer, as simple tax and locational criteria can be identified. Of course, from a bureaucratic or political point of view, this "hands-off" approach is less desirable, as it tends to reduce government's power and ability to determine allocation. In addition, tax incentives are of little benefit to young start-up firms, which initially show no taxable profit but desperately need immediate cash flow. Tax relief favors older, more

established firms, which may be precisely the ones that should not be assisted by regional development policies, despite their being ideal from the government's perspective.

Many tax credits are provided by national governments, which oversee corporate taxes. However, state and local governments also collect taxes; the latter, in particular, have for years attempted to woo new firms with property tax concessions. In many countries these concessions have been blocked by national governments that saw in them ruinous competition which would give away the tax bases of local governments to firms that could bargain shrewdly. Municipalities have resorted to other non-tax concessions, such as subsidized business parks and the like, to achieve the same result.

The extent to which municipalities and regions can engage in tax manipulation is in part determined by their dependency on own-source funds. In virtually all countries, local tax sources fail by a wide margin to cover the cost of local services. As a result, national and state or provincial governments may intervene to help cover part of the shortfall with inter-governmental transfers. These are either conditional (on delivery of specific services such as transportation, education, or health) or unconditional, the latter generally covering revenue shortfalls to make possible the provision of an acceptable minimum standard of public services. There is an ongoing debate as to whether higher-level transfers actually reduce the tax efforts of weaker areas (the funds may come through without adopting tough measures), or encourage them. Of major concern is the impact of such transfers on a community's perceived and real willingness and ability to take greater responsibility for its economic development.

Also of major concern is how much of a tax benefit, subsidy grant or loan is in fact required to get a firm to locate in the periphery, disregarding its natural proclivity to locate in a regional core. Much of the evidence suggests that assistance is often overly generous, indicating that firms would have chosen a peripheral location with less or no incentive and that the funds they received to do so were simply a windfall. Regardless of cost, only simplistic evaluations would judge such results to be policy successes.

The overall macro-economic situation is a major determinant of how efficient tax relief and expenditure targeting are. When unemployment is low, pressure for job-enhancing programs is moderate. When slack periods are prolonged, pressure mounts, just when new firms find it most difficult to succeed.

An entirely different area for policy intervention is that of regulation. Environmental and health standards are often lowered to attract or retain industries. Indeed, in some countries, labor legislation is deliberately softened to attract foreign or domestic firms. As the periphery is usually economically weaker, it is obliged to make the majority of such concessions.

It is difficult to predict the impact on regional economic development of the worldwide trend toward de-regulation. On one hand, when the strict environmental standards applied in core regions are relaxed, these areas will become more attractive to business. So, too, if labor

legislation becomes less stringent. But relaxed standards may also make certain peripheral areas relatively more agreeable locations for footloose firms.

Public pricing policies often create regional distortions. For example, energy pricing, which favors gas-consuming over gas-producing areas in Canada, has shaped the pattern of development of both types of areas. In Israel, high gasoline prices may favor concentrated urban cores with their highly developed public transit systems over sparsely settled peripheral regions, which are more heavily dependent on automobiles. Subsidized water pricing has until recently favored agricultural over industrial regions.

A full-blown regional economic development policy must also address the issue of **policy-instrument mix**. Not all policy instruments are compatible. Selecting the appropriate policy technology or "recipe" requires a sophisticated analysis of interactions, and their direct and indirect impact on policy goals. For example, policy X may increase efficiency at the cost of some loss in equity, while policy Y may have the reverse effect. If both policies are tried at the same time, they may cancel each other out -- usually at a substantial cost to society.

### **Policy Management**

A key question is who should manage regional economic development policy. Promoting any kind of economic development is a daunting task under the best of circumstances, and one which requires concerted effort to direct the key instruments of public policy in a coherent and sustained manner.

Even in a market economy where the number of explicit developmental policies may be limited, a wide variety of frameworks support the developmental efforts of the private sector. These include the "macro-economic framework", in which stability and international competition must be ensured; the "fiscal framework", in which the after-tax rates of return must be sufficient to encourage savings, investment, entrepreneurial effort and employee input; and the "infrastructure framework", in which efficient transportation and communication and serviced land enhance productivity. Interventionist policies are also often pursued, encouraging investment, research and development, exports, labor training, and so forth. When regional economic development is also a goal, a host of explicit locational policies may be added to the list. The coordination of all these policies and their pursuit in a consistent and stable manner are essential for maximum efficiency in implementation. Achieving policy coherence is rarely possible in the pursuit of national goals by a unitary government. When regional policies are the goal, with many jurisdictions with inevitably conflicting interests, the need for coherence is even greater, yet less likely to be achieved.

In practice, it has been considered essential that there be a single agency responsible for regional economic policy, which will either use its own budgetary and policy instruments or coordinate the efforts of a number of other agencies. However, in many countries -- for readily understood political reasons -- no single agency has been given exclusive responsibility, even for coordination. Regional development tends to be the ultimate policy sandbox: it offers the possibility of carrying out one's dreams without paying much attention to reality. In most cases,

it requires a high level of intervention (and hence visibility) in an unassailable cause: helping the poor in the periphery. Recipient regions are often condemned as being eternal supplicants that wait for the handouts of local party bosses or ambitious ministers. For politicians, getting involved in regional development has proven to be the simplest route to patronage on a grand scale.

Research on regional economic policy tends to emphasize national government activities. This is because overt distributional concerns invariably lead to competition for public resources. Since this competition may have zero-sum results, it is essential that some higher authority set rules that preclude unacceptable outcomes, like richer units systematically harming poorer ones. However, there are good reasons for taking into account the policies of lower levels of government, as many of the attempts to influence the location of economic activity take place on these levels. In addition, small units of government occasionally join forces to create new regional alliances that pursue common service provision (e.g., education, health, environmental management, policy and fire services) or promote economic development (i.e., the Tennessee Valley Authority, so-called "silicon valleys"). Policies formulated at the local level may have no less regional a focus than do national policies: their wide variety provides many more models for analysis.

Nevertheless, there is reason to believe that local government operates at a lower level of sophistication. Goals tend to be simplistic and short-term, understanding of policy may be fuzzy, and the range of effective instruments used is very limited. Moreover, because they tend to be small and weak and have a propensity to pursue narrow self-interests, competing viciously among themselves to attract those few firms wishing to start up, local governments may be open to severe exploitation. In the end, many of the potential net benefits to a region are actually extracted by the firms that have been courted. Similarly, local governments compete among themselves to secure the favors of national politicians, and are hence always vulnerable to practices of "divide and conquer".

This summary of the framework and concepts of policy analysis indicates that, in theory as well as in practice, regional economic development is not to be undertaken lightly. The pay-off from an intelligent approach to this area of policy is potentially very high, but such an approach requires political and intellectual sophistication not often seen on the policymaking landscape. Moreover, it is far from clear whether the popular rationale that "doing something is better than doing nothing" is indeed valid. The ensuing chapters will examine just how well regional policy has been carried out, what the consequences have been, and whether doing nothing might not in fact be preferable.

### III. EXPERIENCE WITH REGIONAL POLICY IN OTHER COUNTRIES AND ITS RELEVANCE FOR ISRAEL

The framework established in Chapter Two will be used in this chapter to summarize and assess international experiences with regional policy. A review was made of as much of the available literature as possible, though the enormous amount of material necessitated selection. Emphasis was placed on studies conducted in the past five years, on the optimistic assumption that lessons learned in previous decades had been incorporated into the policy approaches taken in the recent past.

Wherever possible, specific lessons that might be applicable to Israel were highlighted. Of course, such lessons can only be applied to Israel on the basis of a full understanding of its unique circumstances. Hence, recommendations have been deferred to Chapter Five, which follows the thorough examination of the situation in Israel presented in Chapter Four. It should be stressed that many regional policy failures are the direct result of having copied policies tried elsewhere without having adopted a coherent, systematic approach to policy development.

#### Goals

A recent volume by three highly regarded regional analysts surveys regional policy experiences during the post-war period in seven countries, and comes up with a startling finding: Almost no regional development program had clear policy goals or serious policy targets; neither did most make serious policy appraisals (Hansen et al., 1990).

One of the reasons for this is that most countries tend to see regional policy in non-developmental terms. Rather, they see it as being designed to achieve other goals, such as immediate employment, income redistribution, population de-concentration, or equalization of public service levels. These are felt to be self-evident policy goals that require little understanding of the causes of regional disparity, and even less of the impact of alternative policies. Lacking the conceptual frameworks that could explain **why** these goals are relevant to a regional economic development approach, politicians and bureaucrats have been largely free to define regional policy in an essentially pragmatic manner. This in turn has led to the use of a wide variety of instruments on an *ad hoc* basis. In such a fog, most efforts were bound to get lost. Indeed, this field has been characterized by unsettlingly erratic patterns of policy development. New policies have been discarded before they have had time to work themselves out, only to be replaced by fashionable ideas that have themselves not been subjected to serious testing. Regional policy agencies have been created, redesigned, and closed with unseemly haste. Relationships between government and regions have blown from hot to cold and back again. No environment for pursuing a coherent, sustained attack on regional under-development has been created and, to all intents and purposes, regional policy must be declared to have been a less than serious policy enterprise. This conclusion is reinforced by the counter-finding that

in the few cases where regional policy was found to be actually oriented toward development, significant successes have been realized (Hansen et al., 1990).

Canada provides an excellent example of the idealistic pursuit of regional policy badly served by confusion about policy goals and selection of instruments. As a result, substantial expenditures have had little effect (Savoie, 1986; Lithwick, 1986). After serious attempts to pursue regional population deconcentration during the early post-war period, the U.K. and the Netherlands were forced to focus their development strategies on London and Amsterdam in order to compete globally (Merlin, 1992).<sup>7</sup>

## Policy Field

Although some -- especially market and anti-market -- proponents debate the causes of regional backwardness, many agree on the implications of current global changes for peripheral regions. Economic development in the 1990s is based on high-tech, relatively small, "footloose" industries, many of which deliver producer services, thereby seeking to be close to existing industry headquarters (Hansen, et al., 1990; Coffey and Bailey, 1991). These industries are not very dependent on traditional locational advantages, and many of the things that would attract them to a given location -- such as favorable environment, institutions of higher education, research facilities, and service infrastructure -- are not now, nor are they likely to be located in peripheral areas. In addition, global economic restructuring has increased the number of areas -- indeed, the number of countries -- competing with peripheral regions. All of these factors make it much more difficult to pursue regional development policies.

The growing importance of high-technology industries has had profound implications for regional development policies. To have a competitive advantage they must also have high-level linkages to suppliers and other firms. In fact, these companies might find it easier to operate in newer, smaller areas than in existing metropolitan areas (Nijkamp, 1992). Yet surprisingly, many policymakers fail to appreciate the profundity of these changes; unable to identify appropriate strategies for this new situation, they continue to pursue old models and old strategies.

One country, however, has built a sophisticated regional development strategy around high-tech industry. Under the name of "technopolis policy", Japan has undertaken a unique and concerted effort based on a national policy for the decentralization of technological innovation and territorial restructuring. A careful study has concluded that, to date, technopolis has had "a very positive initial record...from the point of view of broadening high-tech development also in the peripheral prefectures (regions), of upgrading productivity there, and of reducing and in part inverting the initially existing disparities in technology-based economic development" (Stohr and Ponighaus, 1993).

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<sup>7</sup> Industrial development has continued in Wales and several peripheral areas, particularly in industries that use unskilled or non-unionized labor.

The one model that had very broad appeal throughout the 1960s and 1970s, and which continues to have an appeal today, is that of the growth pole. However, Hansen et al. (1990) provide overwhelming evidence that this concept -- particularly its limitations -- is generally inadequately understood, and that it has been applied inappropriately in virtually all of the many regional development schemes in which it has been included.

One variant of this model attempts to extend it to include entire urban systems, identifying or assuming the presence of all sorts of linkages. Alternative systems have been conceived according to location (geographic clusters or regional sub-systems) or according to size or hierarchical composition (e.g., mid-size cities in Brazil in the 1970s). With few exceptions, these alternatives have not become part of mainstream regional policy, because of their extreme complexity and organizational-political impracticality.

## **Policy Instruments**

### **Supply-oriented Instruments**

#### ***Traditional cost factors***

Virtually every country that has employed regional policy has at some time utilized instruments that lower costs to induce firms to locate in particular regions. The most popular of these instruments include subsidies or tax incentives, which may reduce the cost of capital, land and labor. Additional instruments include exemptions from local taxes and direct public provision of land, structures, or infrastructure. The U.K. has also used government purchasing policies (Hansen et al., 1990). Assistance with marketing through publicly-funded "business development" agencies has also been widely employed.

Much literature has accumulated on attempts to evaluate the usefulness of these instruments. Most studies examine individual instruments, raising serious questions about their efficacy. For example, one study showed that a variety of efforts made in the U.K. to assist large firms had very little impact on creating jobs. The shift there to discretionary approaches (based on "proof of employment") had questionable results because of the difficulty of estimating *net*, sustained job creation (Wren, 1990). A study conducted in the U.S. found that state government agencies and programs had no significant effect on business establishment, location and investment decisions (Haug, 1991). A study on the impact of regional policies on the growth of local firms in the Mezzogiorno region of Italy came up with very similar results: regional policies had little if any effect (Del Monte, 1987). Similar findings on the questionable and generally overrated impact of regional policies have been reported for Canada (Lithwick, 1978).

In general, it has been found that the majority of assistance has gone to support firms that are "losers" rather than to pick those that are "winners", largely because governments may be the least qualified to make such choices, but also because politics dictates looking out for the interests of those who vote now, rather than of those who will vote in the future. Of course, a strong argument can be made for encouraging existing firms to expand their activity, as they will have few, if any, start-up costs and lower risk factors than would entirely new firms.

Ensuring that it is economic efficiency that is being pursued rather than patronage is, however, a formidable challenge.

A substantial volume of work has been produced on the role of new firms (Keeble and Weaver, 1987; Giaoutzi, Nijkamp and Storey, 1987). British experience indicates that high-flying companies which create the majority of new jobs tend to be in the finance sector, and tend to locate in the center. It was found that the high-technology sector did not create a significant proportion of new jobs. A number of studies of the high-technology sector in the sunbelt and northeastern regions of the U.S. reinforce the view that this sector provides a very fragile base on which to build regional development strategies because of its rapid structural change and instability (Schapira, 1986). In France, the only high-tech research centers to succeed were those that were integrated into dominant regional economic activities (Hansen et al., 1990).

The fact that there are few financial and business services firms in the periphery explain some of its difficulty. French experience shows that establishing clusters of high-tech firms in the periphery can be successful. In the U.S., however, high-tech firms tend to move to the periphery because of its quality of life, the preference of firm founders, access to a university and its library, graduates, seminars, and employee degree programs, and considerations of labor agglomeration (Haug, 1991).

A recent study by O hUallachain and Satterthwaite (1992) used an econometric approach to examine the combined effect of a large number of traditional and non-traditional development incentives. The study, which looked at employment in each of 37 high-growth service and manufacturing sectors in the U.S. between 1977 and 1984, found that development incentives were simply not important. "Localization economies" -- that is, the presence of other firms -- were far more important. Surprisingly, in light of other studies and popular belief, the presence of a university or an industrial zone was found to be only slightly significant.

Economies of scale have long been assumed to be crucial to the achievement of competitive viability. Those who made this assumption favored encouraging large firms to act as the "leading edge" or "anchor" of regional development efforts. They deemed that this was efficient, could open export markets readily, and would incur relatively low transaction costs per dollar invested. However, a recent study in the U.K. indicated that large firms had not created many new jobs. Hansen et al. (1990) found the same result in virtually every country they studied. As a consequence, greater emphasis has been placed on the ability of small and medium-sized local firms to create jobs. Moreover, emphasis has been placed on the establishment of new local firms.

Many policy efforts are aimed at attracting foreign multi-national firms to the periphery. Canadian experience indicates that many of these efforts have missed the opportunities that might have arisen from enhancing local entrepreneurship (Hansen et al., 1990).

### ***Non-traditional factors***

Doeringer and Terkla (1990) emphasize the importance of non-traditional factors. They point to adaptability to market changes and finding an appropriate niche as being among the most crucial to development, and conclude that regional policy should focus no less on these than on other factors.

The following were among the non-traditional factors identified elsewhere in the literature:

**Producer services:** Producer services have received much attention in recent years, especially from Hansen (1990), due to their growing importance in the economy and in selected areas of export (Porterfield and Pulver, 1991). However, the feasibility of removing these services from major metropolitan areas and locating them in the periphery so they may be used as instruments of regional policy has been seriously questioned, especially by Coffey and McRae (1990). They argue that producer services need not locate near the recipients of their services, and indeed benefit from being in proximity to other producer services, as Vernon argued many years ago (Vernon, 1962). Efforts in Europe to locate producer service firms in peripheral regions have usually failed.

**Management:** Virtually everyone emphasizes the importance to firm expansion of quality management. What, precisely, is meant by appropriate management is rarely spelled out, however. It is even more difficult to know how to promote management skills, especially in regions that lack manpower with these skills. Among the more interesting attempts to develop cadres of entrepreneurs is an international competition held by the University of Texas.

**Human resources:** Hansen et al. (1990) stress that regional policy instruments have mostly been used to generate private and public provision of physical capital (structures, machinery and equipment). They argue that investing in human resources is no less valid, though this strategy has received rather modest attention and little support.

Perhaps this is because investing in human resources pays off only in the long run. More immediate efficiency gains may be attained through the effective utilization of existing manpower. Often a strong case can be made for inducing the populations of peripheral regions to take better jobs in more prosperous regions. However, this may cause serious conflict, if settlement of peripheral regions is desired. The latter would dictate that regional policy be used to attract people and industry to peripheral regions. In several countries, most notably France and the U.K., a goal of regional policy has been to prevent population concentration in Paris and London. There is still some debate as to the relative costs and benefits of population concentration. In any event, most of these policies have been less than successful. When populations did move out to the periphery, changes in tastes and prices appear to have been more decisive than was policy. Brazil had more success diverting populations from the urban centers when it established its capitol in Brasilia, although it did so at a very high cost.

**Amenities:** There have been many efforts to develop "amenities" such as educational institutions, high-quality accommodations, information-communication systems, and the physical environment. But even areas rich in such amenities, such as the San Francisco Bay area, have

lacked the coherence and organization that could support particularly desirable industries such as biotechnology (Blakely, 1988).

### ***Infrastructure factors***

Early attention to infrastructure was based on the success of the Tennessee Valley Authority, and the implicit Keynesian support for using large public-works projects to stimulate the economy. In the 1960s and 1970s, much attention was paid to using "mega-projects" to trigger regional development. In the U.S., then-President John F. Kennedy strongly supported the work of the Appalachian Regional Commission. In Canada, then-Prime Minister Pierre Trudeau based his whole program of regional development on building mega-projects. However, these simplistic solutions to the deep-rooted problems of regional backwardness have proven to be costly failures (Mathias, 1971).

Perhaps the most favored of recent strategies has been the creation of business "environments" such as research parks and industrial zones. In general, inner city industrial zones have been very cost effective in the U.S. (Henry, 1991). Luger and Goldstein (1991) argue that only the businesses that are first to enter research parks succeed. They indicate that research parks by themselves are insufficient, and that additional factors are necessary to success. They note that such parks attract fewer new firms than branches of established firms. This same point is emphasized by Erickson and Friedman (1990), who also stress the importance of having a small number of industrial zones, few designation criteria, and direct targeting. They also argue strongly for local participation in the selection of firms.

As for the macro-economic consequences of investing in infrastructure, positive correlation has been found between public capital and output at the state level in the U.S.; however, it is not clear in which direction causality flows (Eisner, 1991). Unfortunately, the macro approach provides few guidelines for deciding on the most important types of infrastructure in a given situation. In addition, it lacks the supply-side micro-economic analysis needed to provide policy guidance (Eberts, 1990).

### **Demand-oriented Instruments**

#### ***Marketing assistance***

A major role often assumed by government is that of trade promotion. In a study of the efficacy of promoting trade (Hogan et al., 1991), the authors found five factors that particularly contribute to the ineffectiveness of public-sector trade promotion:

- \* the unsuitability of government employees;
- \* the inflexibility of government expenditure and staffing procedures;
- \* confusion of purpose resulting from the assumption of both regulatory and administrative roles;
- \* perpetuation of disadvantageous attitudes and strategies, and misguided attempts to be evenhanded with potential export firms; and
- \* neglect of alternative, commercially-supplied services.

The most successful trade promotion organizations (those that have a real impact on exports) were found in East Asian economies. Their success may be due to their being run by private-sector suppliers, private associations, and small units of government that have extensive experience and are concerned exclusively with trade.

### *Locational networks*

Links among businesses and agencies operating within a given region have not proven effective in transmitting growth from the center to the periphery (Hansen et al., 1990). This partly explains the failure of the growth pole approach. However, when a region is defined more narrowly as a metropolitan area, links are generally well-established, allowing transmission of benefits among municipalities within a metropolitan area (Danielson and Wolpert, 1991).

## **Policy Management**

Traditionally, it has been assumed that the public sector must play a leading role in promoting regional development. As noted, however, experience with trade promotion indicates that the public sector is not particularly effective. At best, it can support private agencies, whose efforts have proven more effective. A study of the state of Texas argues that its success in export promotion has depended on "an unusual amount of cooperation between the public and private sectors" (Strugatch, 1992). Similar private-public partnerships have proven to be effective in other areas of the U.S. (Bacas, 1991; Duke, 1991). For example, consortia of banks can create bank-loan pools to help regional firms deal with a lack of financing (Patrylick, 1987).

In any event, fiscal problems often cause governments to cease their involvement in regional policy development. In response, some regions have banded together to pursue multi-region development programs, strengthen inter-regional ties, and attain economies of scale, where feasible. However, incompatible goals among regions, inadequate structures, and misunderstanding of the impact of policy have often rendered such efforts ineffective.

Another response to central government's reduced involvement in regional policy development has been an increase in the private sector's influence on decisionmaking. Yet this may prove to be to the serious disadvantage of peripheral regions, given that private market calculus always favors the less risky, more immediately profitable economic heartland. Of course, the so-called "down-sizing" of central government could involve transferring responsibility to local public bodies. Yet in many cases they lack the skills, entrepreneurship, fiscal clout and infrastructure to play such a role. Establishing infrastructure may be one of the main goals of regional development policy, but local authorities may simply lack the funds to build them. On the other hand, there are examples of very successful local policy initiatives (Blakely, 1989; Unger, 1991). Many regions and urban areas face the problem of deteriorating infrastructure. This is likely to retard regional development during the coming period of fiscal restraint (Whitman, 1991; Bamberger, Blazar and Peterson, 1991; OECD, 1991). To the extent that national efforts tend to thwart local initiatives, keeping local agencies essentially dependent rather than encouraging their entrepreneurship, devolution might be important to the development of

authentic regional potential. Of course, where positive central-local relationships exist, the opportunities for economic development are significantly enhanced (Logan and Swanson, 1991). Yet Hansen et al. (1990) found very little evidence of this outside developing countries, where regional policy has been effectively integrated into national economic policy. Many central government agencies treat regional policy as a poor relation, and that does little to enhance center-periphery political cooperation. Canada has long searched for ways to incorporate a regional agency into central decisionmaking, without any real success. Of course, cynics argue that the Canadian government never set regional development as a prime priority. But there is an authentic problem of trying to sort out sectoral from geographic approaches; this has always ultimately led to the dominance of traditional, sector-based structures. British experience in this domain has been very similar (Hansen et al., 1990).

