

פרופ' אריק כרמון:

שלום לכולם, אנחנו רוצים להתחיל בהרצאה של האורח.

פרופ' סטנלי פישר:

אני שמח להציג את דני קאופמן, אתם כבר שמעתם אותו היום אחרי הצהריים אבל אני אתחיל מההתחלה. דני יליד ציילה, בוגר האוניברסיטה העברית לתואר הראשון ואחר כך עשה את התואר השני והשלישי בהרווארד. אנחנו עבדנו יחד בבנק העולמי בסוף שנות ה-80 ודני אז היה גם חוקר מצויין וגם עבד עם מדינות פחות מפותחות בדרום אמריקה וגם אחר כך במזרח אירופה ובברית המועצות לשעבר, כשהתחיל תהליך המעבר של המדינות האלו מהמשק הסוציאליסטי למשק שוק.

דני הפך מהר מאוד להיות אחד המומחים בנושא ה- TRANSITION ECONOMIST ואחר כך הוא היה הנציג הראשון של הבנק העולמי בקייב ואחד הזכרונות הכי מרגשים שלי היה כשאני ביקרתי בקייב ודני לקח אותי לטיול בקייב היהודית, לבתי כנסת, הוא הציע לי להיפגש עם הרב החדש של קייב, אדם מאד פעיל וחביב ואחר כך לקח אותי לראות את באבי יאר.

הוא היה מוצלח מאד כנציג הבנק העולמי בקייב, לפני שבוע היה ראיון אתו בעיתון "גלובס" ושם הוא תיאר איך שהוא התחיל להתעניין בנושא השחיתות ואמר שהוא יצטרך למצוא שם משרד ואז הם התחיל דיון ובשלב מסוים הם ביקשו שהוא יעביר 20 אלף דולר לחשבון בנק באיזה שהוא מקום. הוא אמר שככה לא עובדים בבנק העולמי ויצא משם אבל התחיל להבין כיצד פעלו המערכות האלו אז.

כשאני הייתי בבנק העולמי לא התייחסו לשחיתות. דיברו לפעמים על בעיות. זה היה ג'ים הופנסן שהתחיל להשתמש במה שנקרא בהתחלה בהתחלה THE SEE WORD ודני בגלל הניסיון שלו ובגלל העובדה שהוא היה חוקר מצוין ובגלל העובדה שג'ים הופנסן חיפש מישהו להוביל את המחקר בנושא זה, אחרי שנה וחצי בהרווארד הפך להיות המומחה בבנק העולמי לשחיתות ובעיות של ממשל. משילות. כיום הוא מנכ"ל של צוות משילות ואנטי שחיתות של ה- WORLD BANK INSTITUTE, זה המוסד החינוכי של הבנק העולמי והוא ועמיתו הם המקור של מה שנקרא ה- WORLD GOVERNMENTS INDICATES – WGI. זה מתייחס ל- 205 מדינות שנקראות גם ה- KINDEX, קאופמן וקררי שהוא השותף שלו, וזה נחשב המדד הכי טוב לשחיתות. דני דיבר בראיון ב"גלובס" על מקומה של ישראל ועשה את זה באופן מאד מנומס ואני מניח שהערב הוא יהיה פחות מנומס.

כשאני הייתי בקרן המטבע והבנק העולמי למדתי שאם זה בעייתי לדבר על בעיה במדינה שבה אתה אורח, כדאי לדבר על מדינה אחרת. אז בברזיל והודו היה מכס גבוה מאד על מחשבים בשנות ה-80, למה. משום שהם חשבו שזה מאד חשוב שתהיה להם תעשיית מחשבים

ובשני המקומות היה להם בדיוק את אותה הבעיה, לא השתמשו במחשבים משום שהם היו יקרים מאד ובית, הם לא היו טובים. אז כל פעם כשהייתי בהודו דיברתי על הבעיות של תעשיית המחשבים בברזיל וההפך. אז דני היום אולי ידבר על מדינות אחרות ותצטרכו להחליט לאיזו מדינה הוא מתייחס.

