

Is Benjamin Netanyahu Dr. Jekyll or Mr. Hyde?

Brian J. Friedman, CFA

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I recently finished Benjamin Netanyahu's new autobiography "Bibi: My Story." Bibi is Israel's longest serving Prime Minister. His first term ran from 1996 to 1999 followed by four consecutive terms between 2009 and 2021 for a total of 15 years. Israel's first Prime Minister David Ben-Gurion served for 14 years from 1948 to 1954 and again from 1955 to 1963. Netanyahu is now the record holder for Prime Minister, but not yet as leader. David Ben-Gurion was the preeminent leader of the Jewish community in Palestine (called the Yishuv) from 1921 through Israel's founding in 1948.

After 15 years as Prime Minister, three years as Finance Minister, and four years as Israel's ambassador to the United Nations, Bibi is a well-known public figure. Despite this I was motivated to read his book in-depth as he embarks on an unprecedented sixth term as Prime Minister. He takes office under a dark cloud of a corruption trial and a new coalition that lurches to the right. Most controversially his more radical coalition partner, the Religious Zionism party, is calling for far-reaching changes to the judiciary. Skeptical Israelis, which includes most Israelis, worry Bibi wants to cynically manipulate the justice system to sweep his legal problems under the rug.

Netanyahu's book offers his perspective on the major touchpoints of Israel's history during his lifetime. Although the book covers a wide range of topics including security, politics, war, terrorism, and personal anecdotes, I read with particular interest his various comments regarding economics and the rule-of-law.

Bibi as Finance Minister

The chapter covering his years as Finance Minister from 2003 to 2005 was his most in-depth discussion of the Israeli economy. He was not shy taking credit for Israel's shift from Socialism to Capitalism. He certainly was a very important player, but the process began before his time, involved numerous people even during his years in power, and required support across the Israeli political spectrum.

He recounts a particularly telling episode leading up to an important economic reform package in 2005. Prior to 2005 the Israeli financial system was essentially an oligopoly controlled by Bank Leumi, Bank HaPoalim, and Israel Discount Bank. In 2003, Finance Minister Netanyahu convened a committee chaired by Yossi Bachar, then the Director General of the Finance Ministry. The so called Bachar Committee recommended a radical shift in Israel's financial system. Their idea was to reduce the monopoly power held by the big banks and to enhance the competitive position of Israel's stock and corporate bond markets.

These reforms unshackled the Israeli stock market and essentially made our business at Israel Investment Advisors, LLC viable.

Bachar forced the banks to divest pension management, asset management, insurance, and securities. Over the next several years Israel's insurance companies, independent asset managers, and investment banks became successful competitors to the incumbent banks. These reforms unshackled the Israeli stock market and essentially made our business at Israel Investment Advisors, LLC viable.





Netanyahu understood that the Bachar reforms were a critical next step in Israel's evolution toward a free market economy. Although the Palestinian Second Intifada violence was slowing down as construction on the security barrier progressed, terrorism was top of mind for the Israeli public. Israel experienced one of its deepest and longest economic downturns during the Second Intifada years from 2000 to 2004. Given this backdrop most Israelis were apprehensive about his economic legislation or outright opposed.

Benjamin Netanyahu uses the Bachar legislation to extol his political courage and commitment to free market economics. In the spring of 2004, Prime Minister Ariel Sharon announced his intention to withdraw from the Gaza Strip. Netanyahu was deeply opposed, arguing Gaza would become a terrorist enclave. His supporters urged him to resign in protest, but he claims in his book that he delayed resigning from the cabinet for more than a year to shepherd the Bachar Committee legislation through the Knesset. Despite monolithic attention on Gaza disengagement by the public and the press, Netanyahu believed the Bachar reforms would have withered without his leadership as Finance Minister.

Whether or not the legislation would have passed without him is impossible to say, but Netanyahu does deserve tremendous credit for placing economic reform high on the political agenda. Prime Minister Sharon certainly supported free market ideas, but for him economic issues always took a back seat to security. Netanyahu argues the Bachar reforms pushed Israel past a crucial tipping point toward a market economy.