As part of devolution, central governments have expressed their support of so-called "bottom-up" development, though they have not always supported it in practice. The fact is that bottom-up development is revolutionary, demanding much more than devolution. It raises fundamental questions about social, political and economic organization (Stohr, 1981). The Labour government in Britain paid lip service to devolution in the 1960s, and did little. In addition to political reasons, this was due to a lack of management skills among local officials, and the resistance of central government bureaucracies to anything that would diminish their authority. In Canada, when the Department of Regional Economic Expansion attempted to devolve greater powers onto regions through the innovative General Development Agreements, federal politicians rebelled over the loss of a major source of patronage. As a result, most regional development initiatives still begin at the top.

Among the most important findings of Hansen et al. (1990) was that designated regional development authorities have had the most powerful impact. The model of the Tennessee Valley Authority of the 1930s has had variants, but some preconditions are essential for all of them. One is that the designated regional development authority must be relatively independent, especially concerning its day-to-day operation, lest it become subject to the sways of political necessity and lose its selectivity, focus, and perseverance. Independence requires a dedicated budget that remains in place for several years. In France, for example, having regional financial institutions has been judged crucial for the funding of research, the provision of venture capital, and marketing.

Designated regional development authorities must include representatives from local agencies and business and community interests. Only the knowledge and understanding of local circumstances that these individuals can provide will ensure feasible programs of action.

For example, France's thriving authorities are outward-looking, and seek to become part of the global economy. They succeed in using marketing and contracting to meet the needs of the region's constituents. The Geelong Regional Commission in Australia has been successful largely because it has focused on the region's comparative advantages, and worked to attract only suitable firms, rather than adopting a "we'll take what we can get" approach.

Finally, designated regional development authorities must be served by expert staff. All too often, such authorities are the dumping ground for government departments. Successful authorities like DATAR in France, the Geelong Regional Commission in Australia, and the Delaware River Basin Compact in the U.S. employ the best and brightest officials. In contrast, unsuccessful authorities like Canada's Ministry of State for Economic and Regional Development have merely added to bureaucracy and have had minimal effect.

## Conclusions

The following may be concluded from this review of international experience with regional policy:

**Goals:** There has been a general failure to establish the clear and consistent long-term goals for regional policy that would make possible the dramatic action needed to transform backward regions into economically viable ones.

**Policy field:** Academic knowledge of regional economic development and its determinants is sophisticated, but has generally not influenced policy choices or implementation.

**Instruments:** Although a variety of instruments are available, those employed tend to be capable of achieving narrow political goals and incapable of encouraging authentic regional development.

**Management:** Evidence indicates that it is virtually impossible to organize and implement regional development without establishing appropriate agencies and giving them the clear mandates, authority, time, and human and financial resources they need to do the job. Of course, this means depoliticizing regional policy, defeating what is often the main reason for its pursuit.

It is hardly surprising that, where it has genuinely been sought, regional development has been attained, with substantial creative efforts. The dearth of successes is less an indication of the ability of regional policy to succeed than an indication of the priority it has been given.

## **IV. ISRAEL'S EXPERIENCE WITH REGIONAL POLICY**

### **Introduction**

In many ways, Israel's experience with regional policy has been similar to that of the countries reviewed in the previous chapter. To some extent, Israel's successes and failures may be ascribed to factors that were present in those countries. However, the unique characteristics of Israel's economic, political, and social systems have also shaped its regional policy. Much of this chapter will be devoted to explaining these unique factors, as understanding and working with them are essential to framing viable regional development policies.

A paper prepared for the Jewish Agency is indicative of the extent to which Israel borrows ideas from other countries (Wolff, 1990). While the paper is a fair summary of the various approaches that have been and are being tried abroad, its author found them difficult to evaluate. Nevertheless, many of these approaches have indeed been evaluated, and unfavorably. However, since regional policymakers have not wanted to confront this fact, they have continued to pursue what seem to be random experiments in policymaking, rather than conduct serious policy analysis.

This chapter begins with an explanation of Israel's uniqueness, which is followed by a discussion of the goals of Israeli regional policy. The chapter goes on to examine the instruments used in Israel to promote regional development. Its final section reviews regional policy management in Israel.

### **Is Israel Unique?**

Most countries have some geographic areas in which unemployment is relatively high and income relatively low. The areas of Israel that fit this description are most of the Negev Desert in the south, the central and eastern Galilee in the north, and the many development towns scattered throughout the country which were established in the 1950s to absorb immigration.

Israel also shares with other countries a lack of statistical data that could be used to measure economic progress and evaluate regional policy. In the absence of data, evaluations tend to be anecdotal or based on small-sample case studies.

The following are unique to Israel:

- \* A preoccupation with military security, engendering the perception that all areas of the country should be settled, particularly those areas with a high concentration of Arab residents.

- \* A religious and nationalistic conviction (held by some) that Israel has legitimate claim to, and therefore must establish settlements in, all parts of the country, the West Bank, Gaza, and the Golan Heights.
- \* An exceedingly small land area. In most countries, backward regions are geographically remote and isolated. In Israel, most backward settlements are within one hour's drive of a metropolitan area. This means that a significant proportion of the population of these settlements commute to work in a metropolitan area. This, in turn, complicates the process of defining a region as economically backward.
- \* The influx of immigrants. The need to provide them with housing as quickly as possible gives regional policy a different focus than it has in other countries (e.g., income growth, job creation).

## Goals

### Efficiency

Israel has pursued the efficiency goal of regional policy much as have other nations. This goal was devised in response to overcrowded core areas -- in Israel's case, greater Tel Aviv. By European standards, Tel Aviv is indeed densely populated. Many individuals are moving to the immediate periphery of the Central Region, which is itself becoming overcrowded.

The primary goal of Israeli regional policy has therefore been to disperse the population, inducing people to move away from major centers, particularly Tel Aviv. This focus on dispersion has occupied public policy since the inception of the State. In the 1950s, it was relatively easy (and inexpensive) to send immigrants to remote development towns. However, recent immigrants from the former Soviet Union, who are more educated and less malleable, are being allowed to settle wherever they choose.<sup>8</sup>

Former Minister of Housing Ariel Sharon and the Likud government<sup>9</sup> first concentrated on providing housing for the immigrants, whether temporary or permanent, and only later addressed the problem of finding them jobs. Housing was constructed in development towns and areas where land and servicing were readily available or could be made available at low cost; moreover, units were erected in the West Bank to reinforce Israel's claim to political sovereignty there.

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<sup>8</sup> The centrality to settlement policy of absorbing this wave of immigrants was evident at a recent international conference (International Federation for Housing and Planning, September 1992, Jerusalem). All of the papers presented by Israelis discussed the settlement of immigrants from the former Soviet Union as a focus of regional policy.

<sup>9</sup> The Likud government, in power since 1977 (except for two brief periods during which Israel had a national unity government), was ousted in elections held in July, 1992.

Thus, the "regional" policy of the Likud government was formed around extravagant housing initiatives such as the direct provision of housing in targeted areas. Very few job creation or training programs accompanied these initiatives, and those that did were afterthoughts. For example, in 1990 then-Minister of Finance Yitzhak Modai inaugurated the Kidmat HaNegev development program to encourage 400,000 immigrants to settle in the Negev. However, this program lacked the ingredients essential to its implementation: a budget, coordination within the national government and with local governments, and administrative mechanisms. To date, no senior administrators have been appointed to run the program.<sup>10</sup>

The consequences of inadequate regional development are by now apparent. Despite the talk about the need to disperse the population to the Negev and Galilee, there has been little of the concerted effort required to translate talk into action.

### **Equity**

The goal of income equalization has been pursued less vigorously than has that of efficiency. This goal is slightly more complicated in Israel than in other countries, because of the ideology of owning and working the land, as well as the desire to settle the more remote parts of the country for reasons of security. The lack of an economic dimension in these "regional" policies created profound and lasting problems. Much current regional policy is therefore attempting to correct historical inequities.

Current professional thinking about regional economic development goals is best reflected in the approaches of two major national planning programs: TAMA 31, and the National Plan for the Year 2020.<sup>11</sup>

## **National Plans for Regional Development**

**TAMA 31 (National Plan 31):** The primary goal of TAMA 31 as described by its principal architect, Rafi Lerman (1991), is to absorb immigrants. While it takes into account that, in the immediate future, immigrants will only be absorbed into employment in the central region, the plan has been formulated to disperse the population. To this end, the plan designates four metropolitan areas: Israel's three large cities, Tel Aviv, Jerusalem, and Haifa, and Beer Sheva, the largest city in southern Israel. Each of these cities will act as a growth pole, providing financial and producer services for its periphery.<sup>12</sup> In the north, Nazareth Illit and Carmiel, which are expected to grow rapidly, have been classified as so-called "sub-poles" of Haifa. The Sea of Galilee has been designated a center for the development of tourism.

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<sup>10</sup> In this regard, this program is no different from many other grand schemes for the Negev.

<sup>11</sup> The reader is also referred to analyses of regional planning in northern and southern Israel by Bar-El and Gradus, respectively.

<sup>12</sup> As in most countries, regional development in Israel has been based largely on the growth pole approach.

**National Plan for the Year 2020:** This long-term plan, directed by Adam Mazor, is being supported by the Ministry of the Interior, the Ministry of Housing and Development, the Lands Authority, and the Jewish Agency. To date, only the first stage of the plan has been written. Like TAMA 31, it focuses on the development of Haifa and Beer Sheva as growth poles that will spur development in the periphery. The plan draws heavily on the work of the Development Study Center of Rehovot, which submitted a report to the Jewish Agency advocating the creation of three sub-poles: Nazareth Illit, Carmiel, and Maalot in the north. The report recommended heavy capital investment in roads and infrastructure. It also recommended similar investment in Beer Sheva.

Neither plan describes the means that would be used to attract firms to these cities, nor does either include a detailed estimate of costs or benefits.<sup>13</sup>

## **Regional Plans for Development**

An alternative to the growth pole has been suggested for use in the south by Gradus: the "Regiopolis". Rejecting a national hierarchy of settlements, Gradus and Stern (1980) see the Negev as a quasi-autonomous region. As a result, they recommend that a regional authority actively plan the spread of development, starting with the determination of firm locations. They argue that active planning is preferable to reliance on links between the city and its periphery.

As part of an evaluation of the Mitzpim Program of establishing hilltop settlements in the Galilee, initiated by Raanan Weitz for the Jewish Agency, Lipshitz (1990a) studied patterns of development, as well as the 52 new settlements that had been established there since 1979. He criticized the government for having no explicit policy other than that of increasing the number of Jews in the area, relative to the number of Arabs. Moreover, he argued that most of the settlers have little contact with the local economy, preferring instead to do their business in one of the cities.

## **Policy Field**

### **Definition of Regions**

General economic development theory does not stress the importance of delineating backward regions. However, regional development depends on the definition of distinct geographic areas on which regional policy may focus. In Israel, the Central Bureau of Statistics (CBS) defines "natural regions" according to natural geographic boundaries. Excluding the West Bank and Gaza, 41 natural regions were established by the British during the mandate period. These regions have been aggregated into 15 "sub-districts", usually based on the centrality of an urban hub. The sub-districts are themselves aggregated into six districts: North; Haifa; Central; Tel

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<sup>13</sup> TAMA 31 does contain some cost data.

Aviv; South; Jerusalem. The boundaries of these districts do not reflect any important economic considerations. Neither are metropolitan boundaries defined to reflect commuting zones or market areas. This serious deficiency is at least partly a consequence of Israel's small size, which makes the selection of unambiguous functional boundaries virtually impossible.

Not surprisingly, few government agencies use this classification system; each has its own individual system, according to which it administers its programs. Apparently, there have been several attempts to coordinate the definitions employed by various ministries, but these faced strong opposition. In the 1950s, the government defined 24 planning regions, each with a central development town (Shachar, 1970). It then divided these into zones targeted for development, labeling them "A", "B", or "other", to indicate their priority. Various incentives and benefits were assigned to each zone according to its priority. Razin (1991) has drawn a map indicating the changes in zone boundaries made between 1960 and 1972. Due to political pressure the Ministry of the Interior has not changed the investment incentives for these zones since 1972. However, it has added towns to "A" zones, though it has never removed any.

The following have been used in Israel to define geographic areas for purposes of regional planning:

- \* municipal boundaries
- \* metropolitan areas, incorporating several neighboring municipalities
- \* type of settlement (kibbutz, moshav, rural or urban settlement)
- \* planning region

Population data are also used to define geographic areas for development purposes. The geographic breakdown for individual series of data depends on how the data were collected, and the size of the sample. For example, census data, collected every 10-15 years depending on the availability of funds, provide a very fine breakdown, while employment and unemployment and income data, which are based on sample surveys and are available in aggregate, provide a more rough breakdown. Sometimes breakdowns are available from special surveys, performed at the request of individual ministries. The JDC-Brookdale Institute and the Development Study Center in Rehovot also conduct surveys, but these are not necessarily compatible with those of the CBS.

Population data, usually derived from the CBS census and updated using estimates of migration, birth and death rates, are available annually for natural regions. In addition, the CBS generates data for large municipalities and rural communities. These are aggregated by size category as well.

Razin (1991) has conceived a tripartite definition of regions, which divides them into core, semi-periphery and periphery. While it appears to make sense and seems functional, this definition has not yet been incorporated into any policy framework.

The classification system offered by TAMA 31 (not yet approved by the Knesset, Israel's parliament), uses CBS data to define zones. These include a triangle (Jerusalem - Ashdod - Netanya); the Haifa Metropolitan area; an intermediate zone surrounding Haifa; the periphery

to the north; an intermediate zone south of Ashdod - Jerusalem; the Beer Sheva metropolitan area; and the periphery to the south (see Figure 4). It remains to be seen whether this framework will be used in the development of regional policy in the future.

When setting policy, each government and public agency uses its own definition of geographic region. While most use municipal data from the CBS, each arrives at an aggregation independently. A relatively unique feature of Israeli policy is the identification of certain towns, rather than contiguous geographic areas, as so-called development towns, entitled to subsidies and incentives. Lipshitz (1990b) points out that each ministry maintains its own list of development towns. An attempt by the Ministry of Finance to standardize the lists was rejected by the Knesset, under pressure from special-interest groups. Lipshitz identifies forty towns which are found on most of these lists. Subsequent to the completion of this report, the Prime Minister's Office issued a proposal to consolidate and rework the definition of development towns and zones for investment assistance. This proposal was prepared under the chairmanship of Shimon Sheves.

Some policies focus just on moshavim, or just on kibbutzim. Several analysts have tried to determine what these settlements have in common, relative to what they have in common with geographically adjacent areas. (For example, if they have more in common with each other than with their surrounding areas, an administrative-unit-based policy would suit them.) Lavy (1988) argues that development towns suffer more from unemployment than do other parts of the country.<sup>14</sup> However, Lipshitz (1990b), who found a great deal of variety among development towns, concludes that policy should not treat development towns as being homogeneous, since some succeed economically while others do not. Fleischer, Haruvi, and Eger (1991) found that moshavim have more in common with their regions than with other moshavim; they call for region-oriented employment policies, rather than policies based on type of settlement.<sup>15</sup> In contrast, Gradus argues that kibbutzim have more in common with each other than with their regions, as they do their purchasing and marketing through their national organizations, and have little economic contact with their regions. As a consequence, kibbutzim tend to block the establishment of regional decisionmaking (Gradus, 1978).

For whatever reason, most of the development towns have had economic reports written about them, whether sponsored by the Jewish Agency, the Ministry of the Interior, or the town itself. The Development Study Center has conducted numerous studies of such towns, including Ofakim and Maalot; Shamir-Shinan (1984) has carefully analyzed Yerucham and Dimona; and Razin (1989) has studied Yavne, Ashdod, Ashkelon, Kiryat Gat, Kiryat Malachi and Sderot. While the studies have had different perspectives and different authors, they almost all provide a narrative of the economy and history of these towns and are an important source of information.

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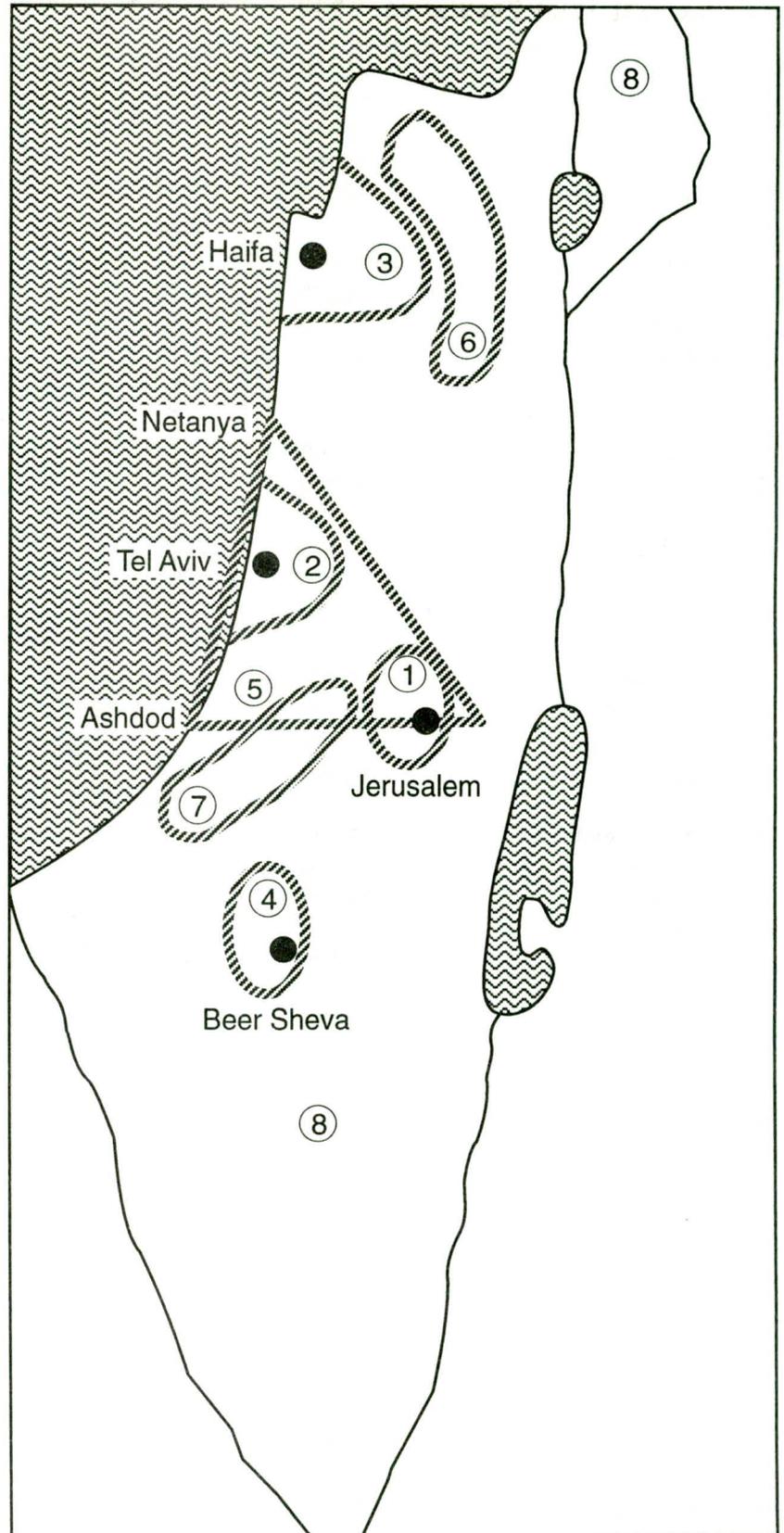
<sup>14</sup> He uses a multinomial regression model.

<sup>15</sup> They used a factor analysis to arrive at this conclusion.

FIGURE 4: ZONES IDENTIFIED BY TAMA 31

**Eight Zones :**

1. Jerusalem metropolitan
2. Tel Aviv metropolitan
3. Haifa metropolitan
4. Beer Sheva metropolitan
5. Triangle:  
Ashdod-Jerusalem-Netanya
6. Haifa periphery
7. Ashdod periphery
8. Rest of country