דני, תודה רבה שבאת ואנחנו שמחים שאתה כאן ומחכים לשמוע אותך.

Dani Kaufman:

I shouldn't be polite, so those are my instructions again, apologies that I will do it in English, but otherwise if I was here two weeks ago I would get to Hebrew. I will use a few Hebrew words at least to reminisce. But I can wait before getting really started since time had such a gracious introduction and again I thank you for all of you being here and inviting me, particularly with the competition of this incredible view and the dinner. I am going to at least try to make it a bit colorful, even if you get mad at me, even if you disagree.

But before that, even what Stan said, I will never forget the first time met Stan he had just become the Chief Economist of the World Bank, coming fresh from being a famous professor at MIT. I was a young economist in the World Bank working from Washington on Tanzania, but I was sent there like four days in advance to Tanzania to make sure that this famous Chief Economist was coming and that I decided that the first country he wanted to see was Tanzania was that everything went perfectly well. So, of course, I went there to try to help with that and go to the airport to meet him and we got into the car.

The first question literally takes a minute, the first question he asked me. I mean he was nice *shalom* and everything. "What do you study?" So I said, "Well, first I did my degree in the Hebrew University and then I went on for my master and PhD at Harvard." He doesn't wait a second to say, "Great choice, Hebrew University, but why did you go there for your MA and PhD?" So, how can I forget that view?

Then we reminisced by walking and he wanted to see the university among many other places and the University of Dares Salaam, I don't if you know is an exact replica of the *Givat Ram* campus, because it was also basically built by Solei Boneh and they did exactly the same thing, I understand with Stanley, that is Kaplan and so on. Of course, everything was more rundown because I don't know if you know, but word "maintenance" doesn't exist in Swahili, just like the word, "accountability" doesn't exist in Spanish or in Hebrew and the word subtle doesn't exist in Hebrew either, I understand.

Let me also say that even though I have given many many speeches in the past decade or over, this one frankly I have approached with a little bit of nervousness and trepidation. First because of the illustrious audience. We just know so much more about almost any topic, and certainly about Israel and what is going on. Then also because of the timing. I mean, who am I now to be asked to talk about governance, given what we have just been going through at the World Bank internally on governance.

But because I was invited and I am here and I had before a few drinks, I will address you anyway. I will also address our own issue of governance, even if in brief and we can discuss it later, I will weave it into the speech itself. Second, it is dinnertime and no Power Point, so I am not going to be a prisoner of Power Point, which is quite a revolution for some of us at the World Bank and that hopefully gives me, with your graciousness a bit of more latitude to say a few things, which you can obviously challenge.

But third and perhaps most importantly, when I was getting at universe I always had an association with something that happened exactly sixteen years ago. In July 1991 and I had an association because Stan was reminiscing to me, the beginning

of our work, not in the Former Soviet Union but in the Soviet Union, first Gorbachev requested help from the World Banks. So we went there already in July 1991.

When the Director selected me as part of the first group, there were just three people working on the Soviet Union. Within two days of the Director of the World Bank asking me to join the team, I got a call from the Soviet Embassy that the senior economist in the Soviet Embassy had to interview me because he had heard, through what channel I don't know, that I was to become the senior economist working on the Soviet Union.

So he came to interview me and he started by asking, "Do you speak Russian?" "Not a word." "Have you ever been in the Soviet Union?" "No." "How much do you know about the this economy and the Soviet economy and all this?" I said, "I will be very frank, you know the World Bank, I have none whatsoever, I have no idea." He pauses for ten seconds and he says to me, "I am just so relieved, you would not believe the damage that all these Americans of etiologists have been doing in terms of analyzing the Soviet Union. Perhaps a fresh look from a completely outside perspective and you having been working in other places will help us." So I would pretend that perhaps he would be a little bit of help bringing outside perspective although I know a little bit more about Israel than I knew about the Soviet Union then.