Bibi Believes Free Markets Enhance Israel's Strength

Bibi's emphasis on the economy, he argues, flows from his understanding of the relationship between Israel's economic and military power. To thrive in a hostile Middle East, Israel needs the financial resources economic growth provides. Americans are most accustomed to hearing arguments linking free markets to productivity and individual liberty. Bibi acknowledges the benefits of enhanced liberty and efficiency but most of his discussion revolves around Israel's need for expensive security investments. In later chapters he links the erosion of the Arab economic boycott, improved diplomatic relations, and the Abraham Accords to Israel's growing economic and military strength.

Given his emphasis on economic strength in the chapter about his years as Finance Minister, I was surprised he hardly mentioned any of the reform legislation passed during his tenure as Prime Minister. In my opinion, one reform was even more significant than the Bachar legislation. In 2010 Prime Minister Netanyahu formed the "Concentration Committee" to review monopoly power throughout the Israeli economy. In 2013, his government passed the committee's recommended legislation breaking up large conglomerates. More precisely, the Israeli government prohibited common ownership of financial and non-financial companies. The U.S. adopted similar legislation during our "trust busting" era in the early 20th century. A small group of politically connected tycoons could no longer use captive financial institutions as their personal piggy banks.

Maybe he did not mention the de-concentration legislation because some of the tycoons were his cronies. Among other corruption allegations, he is accused of orchestrating regulatory favors for certain media tycoons in exchange for improved press coverage. He might have also ignored these reforms in his book because he was not the story's lone hero. His government gets tremendous credit for passing the 2013 law, but Netanyahu was not the prime mover.

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Significant outside pressure pushed his government into action. Of particular importance was the investigative journalism of a leading business newspaper called The Marker, which shined a bright light on tycoon conflicts of interest, high consumer prices, and the excessive monopolization of Israeli business. The Marker was the only business publication not owned by a tycoon conglomerate. To add insult to injury from Netanyahu's perspective, The Marker's corporate parent was Israel's most left-wing newspaper, Ha'aretz.





Another catalyst for the de-concentration legislation was the massive social protests on Tel-Aviv's Rothschild Boulevard in 2011. As many as 500,000 people camped out for weeks protesting the high cost of living in Israel. Similar to the Occupy Wall Street movement in the United States, several were later elected to the Knesset representing left leaning political parties. Netanyahu avoids talking about his substantial economic reforms during this period, but he does castigate the protesters as hypocritical privileged spoiled brats. In his book Bibi often uses humor when describing his opponents, but he is also rarely magnanimous.

Will Bibi Preserve the Rule of Law?

He makes several very clear statements indicating he understands the crucial link between the rule-of-law and Israel's economic prosperity. His coalition partners are calling for a significant overhaul of Israel's judiciary, and those skeptical of his motivations believe Netanyahu wants to go along to derail his own legal troubles. In his book he repeatedly claims to put the interests of the "one and only Jewish state" (a phrase he uses very frequently) above all else. We will see.

Some of the judicial reform proposals have merit, while others could be deeply damaging to the independence of Israel's courts. In our opinion, the rule-of-law has allowed Israel to join the elite club of wealthy first-world countries. To remain in this club, Israel must preserve and protect the rule-of-law. Given his explicit agreement with this linkage in his book, I hope he will steer reform legislation away from the more extreme proposals

Bibi views his legal woes as a politically inspired vendetta by resentful leftists and power-hungry bureaucrats. Some of his pique has merit, but so do some of the allegations. In many ways the wrangling over the judiciary will be Israel's most significant constitutional debate in decades. We will intently monitor this important debate and resulting legislation in the coming months. In his book, Prime Minister Netanyahu tends to speak about Israel's transition from socialism to capitalism in the past tense, as if it is complete. This concerns me. While I agree his 2005 and 2013 reforms pushed Israel well past a tipping point, there is still much work to be done. **There is ample room to further reduce the power of monopolies in Israel, improve the dynamism of the financial system, and empower entrepreneurialism for the 90% of the Israeli economy beyond the technology sector.**