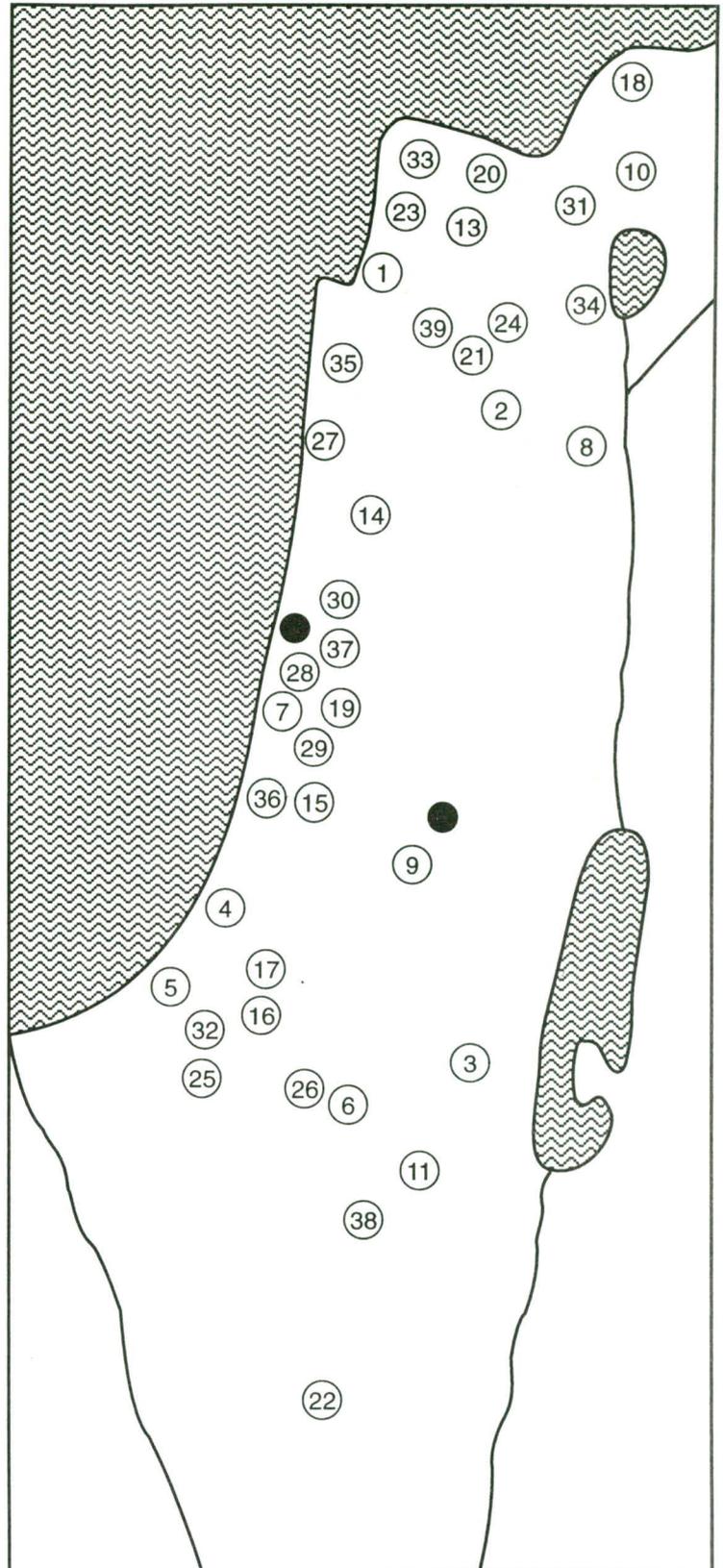


Approximation

**FIGURE 5: POPULATION AND LOCATION OF DEVELOPMENT TOWNS**

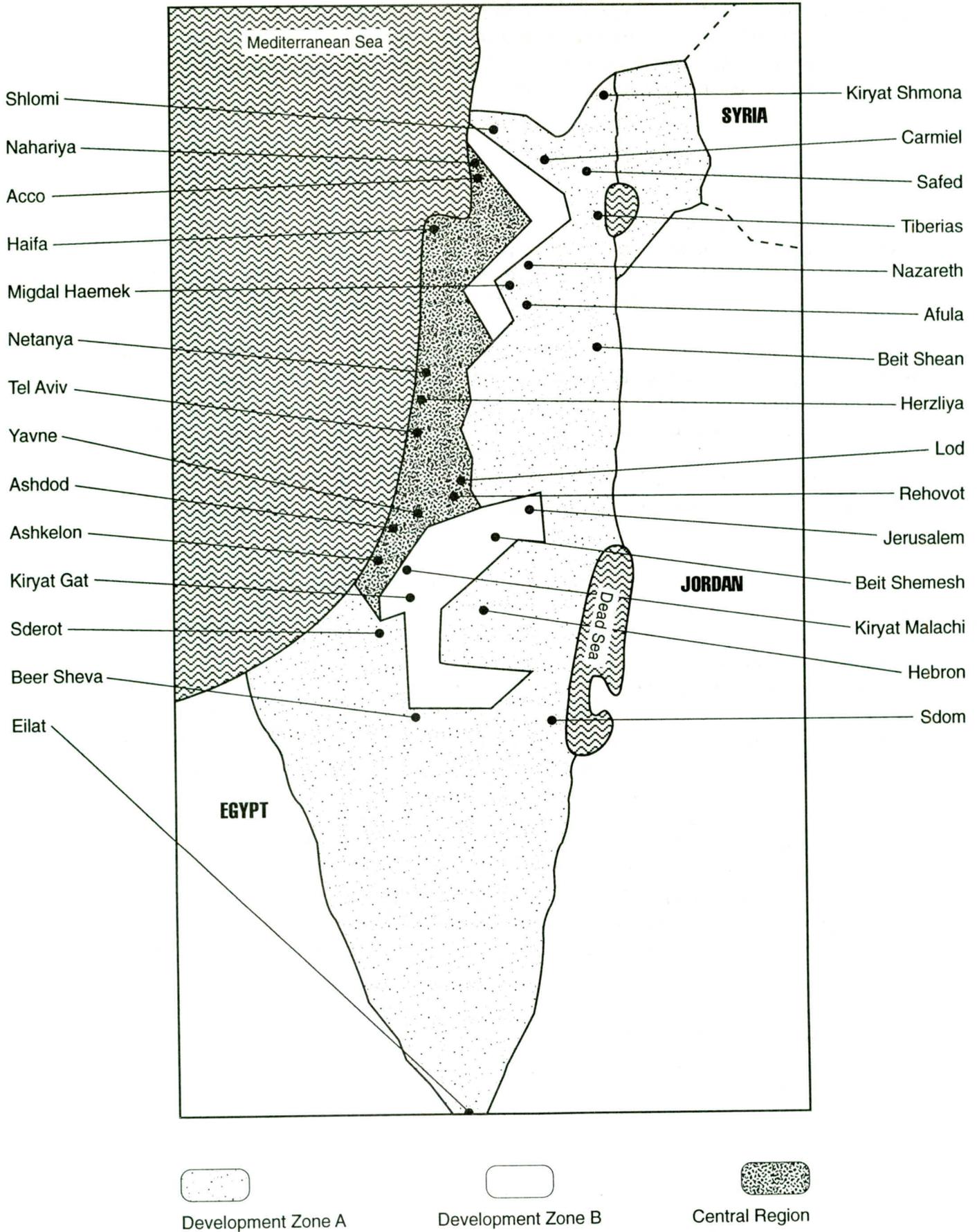
**Development Town Population, 1988**

<b>01</b> Acco	37,200
<b>02</b> Afula	24,500
<b>03</b> Arad	13,700
<b>04</b> Ashdod	74,700
<b>05</b> Ashkelon	56,200
<b>06</b> Beer Sheva	113,200
<b>07</b> Beit Dagan	2,200
<b>08</b> Beit Shean	13,100
<b>09</b> Beit Shemesh	14,200
<b>10</b> Hazor	6,800
<b>11</b> Dimona	25,000
<b>12</b> Eilat	24,700
<b>13</b> Carmiel	20,100
<b>14</b> Kfar Yona	4,100
<b>15</b> Kiryat Ekron	4,400
<b>16</b> Kiryat Gat	27,400
<b>17</b> Kiryat Malachi	14,200
<b>18</b> Kiryat Shmona	15,400
<b>19</b> Lod	41,300
<b>20</b> Maalot	8,800
<b>21</b> Migdal Ha'Emek	15,000
<b>22</b> Mitzpe Rimon	2,600
<b>23</b> Nahariya	29,800
<b>24</b> Nazereth Illit	24,900
<b>25</b> Netivot	9,700
<b>26</b> Ofakim	13,400
<b>27</b> Or Akiva	7,800
<b>28</b> Or Yehuda	20,000
<b>29</b> Ramle	44,400
<b>30</b> Rosh Ha'ayin	11,700
<b>31</b> Safed	16,400
<b>32</b> Sderot	9,500
<b>33</b> Shlomi	2,200
<b>34</b> Tiberias	31,200
<b>35</b> Tirat Hacarmel	14,700
<b>36</b> Yavne	20,800
<b>37</b> Yehud	15,000
<b>38</b> Yerucham	5,900
<b>39</b> Yokneam Illit	5,700



Based on Lipshitz Identification

**FIGURE 6: AREAS FOR DEVELOPMENT ASSISTANCE, 1991**



Despite all the analyses of the behavior of geographic regions in Israel, there have been few attempts to produce a model of this behavior that would encompass the whole country. In his study of ties among regions, Felsenstein (1990b) attempted to base this hypothesis in empirical fact. The work of Gradus on the Negev and of the Development Study Center on the Galilee provide some understanding of intra-regional relationships. However, it still seems there is no understanding of how regions function within the national context.

## Instruments

Both core-based and periphery-based policy instruments have been used in Israel. In the 1950s, dispersal appeared to be the goal of public policy. Although people were in fact dispersed to remote regions, Israel had no economic development policy. Funds were invested in industry, but without coherent plans or an understanding of the complexity of competitive markets.

In the 1960s, the growth pole approach gained popularity. For example, Beer Sheva was identified as a growth pole for the Negev region. However, little was done to translate words into developmentally effective deeds. No one single growth pole was selected in the north. Instead, the government diffused its efforts to a number of smaller growth poles, including Nazareth Illit, Beit Shean, Carmiel, Safed and Maalot. Stef Wertheimer's private effort to create an industrial complex in the Tefen area of Galilee, near Maalot, has received a lot of attention for being a prototype of a high-tech growth pole; there is talk of replicating this model near Beer Sheva.

Israel has employed many of the same instruments as have other countries, particularly direct grants or loans, and tax concessions.

### Investment Incentives

Various subsidies provided by the Ministry of Industry and Trade and administered by the Investment Center<sup>16</sup> have been used to attract industry to developing areas. As noted, the government has divided the country into three types of development zones, labeled "A", "B", and "other". "A" zones get the highest subsidies. These subsidies have varied over time, as has the definition of which areas are in which priority zone. Daphne Schwartz (1986) derived an algebraic formula to show how the various criteria for granting subsidies interacted:

**Type of product:** The Ministry of Industry maintained a list of products which could **not** qualify for a subsidy, because they were already in excess supply.

**Proportion of output intended for export:** The Ministry of Industry required that each firm export a minimum proportion of its output. This proportion varied according to the type of product and the firm's location. Firms located in development towns generally had to export

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<sup>16</sup> The Investment Center is the agency within the Ministry of Industry and Trade responsible for reviewing applications for investment subsidies.

a lower proportion of output than did those located in the center of the country; some firms were not required to export any of their output.

Schwartz also identified two different types of assistance:

**Tax-related assistance:** Qualifying firms were eligible for a reduced rate of income tax (30%) and higher rates of depreciation for a seven-year period, beginning the first year they earned a profit, not to exceed 14 years after production had begun.

**Loans and grants:** Qualifying firms were eligible for low-rate loans on 40% of the value of their investment, plus a grant on a further proportion of their investment, as follows: 35% in "A" zones; 20% in "B" zones; and 5% elsewhere.<sup>17</sup>

Somekh-Chaikin (1992) lists the various subsidies currently available. It cites the grants, loans and tax concessions administered through the Investment Center as major incentives, along with research and development grants supplied through the Office of the Chief Scientist. Since 1988, employers and employees in development towns (not classified as one of the three types of zones) have been exempt from the employers' tax on earnings; they also have received a number of other benefits, such as reduced municipal taxes.<sup>18</sup>

The following is a brief summary of the types of assistance offered to regions: numerous other grants and types of assistance are available regardless of location, through the US-Israel Binational Industrial Research and Development Foundation (BIRD), for example.

**Investment grants** as a percentage of investment in fixed assets: A Zones -- 38%; B Zones -- 20%; Other -- 0%.

**Guarantees of bank loans** for 66.7% of cost. Minimum Capital in Zones A and B: \$75,000; \$100,000 elsewhere, plus a **Tax free period** as follows: A Zones -- 10 years; B Zones -- 6 years; Other -- 2 years.

Many types of grants are available for research and development (though it is not clear how they interact). The following are the most important of those with a regional component:

**Development of defence products for export:** A Zones -- 45% of cost; B Zones -- 35% of cost; Other -- 30% of cost.

**All approved research and development expenditures:** A Zones -- 60%; Other -- 50%.

**Special assistance** with rents, provision of water, and sewage costs is offered to firms that locate in industrial parks in development towns.

Most assistance has gone to promoting exports and, since 1990, to replacing imports and producing computer software and construction components.

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<sup>17</sup> As a result of the high rates of inflation during the first half of the 1980s, the manner in which the loan was linked to inflation also had a significant subsidy component. A 1982 law established the link.

<sup>18</sup> Assistance for tourism-related investments is slightly different.

In addition to the above types of assistance, which are approved with ease (though plans must be feasible), ministers have had a great deal of latitude in providing assistance at their discretion, such as reducing the employers' tax to as low as zero.<sup>19</sup>

An evaluation of the effectiveness of Ministry of Industry and Trade grants was conducted in 1985 by Daphne Schwartz of the Development Study Center. She examined the ratio of grants approved between 1978 and 1984 to the number of workers in a given area. She was interested in evaluating whether the ratio of grants to traditional as opposed to growth industries was lower in development towns than in the rest of the country (excluding Tel Aviv, Jerusalem and Haifa). She hypothesized that if she found more growth than traditional industries in development towns, she could conclude that grants had been effective in promoting growth in development towns.

Unsurprisingly, she found that the ratio of grants to traditional industries was 30% to 60% higher in development towns, depending on the year. This is because traditional industries, particularly the textile industry, are likely to locate in development towns to take advantage of the incentives offered, whereas growth firms need to have access to producer services and skilled labor more than they need the marginal assistance offered. Schwartz noted that even those growth industries that did locate in development towns were traditional manufacturers, not state-of-the-art facilities. This is probably even more prevalent today, with assistance for research and development and for computer-related businesses almost as great in the center of the country as in development towns. Schwartz also found that firms in development towns exported only 51% of their output, while those located in the center of the country exported 67% of their output.

Drawing on research done by others in the 1970s, she also argued that incentives tend to encourage high capital-labor ratios (Galed, 1974; Berkowitz, 1970); factories are "over" built, as firms need not economize on plant expenditures when much of the cost is borne by the government (Morowitz, 1976); and firms attracted to development towns stay in them for a short period only (Razin, 1986).

She concluded that:

"incentives to encourage regional development in the development towns have resulted in approvals, but have not succeeded in making a significant change in the economic situation of development towns relative to towns in the center, particularly with respect to the industrial distribution of investments...and have not succeeded in changing the relative position of development towns. Moreover, the incentives appear to have had negative consequences: excess capital (a high capital-labor ratio), lack of exports and lack of economic stability" (pp.245-246).

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<sup>19</sup> To illustrate: The government is considering establishing an industrial park in the center of the country and classifying it as an "a" zone, arguing that it would create employment for a nearby town that is under-developed.

Schwartz suggested that regional policy requires not only industrial incentives but a whole range of programs, including programs to develop infrastructure. Moreover, she recommended that there be special incentives to encourage export; an extension of aid past the first year, then gradually phased out as the firm gets established; aid for firms to move rather than develop new factories; and a more selective approval process.

This result was re-confirmed by Schwartz (1987) in her examination of the economies of several towns, including Ofakim in the south near Beer Sheva, and Migdal Ha'emek and Maalot in the north. She found that approximately two new firms were approved each year in Ofakim, mainly in the two dominant industries: textiles and diamonds. Of the projects approved between 1977 and 1983, 27% were never built, and 18% closed within a few years of opening. Moreover, progress is often much slower than planned: of the projects approved in 1982-83 and operating by January 1985, only 25% employed the anticipated number of workers. Her most revealing conclusion was that there is a great deal of unstable plant ownership: when the original owner goes bankrupt or closes down a plant a new owner buys it on the basis of a new incentive grant, but soon afterward he, too, goes bankrupt or closes down. As a result, employment is uncertain and unstable. Many of those who own plants in development towns run multi-plant operations from a head office in the center of the country. Schwartz here reiterated her earlier recommendation that assistance be continued until a firm has become well established.

One problem noted by Schwartz is the low proportion of commitments to open plants that are actually implemented. In a speech he gave in September 1992, Prime Minister Rabin decried the fact that only 50% of the NIS 10 billion worth of investments approved since 1987 had been implemented, and demanded an investigation.

At the local level, municipal taxes vary, not only in their rates, but also in how their bases are defined (e.g., how square metrage is calculated). The Ministry of the Interior publishes an annual report on each municipality's by-laws. During the 1980s, municipalities raised their tax levies substantially, thereby improving the economic independence of the more prosperous cities. In recent years, the Knesset has limited the overall rate of tax increases. However, poorer cities have been forced to offer enormous tax concessions to attract firms, in the end receiving little if any fiscal advantage and, when expensive new services are required, actually incurring major net costs.

In contrast to Schwartz, Gabriel and Justman (1977) found that incentive grants were generally successful in attracting firms to development towns.<sup>20</sup> Nevertheless, Pines (1991) argued, theoretically, that subsidies to industry are inefficient. He proposed that a per capita grant of approximately \$16,000 given to anyone moving to peripheral areas would spur development.

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<sup>20</sup> Jerusalem Post, Sept. 4, 1992, p.12A.

## **Human Resources**

Until the recent influx of immigrants from the Commonwealth of Independent States (C.I.S.), some blamed the failure of growth firms to locate in the periphery on a lack of suitably trained labor. A report made to the Jewish Agency recommended retraining the local labor force (Abraham, 1985). However, the influx of immigrants from the C.I.S. into development towns has shifted emphasis from retraining those with few or no skills to utilizing these immigrants' specialized skills (Sherman, 1991). The image of an engineer cleaning streets because of a lack of suitable work is often used to illustrate the problem of "overtraining". In their analysis of the Galilee, Bar-El, Fleischer and Felsenstein (1991) see the availability of skilled labor as the key to development; what is required, they claim, is a massive investment in infrastructure.

An interesting approach to human resource development has been taken by Stef Wertheimer. Having set up a number of firms near Maalot, he recognized that a lack of entrepreneurial skills explained why firms fail to locate in development towns. He proceeded to set up a college for potential entrepreneurs in Maalot, based on the philosophy that an entrepreneur must work gradually and learn from his mistakes. Although the college does not require graduates to locate their firms in the periphery, siting the college in Maalot will probably have an impact on where graduates set up their plants.

## **Small Business Promotion**

As noted, British experience has suggested that very large firms are less likely to create jobs than are small firms. While no research on Israel expressly shows that large firms are less likely than small firms to create new or more permanent jobs in any area, a preference for small firms is prevalent in the literature in Israel, particularly outside the major ministries.

Tracing the history of government regional policy, Razin (1991) describes how government first encouraged diamond processors, then textile firms, to locate branch plants in development towns. The need to be close to the center in the former case, and competition from non-Jewish labor in the latter case, resulted in neither industry having a major effect on employment in the periphery.

In general, Razin (1991) argues that government still tends to encourage large firms, primarily because the same amount of time must be devoted to promoting a large or a small firm, but a large firm can provide more jobs and garner greater publicity. Avraham (1985) encouraged the Jewish Agency to put more Project Renewal Funds into promoting small firms. The combined efforts of JDC and other organizations placed the issue of small businesses high on the government's agenda, leading to the considerable expansion of government funding for small businesses and the recent establishment by the government of the small business authority for Israel, with the Small Business Development Center adopted as a central model.<sup>21</sup>

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<sup>21</sup> The observed high correlation in the West between immigration and small business led the JDC to respond to the influx of Soviet immigrants in 1989 with the promotion of small business development centers. JDC-Israel formed coalitions with local municipalities, the Ministry of Immigrant Absorption, the Ministry of Trade, the Jewish Agency and the Israel Chamber of Commerce to set up small business development centers throughout the country.

In June 1993 the government gave recognition to the importance of small business by establishing a special loan fund of NIS 200 million for small businesses. The loan fund was expanded to NIS 300 million in August. In addition, a number of smaller loan funds were established by the Jewish Agency, the K.E.F. Fund for Encouragement of Private Initiatives, the New York Jewish Federation (in Jerusalem and Tel Aviv), and the Boston Jewish Federation (in Haifa).

### **Producer Services**

Following a trend in other countries in the mid-1980s, Israelis began to see producer services as a potential catalyst for regional development. Efforts to realize this potential focused on the creation of so-called "incubators" or "hothouses": that is, the provision of facilities and accounting, legal, secretarial, telephone, and fax services, and management and marketing assistance to start-up firms that had agreed to locate within a defined industrial park or building. As noted above, some incubators with a commercial focus were organized around the small business development centers. These were established primarily by the Jewish Agency and the Ministry of Trade and Industry.

Several of the technological incubators have focused on research and development, seeing this as a key to production. Highly-trained immigrants from the C.I.S. have made this emphasis possible. It is still too early to tell whether most of these incubators will succeed, creating firms that can stand on their own. So far, most efforts to create incubators have been on an extremely small scale.

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These Centers provide the veteran Israeli and immigrant entrepreneur a local address and accomplish four main tasks:

- \* provide assistance and guidance at the formative stages of establishing a business and in developing a business plan;
- \* offer courses in business management;
- \* assist entrepreneurs in applying for small business loans;
- \* offer professional guidance and monitor progress.

A problem particularly relevant to the immigrant entrepreneur is the acquisition of a start-up loan. Immigrants lack securities, collateral and guarantors. They have no business background in Israel, the banks don't know them, and they often don't know anyone with a steady income who can serve as a guarantor. The special loan funds set up for small businesses, to which the immigrant entrepreneur has easy access through Small Business Development Centers, do not require guarantors. Moreover, equipment purchased with the loan serves as collateral.

In three years of activity the JDC has established ten centers. As of September 30, 1993, there were 14 centers in the National Small Business Development Center Network. Over 10,000 new immigrants and veteran Israelis have already had loans processed, and over 2,000 have established or expanded businesses and continue to receive financial advice. More than 4,500 new jobs have been created.

Most of the centers are located in areas with a high concentration of new immigrants, such as Tel Aviv, Jerusalem, Ashdod, Netanya, Haifa, and Rishon Lezion. Other centers are located in peripheral areas such as Misgav, Carmiel, and Nazareth. Centers in the periphery also have business incubators, which comprise 20% of their activity.

One attempt at regional cooperation was initiated in 1991 as a joint effort of JDC-Israel and the Jewish Agency. Referred to as the Shinar project, it brought together the kibbutzim and moshavim of the Shaar Hanegev region and the development towns of Sderot and Netivot to promote regional economic and social cooperation and to establish a regional instrument that would provide a range of business services. A key aspect of the project was the involvement of local business leaders.

The project received recognition from national ministries for channeling funds for export promotion and management training. Despite broad support for the ideas behind it, however, the project encountered difficulties related to local politics and inter-organizational differences of opinion. The Jewish Agency withdrew its support and the project was shifted out of the political arena, becoming instead an association of local business leaders. The future of this unique effort is still uncertain.

### ***Infrastructure***

The government of Israel directly provides most of the country's infrastructure. Perhaps surprisingly, it has tended to favor housing and transportation as the keys to regional development. TAMA 31 also accords infrastructure a central role; the allocations it proposes are not too different from historical patterns of allocation (see Table 2). It is not entirely clear how TAMA 31's authors arrived at these proposals for allocation, and it is therefore unclear how they will affect regional economic development. Questions may be raised in particular about proposed allocations to the railroads and highways. Questions may also arise as to why other forms of infrastructure vital for economic development, such as municipal sewage and water systems, have tended to be neglected.

### **Financial Innovations**

Israeli entrepreneurs in the periphery have attacked financial institutions' failure to take the periphery's needs and requirements into account. Most banking institutions have their head offices in Tel Aviv, where they make the final decisions regarding loans to firms in the periphery as well as in the center. Not surprisingly, according to Razin (1988) they view the periphery as presenting a higher risk; therefore they require more guarantees and security before lending to firms in the periphery. As a result, a great deal of the financing for developments has come either directly from the government, or from government guarantee programs. The government, in turn, has been criticized for its inability to identify which firms are likely to succeed.

A number of programs have been proposed to assist entrepreneurs in getting funding, particularly in the early stages of development. It has been suggested that Project Renewal funds be used to provide seed capital for prospective employers. Other suggestions include establishing a fund on a revolving basis that would be used just for seed capital. In the north, the Galilee Foundation has been set up to assist small entrepreneurs within a specific area of the region, using a capital base solicited from contributors abroad.

Table 2: Infrastructure Investment in Israel for 1990, and as Proposed by TAMA 31 for 1992-96

Field	1990		Annual Average 1992-1996*	
	\$ million	%	\$ million	%
Agriculture	242	3	323	2
Water	62	1	138	1
Industrial support	1,555	19	2,258	17
Preparation of land	146	2	182	1
Generation of electricity	678	8	948	7
Communication and transportation	1,811	22	2,831	21
Financial services	674	8	1,458	11
Housing	3,122	38	5,144	39
<b>Total</b>	<b>8,289</b>	<b>100</b>	<b>13,282</b>	<b>100</b>

Source: Tama 31

Note: Background documents explaining how these figures were arrived at were unavailable. It would appear that budgetary assignment was used, without formal project analysis. It is clear that TAMA 31 acknowledges the importance of infrastructure to regional economic development. The proposed nominal increase is of the order of 60%, from \$9.2 billion in 1990 to an average of \$14.7 billion for 1992-96. The geographic distribution is roughly proportional to the population (18% to the south; 25% to the north), with two exceptions: tourism infrastructure in the south (50% of all tourism-related investment) and industry in the north (32%). The continued dominance of the infrastructure total by housing is also of interest.