But I am nonetheless a bit of an outsider. Whatever I say, please feel free then to criticize me, to get upset, but at the end of the day do bare in mind that I care so deeply about Israel, I consider it my second home. When *Aleph Ben Yehoshua* was speaking at lunchtime, I kept thinking, "How can I fit into the three categories that he was sort of speaking, Zionist, Jewish and Israeli?" Definitely in the first two and in part I feel the third too.

Now, let us get back to today because I want to relate what I say to my experience, which has been very special since early in the morning. I have been there, not understanding a hundred percent, so excuse again my mistakes but understanding some.

But just before the proceedings start this morning, quite back before, because typically for Stan he sends e-mails about 5.00 in the morning, I got one, an e-mail from a government official, I didn't know the name, but I am sure you know that somebody had given him the code, Mannie Mazon and he has a chief counsel for the government. Basically all on doom and gloom, basically talking in Hebrew about

אישי ציבור הנכנסים ויוצאים מחדרי חקירה על דיכאון חברתי, על משבר מנהיגות.

And all the rest. So that was my background basically walking into the room today. Then others during the day, many they did in colorful anecdotes of major misdeeds, corrupt acts and ethical acts, including from Yosef Graft, to just name some that I happened to understand. Then on the other side I hear a very different picture from people like Aaron Fogel, "Israel is fine, everything is exaggerated." Most countries that were rated about Israel by transparency international or perhaps our rating actually are much more corrupt, that is what I understood, at least. He was quite eloquent in making the case for a quite clean Israel and without the dark challenges and others suggested

He was eloquent, but with all due respect, he could not compete with *Alef Bet Yehoshua* who at lunchtime ended up so poetically summarizing succinctly, if I understood saying זה הארץ זה סיפור הצלחה So where are we and what does, at least the outside perspective and the evidence and the analysis of the evidence suggest.

משבר ודיכאון חברתי או סיפור הצלחה?

From this perspective, looking at the whole world and not getting very excited by the scandal of the moment, because I have been in this topic for too long perhaps, I would say just upfront and then I will elaborate that it is neither, neither

משבר כולל או סיפור הצלחה?

In fact both may be very dangerous notions for the sake of moving forward and for Israeli's future, at least judging from what I have learned and experienced from other countries, because nothing that I heard today, I have not heard in some other country, one from one another, each one has its variations.

Indeed, when I think about talking at dinner time, especially after few drinks is that I can allow from deviating a little bit from being a prisoner of Power Point, so allow me to also use a bit of more intuition and the speculative aspect in oneself, you are free to challenge me. So here we go.

I would put forward just a notion that instead of *Mashbir Kollal* on the one extreme where *hatslachah*. The biggest danger I felt at least today, and it is intuitive, it is something else is complacency with a bit of perhaps acceptance of mediocrity. I learned from Yaakov, he reminded me of the complacency **או בינוניות** *שאננות* and this comes in resulting conformism, which is conformism in Hebrew, I am told. So promise as temper of incentives, I think we can at least make the case for this type of a notion.

First simple deductive logic is this one defeatist camp **משבר**, **דיכאון**, on the one hand and then on your rational exuberant camp to borrow from the financial markets in the United States and from Alan Greenspan, neither will cogently make the case for serious governance reforms, which may be needed. The first due to fatalism, the second will be satisfied also with what exists and just say a bit of marginal for tinkering at the margin would be enough.

I won't be using a precious couple of minutes in terms of elaborating on this deductive logic standpoint if it wasn't that for the fact that I found very interesting to listen through all the morning, if I understood correctly the discussion on how and whether to move to a four-day work week. I was quite shocked by that; I am a bit puzzled to be perfectly frank. From a cold and stark reality check on where Israel is today comparative around the world and from the distant perspective I bring, I found as a bit of premature complacency in much of these arguments and discussion to be considering our days to move to what is a four-day week. I care so much about Israel; the destiny is obviously in your hand.