Israeli Prime Ministers

Prime Minister	Political Party	Term of Office	Prime Minister	Political Party	Term of Office
David Ben-Gurion	Mapai	14 May 1948 - 26 January 1954	Yitzhak Shamir	Likud	22 December 1988 - 13 July 1992
Moshe Sharett	Mapai	26 January 1954 - 3 November 1955	Yitzhak Rabin	Labor	13 July 1992 - 4 November 1995
David Ben-Gurion	Mapai	3 November 1955 - 26 June 1963	Shimon Peres	Labor	4 November 1995 - 18 June 1996
Levi Eshkol	Mapai	26 June 1963 - 12 January 1966	Benjamin Netanyahu	Likud	18 June 1996 - 6 July 1999
Levi Eshkol	Alignment (Mapai/Labor)	12 January 1966 - 26 February 1969	Ehud Barak	One Israel (Labor)	6 July 1999 - 7 March 2001
Yigal Allon	Alignment (Labor)	26 February 1969 - 17 March 1969	Ariel Sharon	Likud	7 March 2001 - 21 November 2005
Golda Meir	Alignment (Labor)	17 March 1969 - 3 June 1974	Ariel Sharon	Kadima	21 November 2005 - 4 January 2006
Yitzhak Rabin	Alignment (Labor)	3 June 1974 - 20 June 1977	Ehud Olmert	Kadima	4 January 2006 - 31 March 2009
Menachem Begin	Herut (Likud)	20 June 1977 - 10 October 1983	Benjamin Netanyahu	Likud	31 March 2009 - 13 June 2021
Yitzhak Shamir	Herut (Likud)	10 October 1983 - 13 September 1984	Naftali Bennett	Yamina	13 June 2021 - 30 June 2022
Shimon Peres	Alignment (Labor)	13 September 1984 - 20 October 1986	Yair Lapid	Yesh Atid	1 July 2022 - 29 December 2022
Yitzhak Shamir	Herut (Likud)	20 October 1986 - 22 December 1988	Benjamin Netanyahu	Likud	29 December 2022 - Present

■ Social democratic / Left leaning
 ■ Conservative / Right leaning
 ■ Conservative / Center-Right leaning
 ■ Created unclear coalition

Source: https://en.wikipedia.org/wiki/List_of_prime_ministers_of_Israel#endnote_88





Finance Minister Bezalel Smotrich is an Economic Neophyte

In this coalition government, Bezalel Smotrich, of the right-wing Religious Zionism party, is the new Finance Minister. So far, he has announced his support for free-market reforms and continued fiscal responsibility, but very few detailed proposals. Despite his rhetoric, economics have not heretofore been high on his party's political agenda. In his book, Netanyahu stated he wanted to become Finance Minister, in 2003, because a motivated finance minister is required to overcome entrenched opposition by beneficiaries of the status quo.

Which Netanyahu Will We Get?

In his book, Netanyahu articulates a clear vision of his political, geopolitical, and economic priorities. He says he wants to move Israel further down the free-market road and he understands that the rule-of-law must be preserved to accomplish this goal. On the other hand, over the course of his entire political career, and not just in recent years, he feels unfairly attacked by the media and unjustly prosecuted by the legal establishment. Despite decades of Likud governments, he implies the media, civil service, and the judiciary are still dominated by left leaning elites out to get him.

Which of these Netanyahus we get, in this upcoming term, is yet to be seen. In his book, he proudly recounts his five years as an elite Sayeret Matkal commando where he repeatedly risked his life and was wounded several times. He exclaims his overarching lifelong purpose is ensuring Israel's security, survival, and success. I hope he is willing to take a few personal political risks to preserve Israel's rule-of-law and continued economic success. We will be monitoring the legislative details, emanating from his controversial new government, carefully to gauge its impact on our portfolio and the future of Israel.



For more information contact:
Amy Kaufman Director, Investor Relations
303.861.3798 | akaufman@israelinvestmentadvisors.com
www.israelinvestmentadvisors.com

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