\* It is proposed that \$1.2 billion be spent for railroads, including:

\$400 million - to Eilat

60 million - Rehovot to Beer Sheva

118 million - Nahariya to Haifa

Again, no explanation could be found for developmental impacts such as jobs created, firm costs, etc.

The Jewish Agency has stressed its access to donors abroad, and has suggested various schemes that would draw on their profit-seeking and charitable motives to entice foreign entrepreneurs to invest in Israel's periphery. These same entrepreneurs might also be enticed to donate their marketing and management expertise. To date, the actual number of successful firms that have grown from this "networking" effort remains rather modest.

Felsenstein and Schwartz (1991) examined experiences promoting small businesses in other countries and came up with a number of suggestions. They recommended using place-specific revolving loan funds, capitalized by matched public and private funds; unemployment benefit funds, to encourage small entrepreneurs; government-backed loan guarantee pools, and government-sponsored development mortgages.

The problem with government loans, as noted, is the difficulty of "picking a winner", that is, identifying firms which are likely to succeed. In a paper for the Jewish Agency, Sherman (1991) recommended involving the private sector in managing investment pools. There are already several such funds, the most active of which is BIRD, a jointly-sponsored U.S.-Israeli fund for investing in research and development on a strictly profit-making basis.

### ***Free Enterprise Zones***

A recent proposal has been to create a number of so-called "free enterprise zones". Promoted by the Israel Export Corporation, these areas would be exempt from taxes and duties for 25 years, in exchange for which the promoters would install the necessary infrastructure and promise to attract a large number of new firms, with guaranteed investments of up to \$750 million (Sandler, 1992). However, the proposal has not been well received by several ministries because it would give a significant advantage to new as opposed to existing firms. No formal decision has yet been made.

## **Policy Management**

### ***Local Policy Management***

Most municipalities in peripheral regions are small and poor. As a result, they lack the finances with which to buy consultant services, to service industrial parks or to effectively offer subsidies to potential employers. Until the 1980s, most of these municipalities were relatively passive, accepting whatever the government might give them to help create jobs. In 1980 this began to change, as several municipalities elected young, dynamic mayors who both pressured the national government and solicited development directly (Razin, n.d.).

Fiscal transfers to these municipalities are also helping to fund their provision of services; these transfers are based on complex formulas that require substantial discretion, and this encourages political maneuvering. The difficulty is that towns must compete with one another for limited resources, and this often requires them to make enormous tax concessions to firms with monopoly power. Several development towns (e.g., Yeruham) face a serious economic crunch as a result of their weakened tax bases (as distinguished from their industrial bases). Some

industrial parks, such as Ramat Hovav outside Beer Sheva, have been created completely outside municipal boundaries for the express purpose of avoiding municipal taxes. This trend poses serious, long-term funding problems for the municipalities where the employees of these parks live, shop, use public transportation, and send their children to school.

Avraham (1985) found that those municipalities that put together a good information package, and those that had a development officer or committee, were the most successful in attracting new firms. Razin (1989) compared six towns in the south and found that proximity to Tel Aviv was important, spurring Yavne's development as a dormitory suburb and Ashdod's development as a port. In contrast, the failure of Ashkelon to qualify for incentive grants kept it from being as successful. Gertel (1991) examined the influence of local leaders' philosophies on the nature and extent of development.

Most geographers and economists have recommended that some form of regional government coordinate the activities of smaller municipalities. Some recommend region-wide meetings of municipal planning officers, others suggest establishing a regional planning body or a regional employment agency, and still others favor having a regional government (Klausner and Shamir-Shinan, 1987; Bar-El and Margulies, 1989; Bar-El, Avraham and Schwartz, 1991; Gradus and Leibowitz, 1988). Nevertheless, no regional decisionmaking bodies have been established in peripheral areas, due both to local authorities' jealousy of their own autonomy, and to the national government's reluctance to set up another level of government.<sup>22</sup> What do exist are regional councils, which essentially deliver services, rather than make decisions. It is important to note that regional councils have no jurisdiction over the urban centers in their regions.

### **National Policy Management**

Nationally, the Ministry of Trade and Industry, the Ministry of Transportation, the Ministry of the Environment, the Ministry of Tourism and the Ministry of Housing and Development all have an interest in regional development along with the Jewish Agency and the JDC.

Unfortunately, there is no one agency that coordinates the efforts of these bodies, each of which uses a different (and often contradictory) definition of which areas should be the focus of regional development, and each of which has its own (often contradictory) policies for development. Not surprisingly each is also very protective of its territory. Some even try to extend their influence to areas outside their responsibility.

One may consequently observe the anomaly of the Ministry of Housing and Development proposing to use Project Renewal funds (for which the Jewish Agency is primarily responsible) to promote local jobs (for which the Ministry of Industry and Trade is responsible) by improving infrastructure (for which the Ministry of the Interior and the Ministry of the Environment are responsible).

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<sup>22</sup> JDC's Shinar project was one attempt to promote regional decisionmaking. See p. 42.

The Israeli process of deciding how to allocate grants is unique. Most grant applications are made to the Investment Center of the Ministry of Trade and Industry. Many if not most of them are for small projects that have been relegated to the periphery because they need the locational subsidy in order to be viable. Ministry officials then evaluate these projects. Their decisions may be overridden by the minister, who may be influenced by political pressures.

Recently, successful entrepreneurs have expressed dissatisfaction with subsidies, calling their focus misguided and their impact on competitive behavior negligible. Wertheimer (1992) argues that a focus on job creation is inappropriate, and that the focus **should** be the long-term viability of an enterprise. Others argue that aiding selected marginal firms puts successful ones at a competitive disadvantage and is antithetical to the goal of sustainable economic development.

The recent recession and the pressures created by the influx of immigrants have put an end to fine-tuned targeting. Virtually any reasonable-sounding proposal can get funding, regardless of location. Proposals to the Investment Center have trebled in the past year. A number of reviews of different programs designed to foster regional development have given no evidence of how money was spent or how successful the programs have been. To a cynic, this could indicate that results were unimpressive. Recently, Daphne Schwartz received a list of the proposals sent to the Investment Center in 1991; if she monitors them, analysts will eventually have a better sense of their efficacy.

The very large role played by the government and the General Federation of Labor (Histadrut) in the Israeli economy has made location decisions by government- and Histadrut-owned corporations an important instrument of public policy -- witness the continuing debate over whether to locate military industries in Tel Aviv or Beer Sheva. Most decisions about allocation are made for political reasons, without regard to sound strategies of regional economic development.

One of the major tools of regulation has been land management. Until the late 1980s, the Committee for the Protection of Land for Agriculture had the authority to limit the expansion of urban areas into rural (agricultural) areas. The Committee was thus able to direct growth. However, in recent years, the Committee's authority has dwindled due to increased immigration and the weakening of the rural lobby following the economic crisis of the kibbutzim. It remains to be seen whether or not the transition to a Labor-led government following recent elections will reverse this trend.

There has been little environmental regulation in Israel, and hence little deregulation. As a consequence, many peripheral areas have been used as dumping grounds for industrial waste. If regulation is increased, these areas will have to severely limit the expansion of their industrial bases, as "cleaning up" will require massive investment in infrastructure.

The dominance of the national government has also had an effect on the nature of standards: Most authorities establish a single national set of standards and rules, despite variations in geography, climate and economic structure. For example, one delegate to a 1992 conference

on development in the Negev attacked the building code, which was being applied uniformly despite the widely divergent needs of individual regions.

Distorted pricing policies present a related problem. For example, the uneconomic pricing of water encouraged agricultural activity in the periphery at the expense of urban development. An attempt to institute more rational pricing by former water commissioner Zaslavsky has been brought to an end by the new government. Similarly, energy and transport prices have favored road over rail systems, with the attendant implications for regional development.

Though planning has long been used as an instrument of regional policy, it has had limited influence in Israel. Israel's high-caliber planners have drawn up ambitious, creative plans for regional development, but their impact has been modest, as politics has undermined attempts to proceed "rationally". In addition, the rapidity of change has made it difficult for Israeli policymakers to give adequate consideration to the long-term effects of policy.

## **Conclusion**

Contrasting Israeli regional policy with that of other countries reveals several important differences. One is that where most countries have suffered a surfeit of attempts to implement regional policy and a lack of serious planning, Israel has suffered a surfeit of planning and a lack of serious efforts at implementation.

Another is that events and circumstances in many countries have conspired to help delineate which regions require assistance with problems, and how to provide that assistance. Even when assessments are incorrect, there is some consensus about them. In Israel, it is not always clear which regions need assistance; arriving at consensus about this has been next to impossible.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **Introduction**

In reviewing regional economic development policies, a wider spectrum of approaches, circumstances, and results was revealed than was anticipated. Summarizing diverse experiences with regional policy risks underestimating the uniqueness of each experience. However, a number of common characteristics stand out, suggesting there are powerful forces at play in all situations. Understanding these is a key to understanding the nature of the problems encountered in planning regional development, and to exploring possible solutions to them.

### **General Conclusions**

The problems in Israel's peripheral regions are serious, reflecting past failures to plan properly, and indicating what may come to be seen as the failure to appropriately absorb immigrants. Stated simply, there is not now nor does it seem there will soon be a deeply-felt, broadly-based commitment to fostering the sort of economic development that would meet Israel's needs. Were such a commitment to be made, much could be learned from Israeli experience to date, and from experience elsewhere, that could help guide policy toward potentially rewarding results.

### **Determining Regional Policy Goals**

The most basic issue to be resolved is: What does Israel want to achieve? Clearly the broad goal of helping immigrants and disadvantaged residents must be given some substance by defining precise objectives, targets, time frames, and so forth. Many well-intentioned efforts have skipped this elementary stage, thereby failing to advance much beyond it. A serious effort has been made to deal with objectives and targets by TAMA 31, a comprehensive regional economic development strategy. However, it appears the feasibility of this strategy is questionable.

### **Determining the Policy Field**

Many different conceptions of the nature of regional development are often considered concurrently, adding to confusion and ineffectiveness. In particular, the economic and the geographic dimensions of regional planning require clarification.

### **The Economic Dimension**

First and foremost, planners must determine what economic conceptions they will use to define regional policy. Regional policy may be seen as a welfare concern, requiring a transfer system of the sort used in Canada (equalization payments). Alternatively, it may be seen as a short-term, localized problem of unemployment, requiring stimulation of regional demand using public works projects and general tax-cuts as favored by Keynesians. Finally, it may be seen as a purely developmental problem, requiring fundamental changes in the economic relationships within a region that will expand the capacity for self-sustained economic development. Deciding among these three approaches is difficult, as each requires making important trade-offs. The welfare approach helps those in need immediately, but tends to foster long-term dependency. Short-term stimulation of development has a less precise target population, but avoids the problem of dependency and, by nature, delivers results more quickly. The developmental approach holds the greatest promise of long-term solutions, but also takes the longest time to bear fruit, requiring those most in need to remain in difficult straits for unendurably long periods.

Thus a tough choice has to be made, one which puts different interests -- particularly those of the beneficiaries and the policymakers -- in conflict. What is clear, however, is that failing to make a choice is likely to produce costly and ineffective programs. It is possible to conceive of tailoring a policy that blends the benefits of these approaches without incurring excessive "damage", but this would require a level of sophistication not hitherto demonstrated by policymakers in Israel. For example, in the past, Israeli policy has included smatterings of all three economic orientations but has had no clear focus. Many of the liberal housing assistance programs and settlement allowances offered by the Jewish Agency have been little more than welfare transfers, carrying some of the attendant dis-incentives. The massive subsidization of housing construction could have been viewed as short-term, macro-economic stimulation, except that the import of construction workers and prefabricated homes caused unduly high leakage and a correspondingly low multiplier. Grants to industry to spur economic expansion have continued to reflect the contradictory goals of bailing out weak firms and encouraging new ones. Thus, the opportunity to rationalize economic policy efforts has not been seized. With the prospect of substantial loan guarantees from the U.S., Israel now has what might be the best opportunity to "get it right".

### **The Geographic Dimension**

Second, the geographic dimension of planning must be considered. It is widely believed that absorbing immigrants does not require geographically-oriented policies at all. Those who hold this view believe that if the Israeli economy as a whole were to be resuscitated, everyone would benefit, including the immigrants. All that is necessary to create a climate favorable to investment and exports is fiscal and financial discipline. Those who favor intervention call for using a variety of sectoral policies to give Israel a competitive edge in world markets. Interventionists see efforts to encourage research and development, investment links (joint ventures, networking), start-ups for small businesses (buildings, infrastructure), and manpower training as solutions that do not require a geographic focus.

Not too far removed from approaches that are not geographically oriented is the so-called geographic-centralist approach. Usually based on some variant of the central-place model, this approach argues that national development should be focused on a country's geographic core -- in Israel's case, the Tel Aviv metropolitan area -- because it is the center of national and international activity and has the best infrastructure, the most established and progressive firms, and the best-trained labor force. As the core develops, it carries along the outlying areas that are linked to it.

A less monolithic variant of this approach is the metropolitan approach. According to this approach, development should be promoted not in one but in all urban cores, each of which is semi-autonomous and can deal independently with foreign markets and which hence should not be treated as part of a hierarchical system. Proponents of this approach contend that peripheral areas linked to the respective urban centers will benefit.

The above geographic approaches are based on the trickle-down, or "top-down" model, which is diametrically opposed to the local or so-called "bottom-up" approach. Advocates of this latter approach argue that initiative must begin at the local level, building local potential and enabling each local unit to contribute to the regional, and thence to the national economy.

Somewhere in between the local and metropolitan approaches is the regional approach, according to which each urban center is part of a larger functional economic region, which has trade and commuting links with smaller units in the region. This approach favors focusing on an entire region, improving links within it rather than focusing on an urban center. It should be emphasized that such an approach requires individual policies that will reflect the distinctive capacities and geography of each region.

As noted, it is necessary to choose among these approaches, despite the conceptual and political difficulty of doing so. In a non-constituency system like Israel's, it may be expected that top-down, centralist approaches will be favored, as has indeed been the case. While it is true that substantial funds have been expended in local areas, rarely have these reflected a geographic conceptualization of development problems, despite rhetoric to the contrary.

While it is useful for analytical purposes to make distinctions between economic and geographic dimensions of regional policy, the interaction between them cannot be ignored. For example, some economic policies have clear geographic implications. To illustrate, a policy of privatization will tend to weaken the capacity of all levels of government to engage in geographically-oriented planning.<sup>23</sup> Fiscal devolution to metropolitan areas will require taking the metropolitan approach. Devolution to all, especially smaller, centers, will require taking the "bottom-up" approach. In Israel, however, still-fragile organizational infrastructure and economic links will as yet preclude authentic development at the regional level.

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<sup>23</sup> We are indebted to Professor Shaul Krakover for emphasizing this point. Of course, if privatization improves its fiscal position, the government will be better able to pursue geographic policies.

How one approaches regional policy development depends in large measure on how one understands geographic-economic interaction. Highly influential opinions appear to be based on little evidence. In Israel, important empirical research that will provide insight into this interaction has been conducted by Felsenstein (1990), and Freeman et al. (1985). Their work will have to be broadened and updated to keep pace with the rapid changes in Israel's industrial structure and geographic layout. To this end, better regional economic data will need to be collected, as it continues to hamper solid policy analysis.

Interaction and interdependency cannot be stressed enough, as it appears that many planning and policy efforts have not come to grips with them. Many plans have tried to be all-embracing, incorporating several variants of both economic and geographic approaches without frankly recognizing that a choice has to be made, that "top-down" and "bottom-up" approaches cannot be conveniently accommodated within a single strategic policy framework. And unless planners make the necessity of trade-offs clear, policymakers may either buy entire proposals to their future regret or, more typically, dismiss them outright as representing ivory-tower dreams that are unconnected to real-world concerns.

### **Preliminary Proposals for Policy Instruments**

Israel has available to it a wide variety of potentially useful policy instruments. The ability to designate locations for preferred tax treatment and subsidies and to control the location of development through powerful land and infrastructure controls, the availability of high-tech grants in support of science-based industry, military procurement capabilities, and assistance from overseas foundations are as potent as the instruments available to any other country. However, to date they have not been used to maximum effect. Among the most important reasons for this is an absence of clear policy directions, as noted. In addition, there seems to be surprisingly widespread resistance to serious policy evaluation, that is, to concerted effort to learn from past experience which instruments work, and how well. Too much stock has been placed in anecdotal evidence and non-representative case studies; such "stories" tend to provide apologetics rather than useful evaluations.

One reason for this failure to learn from experience may be the heavy involvement of overseas benefactors in so many policy efforts. With too few exceptions, these well-intentioned friends tend to be less interested in policy efficacy than in optics and symbolism, fancy buildings and the smiling faces of children. It is often easier to get additional funds to solve problems than it is to impose the discipline necessary to using existing funds efficiently and effectively. One glaring example of this is the relative ease with which funds for constructing grand new buildings can be secured, in contrast to the inability of raising funds to maintain those buildings, be they hospitals, universities, or community centers.

The view from the sidelines is that another reason for the general absence of evaluations may be the small size of and close ties within the policy establishment, which comprises a tight network of elected officials, bureaucrats, consultants and academics. This makes it difficult for

evaluators to be critical -- despite the necessity of criticism to meaningful evaluation. Finally, in part because the demand for them is still limited, there are few independent agencies that can conduct evaluations in a professional, cost-effective manner. Needless to say, unless planners are prepared to learn from past experience through critical and honest evaluation, they will be destined to repeat their costly errors.

To illustrate, let us take the example of an often-cited factor in economic development: human capital. It is clear that education is significant, and that proper on-the-job training is particularly effective. The importance of human capital to Israel's development is well recognized, though the priority it is given seems surprisingly modest. For example, the influx of immigrants from the C.I.S. is also an influx of human capital. Because they often require retraining, however, these immigrants have been seen as a source of trouble, rather than as a source of opportunity. A strategy identifying exactly what efforts are required in which fields to maximize their yield would be of immense value. Similarly, investment in higher education, both teaching and research, should be much greater than it appears to be. In no area are these problems more severe than in development towns, where needs are greatest.

Of necessity, financial resources are scarce in Israel, both for public and private use. This should call for special strategies to ensure the effective use of such resources. General incentives are provided, especially giving locational preference to private industry, but to date no one has been able to demonstrate their effectiveness. Grants are available for small businesses, and for research and development, but how they interact and their combined impact on regional economic development are not at all clear, and still require serious assessment. To date, Israel has tended to support or promote individual firms. The notion of creating industrial complexes has not gained popularity. Too much emphasis continues to be placed on the poorly-defined area of high technology. This research indicates that taking a more cautious approach reflecting local comparative advantages, making concrete efforts to build comparative advantages, and fostering geographically-oriented complexes that maximize regional advantages, should be seriously considered. The process of transferring public resources to local authorities appears to be rather unstructured and inefficient. How to provide resources in a way that combines broad national priorities with local needs, while offering constructive incentives to local governments and private entrepreneurs, must be learned by evaluating current practice.

Since scores of alternative approaches have been taken abroad, it would be eminently sensible to consider their applicability to Israel. This review indicates that two elements are necessary, although certainly not sufficient, for success.<sup>24</sup> First, only a very small number of efforts should be undertaken, and in well-defined regions. Second, those efforts must be based on the mobilization of national and local resources in a comprehensive, goal-oriented manner. Given the size of Israel, this will mean that perhaps only one region could be selected. Clearly the region chosen should be the one with the greatest potential to succeed, and quickly, so that lessons may be quickly applied elsewhere, as appropriate. There seems to be no need to develop

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<sup>24</sup> Cf. the experiences of DATAR in France, as well as of the Geelong program in Australia and the Appalachia program in the U.S..

a new arsenal of policy instruments; rather, the many that are available must be used in the best possible manner. This can be achieved through open-mindedness, and close interaction among policy designers, analysts, managers and evaluators.

## **Preliminary Proposals for Policy Management**

Finally, the most difficult policy issue -- policy management -- must be addressed. Its difficulty is a result of the use of regional economic policy as a cover for space-based patronage. The following proposals are based on the (naive) assumption that there is, or will be, an authentic desire to deal with this issue substantively, and to try and correct fundamental economic problems in the periphery.

The authors believe that a regional approach is absolutely necessary. History has demonstrated that even during periods of rapid national growth, links between urban centers and the periphery have not proven strong enough to adequately assist the latter. Hence, it is recommended to base an economic development policy on the single-core or even the metropolitan approach. However, when adopting a regional approach, the following requirements must be taken into consideration. First, as Lipshitz (1991) has shown, there cannot be one strategy for the whole country. However, there is no consensus on the appropriate definition of regions for purposes of making policy. Many localities argue for focusing on very small so-called micro-regions.<sup>25</sup> Their small size means they require modest efforts, though few of them could realistically serve as regions for economic development. They lack the scale or quality of infrastructure and the economic advantages to be more than appendages to larger regions. Increasingly, there is a consensus that, for development purposes, there really are only two peripheral regions in Israel: the Galilee and the Negev. While the actual boundaries of these regions may be debated, as is natural, since settlements on their borders are pulled toward the national as well as the regional core, this categorization seems reasonable.<sup>26</sup>

Second, the basic institutional prerequisites for the regional approach are lacking. There are few structures capable of implementing a policy of regional economic development. The basis of any (regional) structure is cooperation among its units. Despite some degree of competition among local units over firms, and tension over the need to share regional costs and benefits, regions as a whole must be able to assure their residents that the benefits of acting as a region outweigh the costs. In Israel, however, local animosities are heightened due to a long-standing lack of trust among kibbutzim, development towns, and small cities, which is exacerbated by inadequate funding.

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<sup>25</sup> One such micro-regional effort is JDC-Israel's Shinar project in the northern Negev, which encompasses the towns of Sderot and Netivot and the nearby rural communities (mostly kibbutzim).

<sup>26</sup> TAMA 31 dealt with this ambiguity by designating micro-regions as intermediate zones.

If "real" regions are to be created, these divisive forces will have to be overcome. This will require the involvement of local units, whose resistance will have to be reduced using incentives of the type available to the central government. However, to date, the political and administrative leadership of the central government has resisted using incentives to activate local and regional governments out of fear that doing so will create alternative sources of political power that will ultimately challenge its own comfortable monopoly position. Without the involvement of the national government, it is unlikely that grass-roots efforts will be made.

## **A Step-by-Step Approach**

At present, it does not seem the government has the will or the resources to pursue a comprehensive strategy for regional development. Yet this is not necessarily the best way to proceed. The authors thus propose that regional policy be launched on a modest basis by focusing on one region. It is the authors' view that the Negev would be the most suitable region. The Kidmat HaNegev program, though still without a clear mandate, is already in place. Regional relations are perhaps less strained in the Negev than elsewhere, and the region's geographic structure is clear. Beer Sheva is recognized as the hub of the region. The links between Beer Sheva and the other local units in the region are well-established, as Beer Sheva has resources, infrastructure, and service facilities (e.g., the Soroka Hospital, Ben Gurion University). Moreover, the Negev has long been perceived as Israel's frontier. A number of Jewish federations have contributed heavily to the Negev, especially Beer Sheva, through Project Renewal. The Municipal Strategic Planning and Information Units (MPUs) in centers like Beer Sheva and Dimona appear to be highly effective, with strong staff and political support.<sup>27</sup>

What is essentially required, then, is to design a realistic and effective mandate for Kidmat HaNegev and then construct organizational mechanisms to carry it out. The authors recommend modelling it after the highly effective Appalachia or Geelong development agencies in the U.S. and Australia, respectively. The following components must be properly structured for the project to succeed.

### **Regional Development Board**

Some body will have to grant legitimacy to the entire effort. This body should incorporate locally-elected officials from throughout the region; the local business and labor elite; and representatives of the national government and other agencies. Its role would be to set broad policy guidelines and to coordinate among agencies; however, it should not be involved with management. This body, or regional development board, would be similar to the board of directors of a large, diverse private-sector company.

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<sup>27</sup> It is also possible to make a strong case for focusing on the Galilee. However, that region remains somewhat ill-defined, for development purposes. The Western Galilee is really a periphery of the Haifa metropolitan area, separated from the rest of the Galilee. There are no obvious core units with links that would polarize development in the eastern and northern sectors. Carmiel and Nazareth Illit have been suggested as core units, but their links with the rest of the region are modest at best.

## **Management**

Management must be in the hands of a small but high-powered team of professionals capable of providing leadership. This team would have to have a clear mandate or goal, as well as guaranteed funding and the full support of the regional development board. It should be made responsible and accountable for its actions, while being allowed operational independence -- a balance difficult to achieve. This analysis proves, however, that regional policy inevitably fails if those in charge of management are subject to day-to-day interference. Simply stated, if regional development of the sort being advocated here is truly desired, delegation of authority is essential. Without it, the goals pursued may be politically correct, but will not constitute genuine regional government.

## **Strategic Planning**

The success of MPUs indicates that Regional Planning Units (RPU) could provide the necessary, day-to-day monitoring of regional development. Deriving support from the MPUs to which they would be linked, RPU could help consolidate regional mechanisms and make strategically-conceived regional development policy.

## **Policy Analysis and Research**

In addition to day-to-day monitoring, regional development requires input into policy design, project analysis, and evaluation. These functions, carried out over the long term, may be best provided by bodies that are slightly removed from immediate implementation, as critical distance ensures objectivity. Such bodies, or research units, must employ the best methodologies and analytical techniques. Research units may be part of the regional authority, or may be part of a research center or a university that has ties to the regional authority.

## **Fiscal Capacity**

Although already noted, it must be reiterated that having sufficient funds, over time, is absolutely essential to successful regional development. An equitable means of assigning fiscal responsibilities to the bodies involved is necessary to ensure that the so-called "partnership agreement" among them is understood and accepted by all. Local authorities must contribute a portion of the financing, to ensure their "ownership" of the regional development process.

## **Investment**

The authors believe that public funding should be used primarily to finance infrastructure and services. Business activity is best financed by entrepreneurial private bodies. It is therefore recommended that the regional development board create a high-powered financial agency capable of mobilizing investment funds domestically and abroad. For example, a regional development bank might serve this purpose. The Investment Center could provide some initial funding for the bank, based on an inter-regional allocation formula.

## **Getting Started**

If a concerted effort is to be made to promote regional economic development, a small working group should be appointed to design precisely and realistically what type of development agency Kidmat HaNegev will be. As a senior official in the prime minister's office has already been

appointed to deal with regional development, he should take the initiative for creating such a working group.

The working group should consist of talented individuals who have an understanding of both the Negev region and regional development. (Questions of affiliation should not be raised.) The working group could be given a short time (approximately three months) to complete its task. Once Kidmat HaNegev has been defined, the working group could help identify key participants. Indeed, if deemed useful, the working group might also assist in developing preliminary business plans for both a three-year period (defining goals and strategic requirements) and a one-year period (building and staffing effective regional institutions).

It is tempting to try and forge ahead: to articulate goals, determine methods, detail organizational structures; but that would only defeat the principle of involving the so-called "clients" of regional development from the outset. If the citizens of peripheral regions can be made to understand what they, with help, may achieve, they will seize the opportunity to finally realize their regions' great potential. The challenge this study presents to agencies is to give those citizens the opportunity to do just that.

## VI. ANNOTATED BIBLIOGRAPHY

This bibliography provides a listing of the materials relevant to the topic covered in this paper. Those items deemed to have been of particular importance have been summarized, occasionally in some detail. Omissions may indicate the inaccessibility of certain materials, but in no way represent a judgment on their quality or importance. Hebrew titles have been translated into English, necessitating the taking of some license. The authors apologize for any inadvertent misrepresentation of intention. Articles published in Hebrew **only** are so marked.

Aharoni, Y. 1987. *Export-Led Growth Strategy for Israel*. The Jerusalem Institute of Management, Tel Aviv.

Attir, U; and Blubstein, D. 1988. *Kiryat Shmona Small Business Development Fund, Part One: Summary of the First Three Years of Operation*. Project Renewal, Kiryat Shmona.

Avigdor, O.; and Newman, D. 1991. *Regional Councils in Israel*. Ahdut Publishing House, Tel Aviv.

Avraham, M. 1985. *With Their Own Resources: A New Look at the Investment Required for Economic Development in Israel's Development Towns*. Jewish Agency Project Renewal, Jerusalem.

Originally, spurring economic development and building infrastructure for business were not goals of Project Renewal, although they gradually became goals in some projects. This report tries to rationalize economic development within Project Renewal.

Historically, most economic development was accomplished using government incentives designed for different development zones. Most of the firms that benefitted from these incentives were large and foreign-owned; few advantages were given to small local firms. Neither were profits invested back in the community.

Avraham reviews conditions in 17 development towns in the Galilee and the Negev, and finds the following:

- \* most development towns lack an adequate supply of serviced industrial land;
- \* most have high rates of unemployment, particularly for skilled laborers (note: unemployment figures come from local employment offices, and thus probably underestimate real unemployment by not including "discouraged" employment-seekers);
- \* youth tend not to attend technical training courses after the army;
- \* tourist facilities in smaller development towns generally have a low payoff and low multiplier;
- \* most development towns lack a viable commercial sector; and
- \* local economic policy is usually set by the mayor, despite the benefit of having present a development officer or committee.

On the basis of this assessment, Avraham recommends the following:

- \* use Project Renewal funds to develop land for industry;
- \* encourage vocational training, and make hiring of local residents a condition for receiving assistance;

- \* develop a program to teach entrepreneurial skills to youth;
- \* encourage local small business by providing or teaching accounting and marketing skills; and
- \* encourage each town to prepare an information package and distribute it to prospective investors.

An appendix prepared by Sara Kramer reviews international models of local development, and identifies three models:

- \* the integrated assistance model, which uses workshops or "incubators" to make it easy for small firms to get started (e.g. pooled insurance, common fax/phone, emergency loans, feasibility loans)
- \* the financial mechanisms model, which uses such mechanisms as revolving funds
- \* the Mondragon model, based on the practice in the Mondragon region of Spain of encouraging local cooperatives.

Bacas, H. 1991. "Partners in Promotion". *Nation's Business* 79(11):48-52.

Bamberger, R.J.; Blazar, W.A.; Peterson, G.E. 1991. *Infrastructure Support for Economic Development*. The Urban Institute, Washington.

Bar-El, R.; Avraham, M.; and Schwartz, D. 1991. *Urban Growth Centers in the Galilee*. Development Study Center, Rehovot.

This report argues that immigration should be viewed in terms of growth policies, not just in terms of absorption issues. While the center of the country is approaching its growth capacity, the Galilee -- which has an infrastructure, can still grow economically, and is not geographically isolated -- is a good area in which to combine growth and absorption. Traditionally, development in the Galilee focused on creating small, dispersed settlements -- a policy that was very expensive, especially considering firms had to be subsidized to locate there. The net effect of the new absorption policy on existing settlements in the Galilee will be positive, though not direct.

This report characterizes the Galilee as having a "trilateral" economy comprising three separate sectors: rural Jewish, Arab, and urban Jewish. The three are not well integrated, resulting in high economic inefficiency; the flow of labor resources is not smooth. The authors recommend establishing several growth poles, primarily in the central Galilee, to achieve the growth desired. (Towns close to Haifa are already part of its growth pole, while isolated towns far from Haifa and the center are not likely to be economically viable poles.) They identify Carmiel, Nazareth Illit and, to a lesser extent, Maalot as potential growth poles. The threshold population of each, including satellite towns, is expected to reach 200,000. New as well as old development policies would be evaluated in terms of promoting these poles. (Cf. Raanan Weitz's paper for the Jewish Agency (1990), in which he proposed that Carmiel and Safed be used as growth poles at an investment of \$3.5 billion.)

To achieve the desired growth, the authors claim it will be necessary to do the following:

- \* invest heavily in infrastructure, e.g. roads between Carmiel and Maalot;
- \* provide economic incentives;
- \* train, and facilitate the activities of entrepreneurs; and

- \* introduce administrative changes, and assist with local and regional organization (the authors suggest establishing a regional planning board).

Because these steps are likely to involve high investment, the authors suggest conducting further analysis to specify the measures and strategies required.

Bar-El, R.; et al. 1982. *Industrialization and Development*. Development Study Center, Rehovot. (Hebrew)

Bar-El, R.; Felsenstein, D.; Bentolila, D.; Spiegel, D.; and Kedar, F. 1989. *Technological Trends in Rural Industrialization*. Development Study Center, Rehovot.

This study, done for the Jewish Agency, looks mainly at rural development trends.

Bar-El, R.; Fleischer, A.; and Felsenstein, D. 1991. *Economic Development Stimuli for the Urban Galilee: Summary*. Development Study Center, Rehovot.

Whereas the earlier report (Bar-El, Felsenstein et al., 1989) suggests a general development strategy for the Galilee, this report suggests using individual strategies for sub-regions. The authors recommend using the following two criteria:

- \* strategies must suit the characteristics, location, projected population size, labor force quality, existing infrastructure and economic structure of sub-regions; and
- \* strategies must spur sub-regions' development and integration into the regional economy, using any comparative advantage available.

The authors divide the Galilee into three zones: a coastal zone; a central zone, with close transportation links to Haifa; and an eastern zone, whose economy is based primarily on tourism. Their proposal includes improving the road system in the central zone and allowing labor to flow more freely among zones. The authors suggest developing two growth poles in the central zone, Nazareth Illit and Carmiel. They believe this will facilitate the development of large-scale industries, enabling service firms to locate in the smaller towns around these poles. Many of these will be high-technology firms that will use the highly-skilled labor force in the area. Public services will be encouraged to locate in the pole cities, particularly Nazareth Illit. The eastern zone will continue to develop tourism by improving its infrastructure (particularly roads); this will also enhance intra-regional integration.

Bar-El, R.; and Margulies, J. 1989. *Research for Development: Research Answers to Some Critical Questions Raised by the Amit Report*. Development Study Center, Rehovot.

This report is a response to the Amit Report on rural development in Israel, conducted for the Jewish Agency. The authors argue that one cannot just look at simple trends, but must also analyze developments, using the research capabilities of places like the Development Study Center. Based on research done by the center, they draw some conclusions regarding key issues:

- \* **The Role of Agriculture in Rural Development:** Employment in agriculture is declining. Most kibbutzim are based on industry and services, most moshav residents work off-farm, and few second-generation moshav residents can find agricultural work.
- \* **Employment Options in the Periphery:** Higher educational levels and expectations of a higher standard of living have created a gap between the demand for and supply of jobs, with minorities (non-Jews) taking the low-skilled jobs in development towns.

- \* Government Incentives: Government incentives are not particularly effective, as regional employment in manufacturing does not provide the type of jobs desired by second-generation residents. Neither mass industrialization nor *ad hoc* assistance to specific towns have been able to meet their expectations.
- \* Settlement Structure: Inequality is growing and self-labor principles are not always being implemented. New forms of rural settlement, based on less cooperation and more individual initiative, have replaced the traditional moshav. Economic activity is directed less to the local economy and more to the national economy. Settlements tend to be more successful, though they often have a detrimental effect on the ecology and on towns.
- \* Prognosis: The region, and not the individual settlement, must be viewed as the basic unit of analysis and service delivery. Past attempts to implement a regional approach to development have been blocked by political and institutional conditions. But as these conditions disappear, opposition to a regional approach declines. Local populations can be geared to focus on the national economy, but bottlenecks in finance and infrastructure must be relieved. Attempts to help individual towns have not succeeded; a macro-regional focus would be more effective. The Jewish Agency should not get directly involved in generating economic activities. Generally, attempts to attract private investors (away) from urban centers have not been successful; local initiative must be relied on. Financial incentives are not enough to attract external investors; infrastructure, communication, recreation, and education will need to be improved. Local participation should be promoted, though this will require a change in the attitudes of central organizations. Many are satisfied with a rural lifestyle, but uncertainty regarding future development has prompted out-migration. Building a larger population mass and effectively generating new jobs may induce many to stay in the region.

The report concludes with recommendations for further evaluation of existing measures. The authors note that as development centers vary, measures effective in one center may not succeed in others. They suggest a seven-point research strategy.

Bar-El, R.; and Neshet, A. (eds.). 1987. *Rural Industrialization in Israel*. Westview Special Studies in Industrial Policy and Development, London, and Development Study Center, Rehovot.

The authors argue that the optimal policy for rural industrialization differs from town to town and village to village. They give the general background of and define specific development objectives for each type of settlement (kibbutz, moshav, non-agricultural village, Arab village). After reviewing conditions, they evaluate the achievement of goals, and reassess Israeli policy. Cf. the following papers:

- \* Bentolila, D. *The Non-agricultural Village*
- \* Czamanski, D.; and Meyer-Brodnitz, M. *Industrialization in Arab Villages*
- \* Don, Y.; and Leviatan, U. *Kibbutz Industrialization*
- \* Schwartz, M.; Bar-El, R.; Neshet, A.; and Finkel, R. *Moshav-based Industry*

Bar-El, R.; and Schwartz, D. 1985. *Economic Development of Ofakim*. Development Study Center, Rehovot. (Hebrew)

Bar-Gal, Y.; and Sofer, A. 1981. *Geographical Changes in the Traditional Arab Village in Northern Israel*. Center for Middle Eastern and Islamic Studies, University of Durham, Durham, England.

Barr, A. 1992. "Planning Under Pressure". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Beilin, Y. 1987. *The Roots of Israeli Industry*. Keter Publishing House, Jerusalem. (Hebrew)

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Blakely, E.J. 1989. *Planning Local Economic Development: Theory and Practice*. Sage Publications, California.

Blakely, E.J. 1988. *Developing the Biotechnology Industry: A Case Study of Regional Industrial Planning in the San Francisco Bay Area*. Biotech Industry Research Group, Berkeley, California.

Borochoy, E. 1989. "Industry in Development Towns: Problems of Development". *Re'ayon LeKalkala* 142:260-271. (Hebrew)

This article examines the increase in unemployment in development towns in the 1980s. The major reasons for this increase were the general recession, the granting of incentives to settlements on the West Bank, and a decline in the value of assistance in 1986 as a result of the cessation of a component of aid. Borochoy argues that the incentives led to too high a capital output ratio, attractive only to large firms, exclusive of high-tech firms.

Bregman, A. 1986. *Industry and Industrial Policy in Israel*. Bank of Israel, Jerusalem. (Hebrew)

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Christopherson, S.; and Gradus, Y. 1987. "High Technology in the Holy Land: The Origins and Consequences of the Israeli Development Path". In: *International Economic Restructuring and the Regional Community*, Muegge, H.; and Stohr, W. (eds.), pp. 133-147. Avebury, Aldershot.

Coffey, W.; and Bailey, A. 1991. "Producer Services and Flexible Production: An Exploratory Analysis". *Growth and Change* 22(4):94-117.

The authors argue that there is a symbiotic relationship between producer services and the growth of flexible production. See thorough list of references.

Coffey, W.J.; and McRae, J.J. 1990. *Service Industries in Regional Development*. Institute for Research on Public Policy, Montreal.

The authors stress the importance of the producer services sector, stating the following:

- \* in 1971-81, the producer services sector grew much faster than almost all other sectors
- \* according to the traditional export-based model, exports are tangible goods; however, many producer services are exported (e.g., engineering services)
- \* the location of producer services could have a strong effect on the location of firms producing tangible goods

In Canada as in most countries, the majority of producer services locate in large metropolitan areas, largely because of their need for skilled labor, related services, and amenities. They tend to choose sites close to the head offices of the firms that are their major clients because of the importance of personal contact. Branch plants in periphery usually use head-office-related producer services; if acquired by a conglomerate, a periphery plant will stop using local producer services, and begin using those near the new head office.

Coffey and McRae differentiate between front-office, high-order producer services (which locate in metropolitan areas) and back-office, routine producer services (which may locate in the suburbs).

There are two schools of thought regarding the effect of telecommunications on location: one holds that telecommunications will make possible more decentralization, the other holds that it will lead to less. The authors prefer the latter theory, stating that all firms have access to telecommunications, but that those that supplement it with personal contact will be in a better competitive position.

They review European experience with regional policy regarding producer services. They find it is difficult to get producer service firms to locate in the periphery, especially since national economic policies generally subsidize service industries located in core areas. Future policies might make capital more readily available, better train the labor force, and provide marketing assistance.

*Conference on Planning the Negev*. 1992. Sponsored by the Ministry of Housing, Beer Sheva. September 24. (Notes taken by one of the authors.)

This conference provided a unique opportunity to monitor the progress of all the major planning efforts concerned with the Negev. Senior technical planners were in attendance, as were officials from various public agencies. Although none of the plans are formally connected to each other, there seems to be reasonable cooperation among the various groups (data sharing, etc.). One reason for the cooperation is that several ministries (the Ministry of Housing, the Ministry of the Interior) sponsor most of the studies on planning. The conference was primarily an exercise in reporting; it did not indicate where all the efforts would lead in the end. Following are summaries of the conference sessions.

**Session I: Chair, Motti Klarman, Deputy Director General, Ministry of Housing**

Summary of housing programs, including quantities built, where there is surplus, etc. Little discussion about objectives and instruments. Level of analysis superficial at best (e.g., no data on costs, prices, incomes).

## **Session II: Architect Rafi Lehrman, Chief Consultant, TAMA 31**

Policy field: 10 planning regions (Ashkelon excluded from southern planning region). Heavy emphasis on housing, driven by alternative immigrant forecasts. Makes demographic projections (Tel Aviv to fall, central region to rise, Negev ends decline with wave of immigrants), but gives no clear model of system behavior.

Industrial development strategy to be phased in gradually (more gradually than housing strategy):

- \* first two years, expand existing firms (favoring Tel Aviv and north)
- \* next two years, expand their range of activities
- \* after fourth year, new firms (begin favoring south)

Geographic target: to expand the economic base to the benefit of the periphery (especially Beer Sheva). Impact filtered through three dimensions in regional scheme:

- \* Core: Jerusalem-Netanya-Ashdod triangle; Haifa
- \* Intermediate: area from Beit Shemesh to Kiryat Gat and Ashkelon (south); area just east of Haifa (north)
- \* Periphery: everything outside intermediate areas

Sees trickle-down from Tel Aviv to intermediate areas, then south. Short-run competition for south (Beer Sheva) with intermediate cities.

This scheme overlaid by metropolitan model: most highly centralized, head offices still to be in the central region. Significant leakages from periphery to the center. Hence, need to change fundamental basis of Negev economy.

Policy Options: Beer Sheva as bedroom suburb of Tel Aviv, though there would be commuting problems; focus on Beer Sheva as an independent metropolis; Beer Sheva as core of the Negev region.

Essential policy requirements for Beer Sheva: must change its role to one of a metropolitan center (not clearly defined); must devolve finance, management and business services to Beer Sheva. Danger of overemphasizing manufacturing industry. Should develop metropolitan functions in Beer Sheva to reverse present pattern of living in Beer Sheva and working elsewhere. Must expand the roles of university and hospital. Must take immediate, active steps to promote this change. No suggestions re: policy management.

## **Session III: Architect Adam Mazor, National Plan for 2020**

Background: Supported by the Ministry of the Interior and the Ministry of Housing, the Land Authority, and the Jewish Agency. No explicit policy direction. Phase I has been completed, including methodology, fields, projections, range of options. Objectives: population dispersal for security reasons, ties to land (agriculture as an ideal), nature preservation. Policy field: Negev is crucial.

Traditional image of Negev negative: a barren area, compared to the green Galilee. (If Israel is Europe's back yard, the Negev is Israel's back yard.) As a result, the north more densely populated than Holland and Japan; south among least densely populated regions. If this continues, by time Israel's population reaches eight million, there will be great danger to land, the environment, nature. Argues for alternative policies, which are thus far only general (e.g., south optimal for high standard of living; anti-centralizing efforts similar to DATAR France,

which succeeded because of emphasis on transportation). Regarding industry, refers to Irish example, which took only 10 years. Also refers to Japanese planning of new "technopolis" to avoid problems of densely populated cities (new cities still alive and well!). Sees special relevance for Israel. Beer Sheva can still be molded in positive way. Things can be accomplished in the Negev that can't be accomplished anywhere else in the country, with a "post-industrial" future, "footloose" firms; can skip industrialization phase. Old location determinants no longer valid. Emphasis on human capital (immigrants as an asset) and quality of life. Heavy capital investment in infrastructure (airport, communications).

Possible scenarios for Beer Sheva:

- \* spillover from core
- \* metropolitan core linked to Tel Aviv by high-speed train (cost: \$2 billion; not clear whether cost/benefit analysis has been done).
- \* relatively autonomous metro area with regional periphery, requiring diffusion of metropolitan services to periphery.

Some discussion of management, with emphasis on possible scenarios; nothing on methods or feasibility.

#### **Session IV: Yehuda Gradus, Professor of Geography, Ben-Gurion University; Member of the Kidmat HaNegev Team**

**Background:** Set up by former MK and minister Yitzhak Modai; no link to other activities, departments (including his own), or absorption; no link to TAMA 31. **Goal:** To absorb 400,000 immigrants. **Instruments:** Emphasis on industry for 31% of jobs (unrealistic), with key role for industrial parks (there are five already). Designation of Beer Sheva as an A Zone. Other foci: Medical and para-medical sectors; health (Arad, Dead Sea); other (silicon valley). **Policy field:** geographic. **Orientation:** East of Beer Sheva airport; Dead Sea omitted, but includes Sderot, Netivot, Ofakim. **Management:** development authority recommended; top-down; no local input. **Sees Beer Sheva and Negev as a case study of how not to plan.**

#### **Session V: Zeev Tomkin and Tomy Leitersdorf, Negev Tourism Authority**

Tourism plan not linked to other plans. No stated goals. **Policy field:** Geographic, with some analysis of tourism industry; division into six sub-regions: Beer Sheva and northern Negev; western Negev; eastern Negev; Mizpe Ramon, Arad and the Dead Sea; and Eilat.

Macro context: peace will increase total number of visitors (currently 1.6 million); new distribution, more to Eilat and Tiberias than previously planned. Increase emphasis on Eilat, expand from 4,000 to 8,000 hotel rooms. Mostly internal tourism. Concentrate next on Dead Sea, though activity stalled by excessive prices, and conflict between industry and tourism. Industry has lost most of its influence; investors have bought up all sites. Expect 3,000 more hotel rooms. Pushing desert tourism from Mizpe Ramon, based on Gadi Cohen's 1988 plan with Tischler. Possibilities in northern Negev: use Lahav Forest for camping. Despite plans, no implementation tools available. Total budget \$30 million for 5 years; with some tax breaks. Expect investment of \$100 million by business.

**Session VI: Zeev Barkai, Ministry of Housing, and Negev Component of TAMA 31 (TAMAM 4)**

No stated goals. Policy field: demographic and housing. Negev population expected to increase from 12% to 15% or 16% of total population. Beer Sheva has few metropolitan services, despite its large population. Plan thus puts great emphasis on developing Beer Sheva as a metropolis. Different services needed, but difficult to reconstruct the city. Also, tendency for outmigration from Beer Sheva, which grows when there is overall major immigration nationally. No analytical basis for this model. How to determine whether numbers will be sustainable in the long run?

**Session VII: Elie Armon, Beer Sheva Municipality**

Master Plan begun in 1989. Goal: to absorb immigrants; population goal of 250,000 by 2010. Previous projections were inflated; outmigration not considered. Instruments: Land use planning: sees land use in Beer Sheva as problematic, split between Central Business District (CBD) (new) and old city. CBD surrounded by oldest neighborhoods. Alternative expansion paths: linear (to the north) versus concentric rings. Includes sites for industry. Infrastructure: water and sewers are all right, but traffic is a major problem. New roads being planned (limited access, circumference). Plan to increase downtown building heights. Entrance to city from north creates bad image, of desert.

**Session VIII: Benji Hyman, Ministry of the Interior, Master Plan for the Southern Region**

Goal: plans driven by population and housing needs. Initial projection of population of 500,000 for Beer Sheva. Time pressures required adding to existing plans; no time to do new ones. Policy field: not restricted to existing administrative boundaries. Metropolitan Beer Sheva recognized as fourth metropolitan area in Israel.

**Session IX: Ruth Friedman and Gabi Rahamimov, Ministry of Housing, Functional Plan for Beer Sheva**

*Ruth Friedman:* Goal: expand city to the north, along the road to Tel Aviv. Policy field: attempt to link to all other plans. Came to agreement regarding Beer Sheva as fourth metropolitan area, but implications unclear. Her data show Beer Sheva not in bad shape compared to rest of country, contrary to image. Recommends locating regional functions in Beer Sheva.

*Rahamimov:* Instruments: Lots of planning tools: Alternative concepts of homogeneity, density, concentration. Sees great planning potential in Beer Sheva.

**Session X: Yehuda Gradus, Ben-Gurion University**

Policy field: to analyze the settlement system in the northern Negev, based the notion of "regiopolis". Sees the metropolis idea as inappropriate because of lack of contiguity. Beer Sheva as core of non-contiguous system of cities (inter-dependent islands in the desert). He rejects the view of hierarchic geographic systems.

**Session XI (Closing Remarks): Yoki Gur, Regional Planner, Ministry of the Interior**

Policy field: questions the planners' efforts. He feels that virtually all recommendations put forward by the speakers could have been implemented within the framework of TAMAM 4. All planning efforts top-down. Lots of data, but numbers not always consistent. Jewish Agency and others do not work from same framework (i.e., TAMA 31). Plans not respectful of desert and special needs. Should the south emulate model of development used in the north (high speed, high tech), or should different model be used (slower speed)? Management: Most decisions

affecting Negev in past not acted upon. Tendency to "fight the previous war", instead of looking forward.

**Session XII (Discussion -- Key Points):**

- \* All planning seems to be based on same traditional planners' paradigm. Is it the right one?
- \* Where are we after two years of intensive planning?
- \* Scale of government efforts aggregative. No contact with lower levels.
- \* No social perspective. If people were involved, they might pressure for action.
- \* Failure to consider environmental concerns. Trying to apply same environmental standards in the Negev as elsewhere.
- \* No ideas presented on how to create employment.

Courchene, T.J. 1978. "Avenues of Adjustment: The Transfer System and Regional Disparities". In: *Canadian Confederation at the Crossroads*, Auld, D. (ed.), pp. 145-185. The Fraser Institute, Vancouver.

Curbelo, J.L. 1985. *Economic Restructuring and Regional Development Planning in the Underdeveloped Regions*. Working Paper 455. Institute of Urban and Regional Development, Berkeley.

Danielson, M.N.; and Wolpert, J. 1991. "Distributing the Benefits of Regional Economic Development". *Urban Studies* 28(3):393-413.

The authors look at the effect of the economic development of one municipality within a metropolitan area on the employment, tax base and population of the other municipalities. They develop a set of equations that relates these three variables to employment change, distance from the center, etc. They do a cross-sectional regression analysis of changes in municipalities in the New Jersey-New York City area between 1980 and 1987, and find that the benefits of growth do spill over into neighboring municipalities.

Del Monte, A.; and Luzen, R. 1987. *Effects of Regional Policy on the Formation of New Firms in Southern Italy*. Working Paper 467. University of Rome Department of Economics, Rome.

Doeringer, P.B.; and Terkla, D.G. 1990. "How Intangible Factors Contribute to Economic Development: Lessons from a Mature Local Economy". *World Development* 18(9):1295-1308.

Economic and econometric models of local development usually focus on visible costs, such as wages and transportation costs. The authors find that invisible factors (e.g., management practices, business leadership, community leadership, and values) can be much more significant; these generally appear as part of the residual in Denison-type models of growth.

As a result, in proposing policy, economists usually recommend visible cost elements and ignore invisible factors. The authors use a case study in northern Massachusetts to illustrate that firms that are able to quickly adapt to changes in the market, and those that specialize (have a specific niche), providing quality and service, are most likely to do well. Targeting assistance thus requires a great deal more than just focusing on costs.

- Dolev, R. 1986. *Program for Phasing Down of Renewal in Neighborhoods*. Jerusalem Corporation for Project Renewal, Jerusalem.
- Duke, R. 1991. "The Case of Georgia's Rural Economic Development Initiative". *Economic Development Review* 9(3):45-49.
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- Eisner, R. 1991. "Infrastructure and Regional Economic Performance: A Comment". *New England Economic Review* October:47-58.

The author finds a positive correlation between public capital and output at the state level, even after accounting for quantities of labor and private capital. However, he claims it is difficult to differentiate between cause and effect.

- Elazar, D.J.; and Kalchier, C. (eds.). 1987. *Local Government in Israel* University Press of America and Jerusalem Center for Public Affairs,
- Erickson, R.A.; and Friedman, S.W. 1990. "Enterprise Zones: A Comparative Analysis of Zone Performance and State Government Policy". *Government and Policy* 8(4):373-378.

The authors evaluate enterprise zones in 14 U.S. states. They argue that when pursuing enterprise zone policy, planners focus on a small number of zones, adopt a broad, high-quality package of business incentives, establish as few designation criteria as possible, encourage more direct targeting, and seek local participation in promotion.

- Felsenstein, D. 1991. *University-Industry Collaboration: A Profile of Yissuna - Activity and Contribution*. Jerusalem Institute of Israel Studies, Jerusalem.
- Felsenstein, D.; Janner-Klausner, D.; Wolff, Y.; and Mintz, Z. 1991. *Public-Private Partnership in Economic Development*. Development Study Center, Rehovot.

The authors examine the evolution in Europe and the U.S. of public-private partnerships in development, where both partners take an active role in planning and executing a project, as well as in sharing its risks. They look at the use of partnerships in Israel, and discuss the lessons that may be learned from experience abroad. Specifically, they examine the use of a revolving loan fund and its appropriateness for use by the Settlement Department of the Jewish Agency.

Felsenstein, D.; and Schwartz, D. 1991. *The Economic Development of Small Towns Located Within the Orbit of Metropolitan Centers: The Cases of Beit Shemesh and Kiryat Gat*. Development Study Center, Rehovot.

Felsenstein, D. 1990a. *The Role of Catalytic Funding in Promoting University-Industry Collaboration in Applied Research*. Jerusalem Institute of Israel Studies, Jerusalem.

Felsenstein, D. 1990b. "Spatial Linkages among Firms in Israel: Implications for Regionally-based Industrial Development". *Re'ayon LeKalkala* 144:51-64. (Hebrew)

The article presents the results of a survey of the forward and backward linkages of 200 firms.

Felsenstein, D. 1986. *The Spatial Organization of High Technology Industries in Israel*. The Institute of Urban and Regional Studies, Hebrew University, Jerusalem.

While everyone looks to high-tech industry as the basis of development, few data are available. This study maps the geography of Israeli high-tech industry and tries to identify prominent factors that affect it. The author created his own database of 300 high-tech firms in 1982/83. He used a two-pronged definition to identify high-tech firms: first by industrial sector, then within each sector.

**Current Situation:** The author stresses the importance of government, particularly for defence procurement, which is not competitive and is dominated by a few very large firms and their sub-contractors. The government also gives tax shelters and subsidies. Whereas in the U.S. an environment has been created that is conducive to high-tech, which acts as a middleman between universities and industry, in Japan government-industry links have been stressed, with research and development being done in the factory. In Israel, several universities have acted as so-called "hothouses" for new firms and even set up their own marketing units; however, their link to industry is not as strong as is that of universities in the U.S.. Israel's universities tend to look down upon applied engineering, and industry funds very little university research. Israeli firms look to foreign firms for capital as well as access to markets.

**Literature Review:** The author reviews literature from the U.S. to identify which locational factors affect industry. The literature stresses the importance of the following:

- \* the presence of a university with a well-known electronic engineering department;
- \* the presence of a large firm, from which smaller firms may spin off; and
- \* the availability of venture capital.

He also states that while high-tech parks are viewed positively if they provide a pleasant environment, a good supply of graduates, and the ability to expand, many parks in the U.S. have failed -- particularly newer ones, and those that have not devoted enough attention to actually providing the necessary infrastructure.

In Israel, there is not much literature. Universities are important in some sectors, such as the pharmaceutical sector, but not others, such as the electronics sector. Actual links between industry and universities are weak. Science parks and development subsidies are not deemed important. The locational preference of founders and the supply of skilled labor are considered more important.

Analysis: A detailed analysis of data from 1982 indicates that Israel has few centers, usually dominated by a single plant (Israel Aircraft in Lod) or a single sector (pharmaceuticals in Haifa). Within each sector, agglomeration economies are very important, (e.g., manpower, services) helping individual firms to attract others. The author looks at the implications of short product life on location and on the need to constantly improve or develop new product lines.

Using an econometric model to evaluate the influence of different variables on plant size and location, the author finds that government regional policy has not been effective, especially since it has rewarded export industries regardless of their location. He concludes by suggesting that regional policy be more comprehensive, and include elements such as vocational training.

The author examines reasons why some small towns near metropolitan areas do very well, while others do not. Using a census, and a survey of local entrepreneurs and economic development officers, he finds entrepreneurs are heavily dependent on metropolitan centers for supplies, resulting in high transportation costs; due to lack of coordination, each firm makes daily trips to the center for supplies. Firms cannot service geographically distant customers because of the cost, and this reduces their markets. Most lack skills to break into metropolitan markets. Other towns face similar problems, but have done better. Because firms in the center compete with local firms, distant development towns have a more captive market. The author suggests that Beit Shemesh develop as a tourist and recreation center, and Kiryat Gat as an agricultural center, with stress on clothing and knitwear.

Felsenstein, D.; and Schwartz, D. 1991. *Promoting and Financing Small Firms - What Can We learn From Experience Elsewhere?* Development Study Center, Rehovot. (Hebrew)

The authors examine different programs for promoting small businesses. On the basis of their review, they propose creating a location-specific revolving loan fund, and using national unemployment insurance funds, government-backed loan guarantee pools and development mortgages.

Fleischer, A.; Haruvi, N.; and Eger, M. 1991. *Regionalization of the Rural Labor Market.* Development Study Center, Rehovot.

This is a factor analysis of the employment of moshav residents for 1976 and 1985. It indicates an increase in homogeneity within regions, especially peripheral ones. The authors conclude that employment authorities should not deal with moshavim separately, but rather should address them within the context of their region.

Fothergill, S.; and Guy, N. 1990. *Retreat of the Region: Corporate Change and the Closure of Factories.* Jessica Kingsley, London.

(Note: Article reviewed in *Regional Studies* December 1991 issue.)

The authors look at four regions in the U.K. to explain why plants have closed. Based on interviews with important figures, they delineate 27 factors, which they divide into four categories: location, property, operation, and role of the factory.

Freeman, D.; Alperovich, G.; and Weksler, I. 1985. "Inter-Regional Input-Output Model - The Israeli Case". *Applied Economics* 17:381-393.

Friedmann, J. 1966. *Regional Development Policy: A Case Study of Venezuela*. Massachusetts Institute of Technology Press, Cambridge.

Gabriel S.; Justman, M.; and Levy, A. 1985. "Development of Sparsely Populated Arid Regions". In: *Desert Development: Man and Resources in Sparselands*, Gradus, Y. (ed.), p. 61. Reidel Press, Boston.

Gabriel, S.A.; Justman, M.; and Levy, A. 1987. "A Simultaneous Analysis of Urban Development: Migration and Industrial Growth in Israel's New Towns". *Journal of Urban Economics* 21:364-377.

The article presents an econometric analysis of patterns of development of new towns between 1975 and 1979. The authors estimate a three-stage least-squares model for four simultaneous equations where the dependent variables are in-migration, out-migration, investment and unemployment. Other independent variables include nearness to large center, ethnic composition, and type of development zone (i.e., "A" and "A+"). The authors find that type of development town is significant, and that higher categories have higher coefficients in investment functions, suggesting that the current program of incentives should be continued. In contrast, a two-stage equation yields insignificant coefficients for development town type, with the same coefficient for both "A" and "A+" zones.

Galed, Y. 1974. *The Policy to Encourage Local and Foreign Investment in Industrial Development in Israel*. The Tevel Institute, Jerusalem. (Hebrew).

Gallagher, C.; and Miller, P. 1991. "New Fast-Growing Companies Create Jobs". *Long Range Planning* 24(1):96-101.

This study compares the performance of 2,600 new firms in peripheral regions of Scotland with 20,000 new firms established between 1980 and 1982 in southeast England. The authors find that, in both cases, it was a small proportion of "flyers" that created most of the new jobs. In southeast England, most of these flyer firms were in the finance sector; the lack of flyer firms in the finance sector in Scotland's periphery may reflect its lack of a finance and business service sector. The authors caution against trying to predict which firms will be so-called flyers, as even so-called sinkers can serve as training grounds for future entrepreneurs. They stipulate that it is necessary to create an atmosphere conducive to small firm entrepreneurship.

They also argue that there is homogeneity within sectors: For example, a firm in the distribution sector is more likely to be successful, regardless of its location, than is a firm in a non-growth sector. In England, many flyer firms are part of holding companies; this is not the case in the U.S..

High-tech firms did not represent a significant proportion of the flyer firms, nor were many high-tech firms themselves flyers. The authors suggest that French experience in successfully establishing clusters of high-tech firms in peripheral regions is instructive.

Gertel, S.; and Law-Yone, H. 1991. "Participation Ideologies in Israeli Planning". *Government and Policy* 9(2):173-188.

The authors argue that analysis of public participation in planning must be examined in light of the ideological perspectives of the planner, his community and nation. They identify four major ideological forces in Israel, which they call "ad hoc-ism", "clientelism", "populism", and "kibbutz democracy" (though the latter has recently declined).

Giaoutzi, M.; Nijkamp, P.; and Storey, D.J. (eds.). 1987. *Small and Medium-sized Enterprises and Regional Development*. Routledge and Keegan Paul, London.

Gillespie, W.I.; and Kerr, R. 1977. *The Impact of Federal Regional Expansion Policies on the Distribution of Income in Canada*. Discussion Paper No. 85. The Economic Council of Canada, Ottawa.

Golani, Y; Eldor, S.; and Garon, M. (eds.). 1992. *Planning and Housing in Israel in the Wake of Rapid Change*. Ministry of the Interior and Ministry of Housing and Development, Jerusalem. Summary of papers presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Gough, J. 1986. "The Purpose of Local Industrial Policy". *Local Economy* 1(2):69-76.

Graduate School of Business of the University of Texas at Austin. 1992. *MOOT Corporation: Launching a New Generation of Entrepreneurs*. University of Texas Press, Austin.

Gradus, Y. 1984. "The Emergence of Regionalism in a Centralized System: The Case of Israel". *Society and Space* 2:87-100.

Gradus, Y. 1978. "Beer Sheva, Capital of the Negev Desert -- Function and Internal Structure". *Ben-Gurion University GeoJournal* 2(6):521-532.

The article begins with a history of Beer Sheva, ascribing its central role in the development of the Negev to its available water supply and its location at the crossroads of southern and northern Israel. (The Jerusalem-Eilat road and the ring road have somewhat reduced the importance of Beer Sheva's location.)

Economically, Beer Sheva functions primarily as a regional center for the surrounding development towns and bedouin encampments. (Kibbutzim tend to have direct connections to Tel Aviv.) Many government offices, as well as a regional hospital and university, are located in Beer Sheva. As a result, two-thirds of its employed population work in the service sector. Its industrial sector is dominated by two big chemical plants: *Machteshim* and The Dead Sea Works. There are virtually no high-tech plants in Beer Sheva.

The majority of Beer Sheva's population is of North African and Middle Eastern origin; it is characterized by low income, few skills, and large families. However, some residents, many of whom are associated with the hospital or the university, are highly skilled and earn high incomes.

The plan of the city, drawn up in the 1950s, encouraged self-contained, relatively isolated garden communities, each of which would have an enclave of better-quality neighborhoods. In the 1960s, a new plan tried to integrate these communities and fill in the spaces between them.

Gradus, Y.; and Eini, Y. 1981. "Trends In Core-Periphery Industrialization Gaps in Israel". *Geographical Research Forum* 3:25-37.

Gradus, Y.; and Leibowitz, S. 1992. "The Illusion of Neighborhood Revitalization versus the Reality of Regional Development". In: *Urban Revitalization: Israel's Project Renewal and Other Experiences*, Elazar, D.; and Marom, Z.R. (eds.), pp 549-558. Jerusalem Center for Public Affairs and University Press of America, Jerusalem.

The authors argue that the focus of Project Renewal should be the improvement of employment opportunities. Since employment is primarily regional, rather than neighborhood-based, they suggest that Project Renewal also adopt a regional perspective. They suggest pairing a regional set of municipalities in the U.S. with a region of Project Renewal neighborhoods.

Gradus, Y.; and Stern, E. 1980. "Changing Strategies of Development: Toward a Regiopolis in the Negev Desert". *Journal of the American Planning Association* 46:410-423.

The authors look at how the central place theory, which is based on a smooth agricultural plain, had to be changed to incorporate both the Zionist ideology of settling the Negev and the lack of agriculture in the Negev's arid environment.

The authors trace the history of Beer Sheva, describing plans from the 1950s that envisioned agricultural development and mineral extraction, neither of which were very successful. These plans established development towns near Beer Sheva, which were meant to act as secondary market areas. However, it soon became clear that this had been a mistake, as there were no clear advantages to locating towns in the Negev, and no outlying areas that needed the services these towns could provide. Most of the development towns became pockets of unemployment and poverty, dependent on government handouts.

In the 1960s there was a shift in planning philosophy toward growth poles, and the authors review some of the literature from that period. They argue that Beer Sheva emerged as a growth pole, initially as a result of spontaneous forces (firms which had been enticed to the development towns purchased many of their services in Beer Sheva), and later as a result of government policy (Beer Sheva became a center of regional government, medical, and educational services). They identify three stages in this process:

- \* first, the periphery declined as the center grew (the so-called "backwash effect")
- \* second, beginning in the mid-1960s, some growth "trickled down" from the center to the periphery, and the government stopped recognizing Beer Sheva as an A Zone
- \* third, growth impulses were transmitted in both directions as a regiopolis, or regional system of economically interdependent cities and towns with shared interests developed

The authors call upon the government to set up a single planning authority for the entire region.

Halperin, A.; and Teubal, M. 1991. "Government Policy and Capability: Creating Resources in Economic Growth". *Journal of Development Economics* 35:219-241.

This paper develops a theoretical model of the change in an economy that has only traditional industries to one that includes high technology. While the former has constant returns to scale, the latter requires infrastructure to receive what will be greater returns to scale. The paper

examines the possibility of market failure as well as the possibility that structural change will ensure skill accumulation and economic growth.

Hansen, N. 1990. "Do Producer Services Induce Regional Economic Development?" *Journal of Regional Science* 30(4):165-171.

Goods production and services have become increasingly integrated into a flexible, information-oriented system of production organization. In this context, the author argues that producer services -- carried out both within manufacturing and by "independent" enterprises -- play a pivotal role in expanding productivity, per capita income, and the division of labor. This proposition is supported by the results of an empirical analysis of metropolitan areas in major regions in the U.S..

Hansen, N.; Higgins, B.; and Savoie, D. 1990. *Regional Policy in a Changing World*. Plenum Press, New York.

The authors describe mechanisms used by government to promote regional development in seven countries: Canada, Britain, France, the U.S., Australia, Malaysia, and Brazil. The following is a summary of their general conclusions:

- \* Most of the theories that were used to support regional policies, especially growth pole theories, were half-baked and inappropriately applied. Those who continue to refer to the ideas of Francois Perroux fail to appreciate his distinction between functional and geographic poles.
- \* Almost everywhere, spending on infrastructure and investment incentives are the favored instruments of regional policy. Only rarely are investments made in human resources to promote regional growth, despite evidence that such investment yields high returns.
- \* Except in developing countries, regional policy has rarely been integrated into national economic policymaking. This is partly for ideological reasons (regional policy tends to be pursued by interventionist regimes), but also because regional issues are often seen as being other than developmental, or even as being impediments to national development. As a result, economic policymakers give it lower priority.
- \* The greatest regional policy successes are recorded when policy goals are genuinely developmental, because this engenders less conflict with national economic efficiency goals. This can be understood in the context of dynamic versus static efficiency. Where regional policy goals are designed to pursue equity or short-term economic stabilization, there has been a tendency to policy conflict. In fact, most governments that pursue regional policy emphasize precisely these non-developmental goals.
- \* Almost everywhere, the authors found an absence of clear policy goals and hence no targets, no serious *ex ante* policy appraisals, etc. This sloppy approach to policy planning has led to rapid and radical shifts in policy orientation, which is the antithesis of long-term, development-oriented approaches.
- \* Despite the lip service paid to the so-called "bottom up" approach, the reality is that virtually all initiatives come from the top, or central government. The reasons for this are partly political (the unwillingness to delegate power to local authorities) and partly due to the absence of necessary policy skills at the lower levels, which deliberately have never been developed.
- \* Programs have been successful when elected and non-elected local leaders have been fully involved in all phases of the policy cycle. Policy leadership must be entrepreneurial. On the other hand, there is a danger of over-decentralization, which can produce

counterproductive competition (provision of subsidies, industrial parks, tax holidays), which in turn reduces national efficiency. In other words, there is a need for higher level involvement beyond coordination, funding, and macroeconomic policies that will enable regions to compete effectively with foreign countries.

- \* Finally, the authors point out the need for appropriate governmental machinery. All too often, regional policy responsibility is given to a central agency with little power and no funding. On the other hand, if responsibility is handed over to a line department, there is often no coordination with other key ministries (housing, transportation, industry). The authors argue that, in practice, either approach can work if the unit is flexible, well funded, staffed by first-rate personnel, and willing to transfer program responsibility to appropriate departments once they are on their feet. One of the more interesting case studies is the French DATAR, a central agency that had strong political support and program capacity. As an alternative, they cite the potential of a designated development authority, such as the Appalachian Regional Commission (United States) or the Geelong Regional Commission (Australia). Such bodies must have some autonomy, including their own budgets and management. In addition, they should be given a viable life span, and receive continued, high level support. In all cases, the challenge is to integrate rather than "paper over" the diverse requirements of national, sectoral and regional planning.

Haug, P. 1991. "The Location Decisions and Operations of High Tech Organizations in Washington State". *Regional Studies* 25(6):525-541.

(Note: Contains a comprehensive bibliography.)

The industries tended to be "locally grown" and attracted to the state by:

- \* quality of life
- \* founders' preferences
- \* labor agglomeration factors.

State government agencies and programs had no significant effect on the industries' location and investment activities. Major academic-industry relationships were expressed in access to library resources, recruitment of graduates, seminars, and employee degree programs.

Hava, M. 1992. "An Industrial Park -- A Local Industrial Authority" Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Presents the idea of having an industrial park that would coordinate various services and permits required by industry and government. Discusses the issue of whether this should be independent of municipality, and presents a specific case study of Ramat Hovav.

Henry, D. L. 1991. *Enterprise Zones Offer Site Incentives*. Department of Housing and Urban Development, Washington, D.C.

Hogan, P.; Keesing, D.B.; and Singer, A. 1991. *The Role of Support Services in Expanding Manufacturing Exports in Developing Countries*. World Bank EDI Seminar Series, New York.

Hovav, C. 1992. "Project Renewal: A Project for Urban Revitalization or an Experiment in Social Change". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

The author is the Head of the Project Renewal Department of the Jewish Agency. She finds Project Renewal to have been only partially successful in improving low income areas.

Ish-Shalom, K. 1986. "The Rate of Unemployment and Industrial Stability in Development Towns". *Re'ayon LeKalkala* 130:798-800. (Hebrew)

Israel Export Corporation. 1992. *Free Enterprise Zones in Israel*. Israel Export Corporation, Jerusalem. (Hebrew)

The report advocates the creation of Free Enterprise Zones. See also the debate in the Jerusalem Post between Amir Peretz and Meir Tamari (November 13, 1992).

Justman M.; and Teubal, M. 1991. *Technological Infrastructure Policy for Israel: The Need for It, Its Nature, and How to Pursue It*. Jerusalem Institute for Israel Studies, Jerusalem. (Hebrew)

Justman, M. 1985. "Reindustrialization of Negev Development Towns in the 1970s". *Re'ayon LeKalkala* 35:385-397. (Hebrew)

Keeble, D.; and Weaver, E. (eds.). 1986. *New Firms and Regional Development in Europe*. Croom Helm, London.

King, P.; HaCohen, O.; Frisch, H.; and Elazar, D.J. 1986. *Project Renewal in Israel: Urban Revitalization Through Partnership*. University Press of America and Jerusalem Center for Public Affairs, Lanham, Maryland and Jerusalem.

Kipnis, B. 1983. "Changing Norms of a Dynamic Minority Population: The Urbanizing of Arab Villages in Israel". *Geographical Research Forum*.

Klausner, D.; and Shamir-Shinan, L. 1987. *Local Organizations for Economic Development*. Jerusalem Institute for Israel Studies, Jerusalem. (Hebrew)

This study argues that, in Israel, planning and development is a very political affair that requires local politicians to become experts at using the system. Those towns which are economically successful have local development organizations and a development plan or strategy, which need not be industry-based (e.g. Yavne's strategy is based on developing housing, to make it a bedroom community for Tel Aviv). Some centers have used Project Renewal funds to get started.

The authors present suggestions for setting up a local organization, and suggest establishing a national association that would provide training and advice and prevent planning from becoming a zero-sum game.

Lavy, V. 1988. *Unemployment in Israel's Development Towns*. Jerusalem Institute for Israel Studies, Jerusalem. (Hebrew)

The author shows that unemployment is much higher in development towns than in the rest of the country, and tries to explain why (e.g. type of industry, sensitivity to national fluctuations, differing labor force participation rates). He uses a multinomial logistic regression model, including variables like education and skills. He argues that key working-age populations (those aged 25-54) are the hardest hit in the development towns. He notes that long-term unemployment is a much more serious problem in development towns, and examines the ability of residents to get work in neighboring area.

Law, C.M. 1985. "Regional Development Policies and Economic Change". In: *Progress in Industrial Geography*, Pacione, M. (ed.), pp. 219-248. Croom Helm, London.

Lerman, E.; and Lerman, R. 1992. "Israel's National Outline Scheme No. 31 for Construction, Development and Immigrant Absorption". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Cf. Lerman, E.; and Lerman, R. 1991. "The National Metropolitan and Spatial Plan in TAMA 31 for Construction, Development and Immigrant Absorption". *Engineer and Architect* 1991:16-20. (Hebrew)

In this paper, TAMA 31 is summarized by its chief designer, who also presents a brief description of its goals, including its immediate emphasis on immigrant absorption and its long-term emphasis on regional development.

Lewin-Epstein, N.; and Semyonov, M. 1986. "Ethnic Group Mobility in the Israeli Labor Market". *American Sociological Review* 51:342-351.

LINK. 1992. (January-February).

An interview with Stef Wertheimer, CEO of ISCAR. He says investment should be evaluated in terms of potential for production and exports, not just banking and job location. For a firm to succeed, it must learn from its mistakes, hone its management skills, and develop its ability gradually, constantly innovating and improving its product line. In today's environment, a firm cannot depend on a single product line. Wertheimer criticizes government policy for leading firms to use up their government grant, then fold. A separate article comments on Ketar's success building a new plant in Carmiel and planning another in Yeruham.

Lipshitz, G. 1991a. "Development Towns: A New Basis for Policy Planning". *Israel Studies* 1(4):3-10.

(Note: This article is an English summary of Lipshitz, 1990b.)

Lipshitz, G. 1991b. "Immigration and Internal Migration as a Mechanism of Polarization and Dispersion of Population and Development: The Israeli Case". *Economic Development and Cultural Change* 39(2):391-408.

The author argues that internal migration in itself will not spur development, as it depends on the immigrants' background and skills. He describes migration patterns in Israel since the 1880s.

Lipshitz, G. 1990a. *New Settlement Patterns in the Galilee* National Council on Planning and Building, the Technion, Haifa. (Hebrew)

This study was undertaken to describe the changes that have taken place in the Upper Galilee since 1979, when the government made settlement there a priority. Its policy focused on setting up a large number of new towns, rather than on developing one central city. The following are the author's main findings (see Table, pp. 12-15 of his report):

- \* The policy had no specific goals, other than reacting to the rapid increase in the proportion of the population that was non-Jewish.
- \* 52 new settlements were established and new roads were built, including 85 km of highway connecting the new settlements. The proportion of government-owned land increased from 65% to 71%. Arabs now own only 2% of the land in the country. From 1/4 to 1/2 of the scattered illegal construction has taken place on government-owned land.
- \* 6,600 persons live in the new settlements, 2/3 of whom come from outside the Galilee, and 95% of whom intend to remain there. This is a larger population increase than in established settlements. From 1978-86, the total population of the Galilee increased by 76,000, mainly due to births.
- \* 80% of the new settlers were satisfied with the way of life in the small settlements.
- \* The new settlements had a minimal effect on the way of life or employment opportunities in the established areas. Arab communities were affected mainly by an increase in employment opportunities in construction.
- \* Most of the settlements are small (under 35 families), but would like to grow (to about 100 families).
- \* The socio-economic profile of the new settlers is higher than the national average, and much higher than the average for the Galilee.
- \* Only 2% of the males and 23% of the females work in their own homes. One-quarter of the population works in their own settlements.
- \* Most consumer purchases are made in the major centers, thus adding little to the local economy.

Lipshitz, G. 1990b. *Development Towns: A New Basis for Policy Planning*. Jerusalem Institute for Israel Studies, Jerusalem. (Hebrew).

Whereas in the 1950s most development towns were relatively homogeneous ethnically and economically (low-wage jobs in labor-intensive enterprises), this is no longer the case. Nevertheless, government policy continues to view them as such, creating a single policy for all towns. The author argues for a differential policy based on the level of aid that each town needs and research that identifies dissimilarities.

There is no one list of development towns, as each ministry maintains its own. An attempt by the Ministry of Finance to restrict the list was rejected by the Knesset and interest groups. This study focused on 40 towns, some of which were development towns, some of which were immigrant towns, and some of which were rural communities. It examined each in light of several variables, with differential results. The author found that some towns in the center of the country that are not officially classified as development towns are actually more deserving of assistance than are some development towns. Towns in the West Bank and Galilee tend to be much better off than those in the north and south, and should not qualify for aid.

Among the variables examined were: education, car ownership, housing (persons per room and proportion of families in apartments of 4+ rooms), income (per capita, and proportion of families in the national highest and lowest deciles), unemployment rate, employment by sector, size and type of enterprises, rate of new enterprise development, public service employment, government aid to local revenues, local government revenue per capita, and migration levels.

Lithwick, N.H. 1986. "Federal Government Regional Economic Development Policies: An Evaluative Survey", In: *Disparities in Regional Adjustment*, Norrie, K. (ed.), pp. 109-157. University of Toronto Press, Toronto.

This was Study No. 64 for the Macdonald Royal Commission on the Economic Union and Development Prospects for Canada.

Lithwick, N.H. (ed.) 1978. *Regional Economic Policy: The Canadian Experience*. McGraw-Hill Ryerson, Toronto.

Logan, J.R.; and Swanstrom, T. 1991. *Beyond the City Limits: Urban Policy and Economic Restructuring in Comparative Perspective*. Temple University Press, Philadelphia.

Luger, M.I.; and Goldstein, H.A. 1991. *Technology in the Garden: Research Parks and Regional Economic Development*, University of North Carolina, Chapel Hill.

The authors examine the ability of high-tech research parks to succeed, and to encourage development outside themselves. They find that only 50% of all start-up firms succeed, and that 50% of all parks change their focus. Very few new firms go into parks; mainly, branches of established firms are attracted to parks. Successful parks usually start early, have a base of research and development in the area, provide good service and infrastructure, and have ties to a strong university. Because research and development is declining overall while the number of parks is increasing, there is growing competition for a shrinking pie. Consequently, the authors do not recommend using research parks as part of a strategy for regional development, unless the above factors are present.

Mathias, P. 1971. *Forced Growth*. James, Lewis and Samuel, Toronto.

Mazor, A. 1992. "Israel 2020 - A Long Range Plan for Israel". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Mazor described his long-range plan, listing the contributors to Part One of a three-stage planning exercise, which has just been completed. The plan involves elaboration on a wide range of possible futures. Among the contributors are Israel's major regional development planners. This plan is intended to complement the shorter-term TAMA 31.

McCombie, J.S.L. 1988. "A Synoptic View of Regional Growth and Unemployment: The Post-Keynesian Theory" *Urban Studies* 25(5):399-417.

McCombie argues that traditional regional economics is based on a neo-classical model, which is generally inappropriate. He develops a two-region Keynesian model, which focuses on demand multipliers and balance-of-payments constraints.

Menuhin, N. 1982. *Concepts and Strategies for Analyzing and Handling Problems of a Critical Region -- The Land of Galilee*. Development Study Center, Rehovot.

Merlin, P. 1992. "Structural Changes in Spatial Distribution at the Metropolitan Level". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Mills, E.S. 1991. "Urban Efficiency, Productivity and Economic Development". Proceedings of the World Bank Annual Conference on Development Economics.

Mills argues that the most vital problem is how to improve resource allocation. He suggests making better use of user fees, based on marginal cost pricing.

Moore, B.; Tyler, P.; and Elliott, D. 1991. "Influence of Regional Development Incentives and Infrastructure in the Location of Small and Medium sized Companies in Europe". *Urban Studies* 28:1001-1026.

The authors surveyed 1,400 firms in Europe to see what key factors affect the decision to locate in an assisted area, and discovered that the major factors were the availability of regional development incentives and access to customers. Cf. the contrasting results of a 1990 study by the IFO ("An Empirical Assessment of Factors Shaping Regional Development in Problem Regions"). The current study finds infrastructure to be the least important factor, and the authors suggest this is due to a "threshold effect": Until a threshold has been reached, infrastructure is important, but once it has been reached, infrastructure is no longer important. Most companies surveyed found the level of services adequate.

Morowitz, D. 1976. "Financial Exploitation in Israel's Industry". *Re'ayon LeKalkala* 90:182-194. (Hebrew)

Nachmias, D. 1991. "Israel's Bureaucratic Elite". *Public Administration Review* 51:413-420.

Basing himself on a survey conducted in 1985-86, Nachmias finds senior public servants to be primarily male (97.2%), non-Sephardic (81.5%), and primarily from Jerusalem, Tel Aviv, and other large urban areas (no percentage given).

Nesher, A. 1992. "High-Pressure Planning as Ideological Tool in the 1990s". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Newman, D. 1984. "Ideological and Political Influences on Israeli Urban Colonization: The West Bank and Galilee Mountains". *Canadian Geographer* 28:142-155.

Newman, D.; and Applebaum, L. 1992. "Organizational and Municipal Functioning of Rurban Communities: The Private Sector". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

The authors examine the growth of suburban dormitory communities that are relatively independent of neighboring municipalities.

Newman, D.; and Applebaum, L. 1989. "Defining the Rurban Settlement: Planning Models and Functional Realities in Israel". *Urban Geography* 10(3):281-295.

The emergence of non-agricultural functions in small towns has made inappropriate traditional rural-urban dichotomies, both for theory and practical planning. Traditionally, Israel's rural communities were cooperative, and had a strong emphasis on agriculture. In the 1970s, government encouraged the formation of new settlements to promote territorial sovereignty in the Galilee and West Bank. The authors identify four types of new "rural" settlements:

- \* industrial villages, whether new or part of kibbutzim, in which factories were set up in areas that otherwise continued to maintain traditional rural characteristics
- \* community (kehillati) settlements, with little communal ownership and control and with most residents working outside the community
- \* outposts (mitzpim), established to be a "presence", which were very small (30 families) and exercised strong control over new entrants
- \* private, non-institutional settlements, generally with no economic base and no rural planning control

The authors surveyed 75 of the over 100 new settlements established between 1970 and 1984, focusing on the communities' control of access and formal structure. They found significant variability, depending on how a community viewed its own future development. Most had some candidacy period, and little economic intervention. Based on these two dimensions, the authors compiled a profile, and argued that the traditional rural definition of closed entry and strong economic control applies to only a few of the new settlements, primarily those that are far from large urban centers.

Nijkamp, P. (ed.). 1990. *Sustainability of Urban Systems: A Cross National Evolutionary Analysis of Urban Innovation*. Avebury, England.

(Note: Reviewed in *Regional Studies*, December 1991.)

An eclectic look at the relation between population distribution dynamics and firm behavior, the book includes a chapter on Israel. This is the first volume produced by the URBINO network of collaborators, which is well financed by the European Community.

Nijkamp, P. 1992. "Keynote Address". Presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Office of the Prime Minister. 1993. *National Priority Regions*. Office of the Prime Minister, Jerusalem.

This report, called the Sheves Report after its major contributor, proposed a rationalization of the definition of priority areas for development grants. At the time of the preparation of this study, the Sheves Report had not yet been issued; its contents and recommendations could therefore not be incorporated here.

O hUallachain, B.; and Satterthwaite, M.A. 1992. "Sectoral Growth Patterns at the Metropolitan Level: An Evaluation of Economic Development Incentives". *Journal of Urban Economics* 31(1):25-58.

A regression equation of employment change from 1977 to 1984 in U.S. MSAs, for each of 37 service and manufacturing sectors that experienced high growth. Independent variables include agglomeration tendencies, market strength and growth, quality of life, wage level, education level, taxes, public expenditure on services, and development incentive programs. The authors find that development incentives are not important, but that localization economies (i.e. the presence of other firms) is most important. They determine that the presence of a university or an enterprise zone is slightly significant.

Orgad, A.; and Newman, D. 1991. *Regional Councils in Israel*. Ahdut Publishing House, Tel Aviv. (Hebrew and English)

Organization for Economic Cooperation and Development. 1991. *Development Cooperation* OECD, Paris.

Increasingly, the OECD is promoting local-area involvement in aid decisions and the use of non-governmental agencies to channel aid in both donor and recipient countries.

Patrylick, C.A. 1987. *Bank Loan Pools: Financial Structures for Business*. Department of Housing and Urban Development, Washington, D.C.

Pavin, A. 1985. "Kibbutzim and Development Towns: Attraction and Tension". *Re'ayon LeKalkala* 135:79-82. (Hebrew)

Pavin discusses why, despite a general consensus that they should cooperate, kibbutzim and development towns continue to be in conflict. He argues that it is due both to their differences in structure, and to misunderstanding.

Pines, D. 1991. "The Policy of Population Distribution Against the Background of Aliyah from the Soviet Union". *Re'ayon LeKalkala* 148:11-28.

The author summarizes past experience with population distribution policies in Israel. He then develops an algebraic model of economic factors in settlement patterns, and presents the policy recommended by Economic Models Inc. for building a transportation system that would allow people to live in the periphery but work in the center. The following is a precis of his concluding section.

In 1990, tax subsidies for households in development towns were canceled. Pines argues that the optimal policy would be to offer cash transfers to households willing to settle in development towns (through taxes or social security). In any case, the level of tax incentives were too low based on Pines' estimates. In making these estimates, he takes into consideration the externalities generated by reducing congestion in the center, reducing the cost of supplying public infrastructure, and creating savings for firms seeking to expand. Subsidies could be paid either to households or to firms.

He recommends that subsidies not be tied to particular consumer goods (e.g. housing) or related to place of employment; rather, he advocates that they be dependent on place of residence. (It is not clear whether he would aid peripheral towns that are not in difficulty, since this would depend on whether the goal of the subsidy was to attract population to backward towns or to the periphery. Similarly, he does not distinguish whether assistance should be a positive or negative

function of income. On one hand, since those with higher incomes are more likely to contribute to traffic congestion, it would be better to draw them out of the center. Moreover, some argue that attracting the wealthy to the periphery stabilizes these communities. On the other hand, the subsidy required to achieve this could be too large, if the wealthy have a significantly higher propensity to stay.)

Another issue is whether assistance should be identical for veterans and immigrants, or whether assistance for immigrants should be independent of assistance for settling in the periphery. (At present, assistance is given to immigrants no matter where they settle.) On one hand, immigrants are more mobile because they have no ties to any given place, such that incentives are more likely to be effective with them than with "established" Israelis. Yet immigrants are desirous of living in centers large enough to afford them the level of culture to which they aspire (e.g. Carmiel or Beer Sheva, in the peripheral north and south, respectively). Pines feels that granting subsidies only to manufacturing firms is misguided, as these do not subsidize workers in other fields, (e.g. medicine). Regarding the Incentives to Approved Firms, he contrasts the work of Gabriel et. al with that of Schwartz; the former found them effective while the latter found them ineffective. Pines believes that if used, they should not be tied to location. He is also critical of any program that would subsidize the deficits of firms or public infrastructure.

Pines questions the policy of subsidizing public services in development towns. Once a subsidy has been given to residents, he believes they should decide whether they want to pay for more services by paying higher taxes. Pines adds that there is a difference between building roads in the North and the Negev, where they will connect communities to the center, and building roads in the Tel Aviv-Modiin corridor, where they may aggravate congestion.

Porterfield, S.L.; and Pulver, G.C. 1991. "Exports, Impacts and Locations of Service Producers". *International Regional Science Review* 14(1):41-59.

The authors believe some service producers could contribute as much to local economic development as manufacturing. They found that a large percentage of the sales of firms in "selected" service-producing industries were exports. These firms had a large impact on the local economy because of strong backward links.

Rachevsky, D. "The Role of NOS 31 - National Outline Scheme for Construction, Development and Immigrant Absorption". Paper presented at the 41st World Congress of the International Federation for Housing and Planning, Jerusalem. September.

Razin, E. ND. *Dispersal of Industry in Israel, 1948-88: Spatial Policies and Processes of Change*. The Hebrew University, Jerusalem.

Razin hypothesizes that to correctly understand geographic industrial policy one must look not only at its impact on a given town, but also at its impact on changes in government organization, the external economic situation, and political processes. He makes the following points:

- \* Israeli policy was conceived in the 1950s. While its basic focus has not changed, the economic environment has, resulting in misallocation of resources and increasing foreign dependence. (Some of these economic changes include: increased Arab labor, new political ideology, reduced growth, and new export industries).
- \* New planning theories have been slow to be absorbed; by the time they were absorbed, they had become unpopular.

- \* The relationships among the government, the General Federation of Labor, the private sector, and local councils is constantly changing.
- \* Government has tended to shield firms from having to meet the criteria for market success. Thus, few firms have made the necessary organizational adjustments to change, and inefficient ones have continued to operate.

The paper presents a history of Israel's geographic policy that is worth reading. In the 1950s, key elements were the influx of capital (primarily from German reparations and foreign donations), the shift from agriculture to manufacturing, the ability of then-Minister of Finance Pinhas Sapir to get industries to move by offering massive assistance and using personal salesmanship, and the impact of local political machines (Razin compares Beer Sheva's dynamic leaders with Afula's passive ones). Policy was also influenced by the General Federation of Labor, which implemented government policy through labor corporations (Solel Boneh, Koor); when these split up in the late 1960s, the labor federation's influence disappeared.

Much early development was devoted to diamond industry branch plants. However, most of those placed in development towns failed, because day-to-day links proved far more important than incentives, and transportation costs did not play a significant role. Later, development efforts were focused on the textile industry. However, textile plants also failed, since there was only a small wage differential between Jewish labor in development towns versus that in the center. International competition led to plant closure or the employment of Arabs, as second-generation Israelis preferred unemployment to low wages.

At the same time, Israel's two growth sectors -- the military and electronics industries -- received maximum subsidies even when they located in the center, because of the political goal of promoting exports, which disregarded geographic policy. As these industries had close ties to the Technion and Weizmann Institute and other, similar firms, and as they relied on highly skilled labor, they tended to locate in or near the center (e.g. Migdal Ha'emek, near Haifa). Only one attempt was made to incubate electronics far from the center in Maalot, but this had limited success. Moreover, West Bank policy favored communities that were located close to major cities. (Note: Some programs included Ashdod in their southern region, though it is really a part of the Tel Aviv metropolitan area).

In the 1980s, several development towns elected dynamic mayors who have been promoting local development, competing with each other, and not increasing the pie. Large subsidies to Intel and N.S. have encouraged local research and development, but it is not clear whether they fulfilled their growth potential. Project Renewal tried to encourage local entrepreneurs but encountered bureaucratic obstacles and the resistance of central government, which preferred large private investors. A national policy to promote entrepreneurs would most likely benefit Tel Aviv and have only minimal effect on the periphery. Razin identifies tourism as the only sector likely to promote local entrepreneurs in development towns, because it takes advantage of local conditions.

Razin, E. 1991. *Local Initiative as a Lever for Urban Growth: Trends from the Development of the System of Towns on the Southern Coastal Plain of Israel*. Urban and Regional Studies Center of the Hebrew University, Jerusalem. (Hebrew)

Razin, E. 1990. "Spatial Variations in the Israeli Small Business Sector: Implications for Regional Development Policy" *Regional Studies* 24(1).

(Note: Based on manuscript prior to publication.)

Here Razin begins by observing that the lack of success of large, government regional development policies has led some analysts to see small business as the engine of growth. Project Renewal has also instituted policies to promote local entrepreneurs and provide loans for small businesses, in order to ensure that their infrastructure investment does not come to nought due to a lack of jobs. Other countries, notably Italy and Spain, have made great efforts to promote small business. Similarly, the U.S. has established a variety of programs to promote small businesses (e.g. technical assistance and incubation) though critics contend that most of these have had marginal success, at best.

Razin hypothesizes that self-employment is less common and of a different nature in development towns than in cities. Large firms established with government subsidies in developing areas rarely create new small businesses. He makes an historical analysis of the proportion of the population that is self-employed, for censuses conducted between 1961 and 1983. Using self-employment as a proxy for new small-firm creation, he finds the rate of self-employment to have declined from 18.2% in 1961 to 11.6% in 1983. In 1983, the rate was highest in Tel Aviv (13.3%), followed by Jerusalem and Haifa (10% each) and finally Beer Sheva and the development towns (8.5%). The proportion of self-employed individuals who had three or more employees was 1.4% in 1961 and 1.7% in 1983. Development towns showed a small increase, though at 1% in 1983, their rate was still the lowest.

Using a regression analysis, Razin finds self-employment to be negatively correlated with Moroccan origin, and positively correlated with tourism, though there is a great deal of variation between development towns and cities, and though there has been a decrease in the importance of ethnicity over time. Most small, self-owned businesses in development towns are in non-growth, blue collar sectors, such as construction and auto mechanics. There were very few self-employment opportunities in manufacturing and business services in non-central locations. Development towns with a large tourism sector had relatively more self-employment. Distance from the center was negatively correlated with self-employment in manufacturing. Finally, those self-employed in retail in development towns had a greater sense of well-being, as measured by car ownership rates, than did those employed in retail. This suggests that self-employment is a path to economic improvement in development towns, though the same is not true in large, central locations.

In conclusion, there are few opportunities for self-employment in development towns, unless they are close to the center or have a well-developed tourist industry. A policy to aid small businesses will most likely benefit the center, since peripheral areas have little ability to sustain export-oriented plants.

Razin, E. 1989. "Urban Economic Development in a Period of Local Initiative: Competition Among Towns in Israel's Southern Coastal Plain". Paper presented at the European Congress of the Regional Science Association, Cambridge. August.

This paper surveyed and evaluated different strategies for local economic development. Razin identified three strategies:

- \* use of national government incentives
- \* taking advantage of proximity to Tel Aviv
- \* miscellaneous alternatives

After a general overview, Razin presented case studies of six towns on the coastal plain: Yavne, Ashdod, Ashkelon, Kiryat Gat, Kiryat Malachi and Sderot. These are all in a transition zone between Tel Aviv and the periphery.

In the late 1970s, young mayors were elected in all six towns, as an outgrowth of the declining involvement of the national government in regional development due to an economic crisis, change in government, popular voting for mayor, greater reliance on local tax bases, and changing priorities. These mayors viewed the local community, and not the party machine, as their source of power, and worked to develop their own towns. All have gone on to prominent positions in the Knesset; some are ministers. To spur local development, they appointed development officers and panels, began incubator projects and entrepreneurial development corporations, provided land, buildings and infrastructure, and encouraged the construction of housing. Though many tried to develop high-tech industrial policy, few were successful, as this requires links that are usually only available in large centers.

Razin views most such efforts as having had a marginal impact nationally. At the local level, their effect varied, depending on town location and a given mayor's personality. It is thus important to do a micro-analysis of successes and failures.

#### **Users of National Investment Incentives**

Sderot and Kiryat Malachi, both in proximity to Tel Aviv, were most successful in attracting new plants, primarily because they relied on development incentives. In contrast, Ashkelon did not qualify as a preferred area and therefore did not attract new plants. Thus both location and incentives are important; neither is sufficient alone. However, new plants seem prone to lay off workers during hard times, and generally employ only a small percentage of local workers (29% in K. Malachi).

#### **Proximity to Tel Aviv**

Yavne was developed as a bedroom community for commuters to Tel Aviv. This brought prosperity, but also raised land prices and caused friction among classes. Ashdod developed as Tel Aviv's port and as a center for industries requiring large facilities that were unwilling to pay high Tel Aviv prices.

#### **Alternatives**

Ashkelon has tried a whole range of approaches, (e.g. trying to renovate housing and build apartment hotels, tourist facilities, a Marina). However, it must compete with coastal centers like Herzliya, which have a locational advantage.

Razin, E. 1988a. *Economic Development in Ashkelon*. Hebrew University, Municipality of Ashkelon and Jewish Agency, Jerusalem. (Hebrew)

Razin, E. 1988b. "The Role of Ownership Characteristics in the Industrial Development of Israel's Peripheral Towns". *Environment & Planning* 20:1235-1252.

This article focuses on ownership characteristics of industrial plants in development towns. Razin calculates the ownership for 1983, though there has been little change since the 1970s.

Type of Ownership	Plants (%)	Employment (%)
Single plant, local owner	14.9	3.2
Single plant, non-local owner	16.6	10.7
Single plant, non-local head office	14.0	7.3
Multi-plant, non-local head office	44.3	68.0
Multi-plant, local head office, non-local owner	0.9	1.4
Rural co-op	9.3	9.4
Total (plants with 20+ employees only)	343	50,203

Razin stresses that different ownership patterns have implications for a plant's stability and reaction to incentives.

### **Local Entrepreneurs**

In general, the bigger the town, the more local entrepreneurs. Most locally-owned plants are dependent on local markets, or else sub-contract to single firms nearby. They tend to have limited access to capital and information, and are unlikely to choose sectors with high entry barriers. Since government incentives tend to be geared to manufacturing and favor large, capital-intensive firms, most local entrepreneurs do not benefit from government programs. Since most new firms are based on research and development, which is rare in development towns, local entrepreneurs have limited ability to develop new plants. This is especially unlikely in towns near the center, where owners are likely to prefer living. Moreover, building a plant requires working capital, business aid, and contacts, all of which are difficult to obtain in a development town. Over time, the development-town mentality of dependency on government has hindered the development of the independence necessary to effective entrepreneurs.

### **Single Plant, Non-local Owner**

Most such plants are created solely in response to government incentives, on which their viability depends; as a result, many fail early on. Given short geographic distances, it is clearly preferable for owners to remain in major cities, even if plants are in development towns.

### **Multi-plant**

Most multi-plant firms were attracted by high capital subsidies. Since export firms can get subsidies anywhere in the country, only firms catering to local markets moved to development towns. Usually these required unskilled labor, and were oriented toward mass-production. While single plants used Arab labor because it was cheap, multi-plants tended to be unionized, and thus used local Jewish labor.

In general, Razin is pessimistic about the ability of government incentives to attract strong, stable plants. Of all the alternatives, he feels the best is strong local government that provides the necessary infrastructure, encourages local entrepreneurship, and reduces dependency on central government.

Razin, E. 1986a. *The Influence of Industrial Organizational Structures of Development on Development Towns in Israel*. The Department of Geography, Hebrew University, Jerusalem. (Hebrew)

This article includes maps of changes in the definition of zones, and a discussion of the periphery/semi-periphery concept, as well as a review of the literature.

Razin, E. 1986b. "Plant Closure in Development Towns, 1975-83". *Geographic Studies of Israel* 1:167-184. (Hebrew)

Razin, E.; and Schwartz, D. 1991. *From Initiative to Inertia, and What Now: The National Program to Disperse Industry in Israel in Light of Changing Conditions*. Sapir Institute, Jerusalem. (Hebrew)

Razin, E.; and Shachar, A. 1987. "Ownership of Industry and Plant Stability in Israel's Development Towns". *Urban Studies* 24:296-311.

Robinson, A. 1991. "Financing Europe's Regions in the 1990s". *European Trends* 10:66-70.

Rosenman, A. 1984a. *Encouragement of Cooperation in the Netivot-Azata Area: Summary Report*. Center for Research on Urban and Rural Settlements, Rehovot.

Rosenman, A. (ed.). 1984b. *Human Settlement and Regional Development*. Development Study Center, Rehovot. (Hebrew)

This book contains a large selection of articles on regional development, primarily in Israel.

Sandler, N. 1992. "Free Trade and Fancy". *Jerusalem Report* December 3, p. 38.

Savoie, D.J. 1986. *Regional Economic Development: Canada's Search for Solutions*. University of Toronto Press, Toronto.

Schwartz, D. 1990a. *The Effect of Financial Incentives for Industrial Development on Development Towns*. The Department of Geography, Hebrew University, Jerusalem. (Hebrew)

(Note: Based on English abstract.)

Schwartz reviews government policy over time, from the 1960s when emphasis was on low-skill jobs in labor-intensive plants in a few sectors (food and textiles), to the 1980s when emphasis was on high-growth, usually-high tech, industries. This Ph.D. thesis evaluates the use of the Law for the Encouragement of Capital Investment (LECI), which provides grants or tax concessions directly to plants, as an incentive between 1977 and 1986.

Schwartz developed a simulation model to estimate the benefit of the law to a hypothetical firm. She finds that a major goal of government has been to encourage exports; it has supported firms that export, even if they locate in the center. This significantly mitigates the regional effect of the law.

The law was geared to provide an incentive to capital-intensive firms with a weak financial base and high short-term prospects for profits (i.e. not requiring research and development). Schwartz finds that the law has not been an efficient incentive due to an uncertain economic environment and changes in regulations (e.g. tax laws). Moreover, some incentives are inconsistent with others.

LECI has encouraged the growth of development towns, though it has not improved their relative position; the majority of development has been in traditional sectors. Schwartz argues that "direct financial incentives as the sole instrument of policy without complementary measures are insufficient and make little contribution to the industrialization of developing areas" (p. 6).

Preference for capital-intensive plants, low utilization of capital, and support of projects with low long-term viability are undesirable side effects of LECI that result in long-term instability. Schwartz made a case study of Ofakim, where 70% of the firms created between 1977 and 1979 were no longer active by 1983 and most new firms merely replaced old ones without changing their employment structure. She found that most firms that received assistance required repeated assistance, some of it irrespective of LECI. This would suggest the need for a program of long-term assistance.

Schwartz sees Maalot and Migdal Ha'emek as examples of towns where LECI was effective, but only because it was bolstered by measures that created an atmosphere of success and improved quality of life. Migdal Ha'emek's proximity to other industrial centers worked to its advantage. Nevertheless, new industries have not been integrated into the local economy. They often depend upon distant suppliers of services, which makes them less efficient. While not a part of her research, Schwartz argues that present policy does not distinguish between locally- and externally-owned plants. However, research suggests that the former are more likely to remain in business.

Schwartz classifies development towns according to ten socio-economic criteria, analyzed into three factors: quality of life, service infrastructure, and industry infrastructure. She argues that a successful policy must develop all three, comprehensively.

Schwartz, D. 1990b. "A Town Profile - A New Classification of the Development Towns". *Re'ayon LeKalkala* 145:194-205. (Hebrew)

Schwartz, D. 1987. *Industrial Experience in Migdal Ha'emek and Maalot*. Development Study Center, Rehovot. (Hebrew)

Schwartz, D. 1986. "The Contribution of Government Incentives to Solving Industrial Problems in Ofakim". *Re'ayon LeKalkala* 128:555-563. (Hebrew)

Schwartz, D. 1985. "The Latent Effective Incentive in the Law for Encouraging Capital Investment". *Re'ayon LeKalkala* 132:12-21. (Hebrew)

Schwartz, D. 1989. *The Effect of the 'Law of Encouragement of Investment' on Investment in Industry in Development Towns*. (Hebrew)

(Note: Doctoral dissertation prepared at the Hebrew University, Jerusalem.)

Here Schwartz calculates the overall effective rate of assistance, taking into account the various different subsidies available. She reports on the results of the factor analysis she conducted for her dissertation (see 1990a).

Schwartz, D.; and Bar-El, R. (eds.). 1988. *Issues in Regional Development*. Development Study Center, Rehovot. (Hebrew)

Schwartz, D.; and Felsenstein, D. 1988. *Economic Links Between Plants and Development Towns: Implications for Local Economic Development*. Development Study Center, Rehovot. (Hebrew)

Scott, A.D. 1978. "Policy for Declining Regions: A Theoretical Approach". In: *Regional Economic Policy: The Canadian Experience*, Lithwick, N.H. (ed.), pp. 46-68. McGraw-Hill Ryerson, Toronto.

Shachar, A. 1970. "The Influence of the New Towns on Population Distribution in Israel". *Geographic Studies of Israel* 7:25-63. (Hebrew)

Shaliv, A. 1981. *Industry in Israel*. Center for Industrial Planning, Jerusalem.

Shamir-Shinan, L. 1984. *The Suitability of Industries to Non-Metropolitan Communities: The Case of the Israeli Development Towns of Yeruham and Dimona*. The Department of Urban Studies, Massachusetts Institute of Technology, Cambridge.

Shapira, P. 1986. *Industrial Restructuring and Worker Transition in California*. Working Paper 452. Institute of Urban and Regional Development, Berkeley.

Shefer, D. 1987. *Alternative Production for Economic and Social Development of Development Towns*. Center for Urban and Regional Studies, Technion, Haifa.

Sherman, N. 1991. *Regional Policy in the Industrialized Nations: Trends and Policy Instruments in the 1980s*. Development Study Center, Rehovot. (Hebrew)

(Note: Based on English abstract.)

The author reviews various findings on the effectiveness of regional development in the academic literature, focusing on new policy instruments. He then makes a number of suggestions to the Settlement Department of the Jewish Agency:

- \* encourage the private sector to manage investment funds, thus encouraging economic efficiency and decreasing dependency
- \* have a special unit look at rural development requirements
- \* settlement growth has put veteran residents at a disadvantage; they require special attention.
- \* encourage other institutions to cooperate with the Agency in rural planning and development

- \* encourage experimental projects such as small business promotion, coordination of local authorities within a regional framework, health and welfare services, education and vocational training.

Somech-Chaikin Chartered Accountants. 1991. *Doing Business In Israel*. Somech-Chaikin, Tel Aviv.

This is a summary of the accountancy considerations for conducting business in Israel and of the incentives for approved enterprises.

Steinberg, G.; and Hadar, S. 1987. *Tactics Without Strategy: The Role of State Subsidies in the Development of Technologically Intensive Industries in Israel - A Preliminary Assessment*. Jerusalem Institute of Israel Studies, Jerusalem.

Stern, E.; and Krakover, S. 1992. "Temporary Housing and Sense of Community". Paper presented at the 41st World Congress of the International Federation for Housing and Planning; Jerusalem. September.

Stohr, W.B.; and Ponighaus, R. 1993. "The Effect of New Technological and Organizational Infrastructure on Urban and Regional Development: The Case of the Japanese Technopolis Policy" *Regional Studies* 27(7):605.

Stohr, W.B. 1981. "Development from Below: The Bottom-Up and Periphery-Inward Development Paradigm". In: *Development from Above or Below*, Stohr, W.B.; and Taylor, D.R.F. (eds.), pp. 3ff. Wiley and Sons, New York.

Storey, D.J. (ed.). 1985. *Small Firms in Regional Economic Development*. Cambridge University Press, Cambridge.

Strugatch, W. 1991. "Why Manufacturers That Export are Choosing Texas". *World Trade* 5(2):80-87.

Swirsky, S.; and Shoshan, M. 1986. *Israel's Development Towns*. Breirot, Haifa.

(Note: This is a translation of the following entry.)

Swirsky, S.; and Shoshan, M. 1985. *Development Towns for Tomorrow*. Yeted, Haifa. (Hebrew)

Tommel, I. 1987. "Regional Policy in the European Community: Its Impact on Regional Policies and Public Administration in the Mediterranean Member States". *Government and Policy* 5:369-381.

Trattner, E.; and Simcha, A. 1980. *Regional Industrial Planning in Israel's Rural Areas: Considerations, Methods and Data*. The Jewish Agency, Rehovot. (Hebrew)

Unger, J. 1991. *Regional Cooperation: Planning Implications and Strategy for Economic Prosperity*. Information Report 48. National Council for Urban Economic Development, Washington, D.C.

- Vernon, R. 1962. *The Myth and Reality of our Urban Problems*. Stafford Little Lectures of 1961. MIT-Harvard Joint Center for Urban Studies, Cambridge.
- Weinblatt, J.; and Luski, I. 1986. "The Industrial Sector in the Negev During the 1970s: Analysis and Implications for the 1980s". *Re'ayon LeKalkala* 36:522-532. (Hebrew)
- Whitman, R.; and Shapiro, C. 1991. *Three Studies on Infrastructure Needs and Financing*. Department of Housing and Urban Development, Washington, D.C.
- Wolff, Y. 1990. *Economic Development Information Report*. Department for Renewal and Development of the Jewish Agency, Jerusalem.
- Wren, C. 1990. "Regional Policy in the 1980s". *National Westminster Bank Quarterly Review* (November):52-64.

The author reviews British regional policy from 1972 to 1990, and finds that its political importance rapidly declined and blanket assistance was replaced by a discretionary system that required proof of an effect on employment. A cap was put on assistance to limit the participation of large firms, since money that had gone to them had not created jobs. Assistance for relocation from the center to the periphery was curtailed.

The author also discusses the role of the European Community in regional development, and the integration of EC policies with those of member countries, based on "additionality" (i.e. not taking jobs away from other regions) and indigenous development. (The author is critical of the emphasis on additionality, as he feels regional policy should relieve pressure in rapidly growing centers).

Finally, he reviews government estimates of the subsidy cost per job created, which were based on a shift-share model; he notes the difficulty of estimating how many jobs are actually created and how long they last. He cautions that discretionary systems can easily be abused and may not be very effective.



BR-D-205-93

Regional economic development policy :

Lithwick, Harvey



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## המכון

הוא מכון ארצי למחקר, לניסוי ולחינוך בגרונטולוגיה והתפתחות אדם וחברה. הוא נוסד ב-1974 ופועל במסגרת הג'וינט האמריקאי (ועד הסיוע המאוחד של יהודי אמריקה). בעזרתו של קרו ברודייל בניו-יורק וממשלת ישראל.

בפעולתו מנסה המכון לזהות בעיות חברתיות ולהציב להן פתרונות חילופיים בשירותי הבריאות והשירותים הסוציאליים בכללם. אחד מיעדיו הוא להגביר שיתוף הפעולה של מומחים מהאקדמיות והממשלה, עובדי ציבור ופעילים בקהילה כדי לגשר בין מחקר לבין מימוש מסקנות מחקר הלכה למעשה.

## דפי דיון

נכתבים על-ידי חברים מצוות המכון ומתפרסמים להתייחסותם של אנשי מקצוע ומתמחים במדעי החברה וההתנהגות, עובדי ציבור ונבחרי ציבור, המשתתפים בעיצובם של המדיניות והשירותים החברתיים.

הכוונה היא להפנות תשומת לב לסוגיות חברתיות בעלות חשיבות לאומית לשם העשרת הדיון העיבורי לקידום של המדיניות, ההסדרים והשירותים החברתיים.

המימצאים והמסקנות המוצגים בדפים הם של המחבר או המחברים וללא כוונה ליצג את אלה של המכון או של פרטים וגופים אחרים הקשורים למכון.

# מדיניות לפיתוח כלכלי אזורי: לקחים לגבי ישראל

אירוויין ליטוויק

הרווי ליטוויק



דו"ח זה מתפרסם בשיתוף עם מרכז הנגב לפיתוח אזורי



ג'וינט-מכון ברוקדייל לגרונטולוגיה  
והתפתחות אדם וחברה  
ת.ד. 13087  
ירושלים 91130  
טל. 02-557400  
פקס. 02-635851

## תקציר

מאות אלפי העולים שהגיעו לאחרונה מברית המועצות לשעבר ומאתיופיה הפעילו לחץ כבד על המשק הישראלי. אחת המשימות הראשונות העומדות בפני קובעי המדיניות היא לדאוג לדיור ולתעסוקה לכל העולים. מכיוון שרבים מהם התיישבו הרחק ממרכז הארץ, הרי יצירת מקומות עבודה עבורם דורשת מאמץ מרוכז לפיתוח כלכלתם הנחשלת של אזורי ספר אלה.

עבודה זו מציגה ניתוח של מדיניות לפיתוח אזורי בישראל ובעולם. מן הניתוח עולה, שרק חלק קטן מאוד מן הניסיונות לפיתוח כלכלי אזורי נחלו הצלחה. הסיבות העיקריות לכך הן העדר יעדים ברורים ומקובלים, כלים ארגוניים לא-הולמים, מימון בלתי מספיק ולוחות זמנים שאינם עומדים במבחן המציאות. יחד עם זאת, היו גם מספר הצלחות בולטות, שניתן להשתמש בהן כקווים מנחים להפעלת תכניות מעין אלה בישראל.

במונוגרפיה זו מוצע להקים גוף חצי-אוטונומי לפיתוח אזורי. חשוב שגוף זה יתמקד אך ורק בנושא הפיתוח הכלכלי האזורי. כמו כן חשוב שלגוף זה יהיה מימון הולם. מוצע להפעיל את התכנית בנגב, תוך התבססות על הרשות לפיתוח הנגב, שהוקמה לאחרונה.

## דברי תודה

ברצוננו להודות לג'ק חביב, כיום מנהל ג'וינט-ישראל, על תמיכתו בפרוייקט זה. המחברים מודים לשאול דריטר ולבת-שבע שור מן המרכז לפיתוח יזמות בג'וינט, ולמשה שריר וליה שינאן-שמיר מאגף חינוך ופרוייקטים אזוריים בג'וינט. כן אנו מודים לרבקה כספי מג'וינט-מכון ברוקדייל על עזרתה בטיפול בבעיות המינהליות השונות שהתעוררו במהלך המחקר.

חברים רבים מישראל העניקו לנו מזמנם וממומחיותם וסייעו לנו להכיר את נושא התכנון הכלכלי האזורי בארץ. במיוחד אנו חבים תודה לערן רזין מן המחלקה לגיאוגרפיה באוניברסיטה העברית, ירושלים; לגבריאלי ליפשיץ מן המחלקה לגיאוגרפיה באוניברסיטת בר-אילן, וליהודה גרדוס, מנהל מרכז הנגב לפיתוח אזורי באוניברסיטת בן גוריון.

עבדנו בשיתוף פעולה הדוק עם המרכז ללימודי הפיתוח ברחובות, שהחומר שלהם הוא בין הטובים ביותר בישראל. מנהל המרכז רפי בר-אל וצוותו - ובעיקר דניאל פלסנשטיין ודפנה שוורץ - תרמו בנדיבות מזמנם ומן הידע שלהם, ואנו מודים להם על כך.

תודה גם לכל אלה שהסכימו להתראיין, ובכך תרמו רבות למחקר: אבישג אבטובי, מנהלת היחידה לתכנון אסטרטגי בבאר שבע; שמואל כהן, ראש המועצה המקומית במצפה רמון; חיים פיאלקוף ממשרד הבינוי; שאול קרקובר, יו"ר המחלקה לגיאוגרפיה באוניברסיטת בן גוריון; דוד ניומן מן המחלקה לגיאוגרפיה באוניברסיטת בן גוריון; חנה פסח, מנהלת היחידה לתכנון אסטרטגי בדימונה; בנימין שלו, מנהל קרן הגליל; אבי סרור, ראש המועצה המקומית בירוחם; ואמוץ טל, מנהל המרכז לפיתוח יזמות בנצרת עילית.

מרשה ויינשטיין ערכה את העבודה וג'יל רוגוף הדפיסה.

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