But let me suggest as Stan said, a few things about what other countries do and put in comparative perspective. I cannot avoid by full disclosure to you my own country of birth and where I grew up and that is Chile. We go back to a future when I was fifteen years old, 1966. They came from the United States a few very tall young kids go to interview me for a summer fellowship in the United States to learn some English. I will never forget that these Americans, the key top person asked me a key question. "Why are Chileans so lazy?" That was a notion of the Americans coming there, we were seen as lazy. I mumbled something along the lines not very coherently, but in the lines of, "If we had more incentives to work more in the way of a few reforms that may help." Somehow I got to go to the United States for a summer and it was very enlightening.

Now, very recently in reviewing a large report by one of the big accountant firms, I think it was by ... House, they codified the characteristics for working in seventy more capitals, this is done for CEO's and others, you know multi nationals and others will reallocate. One of their variables, one of their full pages that caught my eye was the average number of hours a week that an Executive, in general,

domestic everybody works in such capitals. What was the lowest number of hours among all the seventy capitals, Paris, at the top, the second from the top was Seoul and the third was Santiago. These were the places that were categorized as totally lazy in 1966.

But here there is a big talk throughout the morning of how to go to a four-day week. Allow me to feel that that was a bit surreal and I wonder whether I got my comparative numbers perhaps wrong, but let me put it forth. These are the numbers I got, I have and they were also in the handout I gave earlier. Starting again with Chile. Let me say a few things first about this one and then I will compare it with Chile.

In 1990 in purchasing power parity numbers the income per capita for Israel was about fifteen thousand dollars, so official PPP numbers. Chile was less than one third of that at four thousand six hundred dollars. Korea was half of Israel at eight thousand. Only fifteen years later to 2005, the latest numbers I got, Chile is already one half the income per capita of Israel at about thirteen thousand with Israel about twenty-five thousand and Korea has virtually caught up, it is about ninety percent, twenty-three thousand something. If we look at Ireland it is a pretty stunning performance. In 1990 it was below Israel at less than thirteen thousand, so it is only eighty-five per cent of income per capita of Israel, by 2005 is almost forty thousand dollars. Now Ireland is sixty percent or more ahead of Israel, but we are talking about a four-day week.

Now a few more numbers. Chile during that period went from forty-five or the public did, from 1990 when Pino Chile leaves finally; forty-five percent of the population is below the poverty line in Chile. Nowadays it is around fifteen percent, one of the most dramatic, in relative terms, improvements in history. My

understanding is in Israel is more or less the same with a few ups and data around the twenty percent mark, of course it is relative, so we need some adjustment.

In global competitiveness, I use the index of the World Economic Forum of the Global Competitiveness Index. Even though Chile is half the per capita income than Israel, today essentially it has almost caught up with Israel and now Ireland has surpassed Israel. Not unrelated is the overall picture on governance, which I will refer to briefly, but before that, very quickly, how do we know what the picture on governance is? And that refers to what Stan already mentioned, so I will be very quick.

The World-wide Governance Indicators that we prepare annually, two hundred plus countries and we base it on their responses from over two hundred thousand stakeholders from thirty different sources. Their experts in writing agencies, investment writing agencies in government and in multi-lateral agencies as well as many servers of enterprises and citizens in the country. We use a particular method of aggregation, which I will not bore you with. One of the great things about the method of aggregation is we can be very explicit, transparent and precise about the degree of imposition in the data, which exists in any data. In fact in ours it is a bit less because of the aggregation and the method used, but there is always one. But that fact is not very well known but every one of these data sets has a significant margin of error because others do not disclose it.

Which gets me back to what happened when we started doing this and the first paper we produced with Howard Craig was reviewed very kindly by Shlomo Yitzhaki, your chief statistician nowadays of the Government of Israel and he was very complimentary, which is not always the case with him. But he warned me. He said, "You are going to get into huge trouble because you guys are the first ones since

Kuznits who dare to suggest that there is a margin of error in the numbers. Kuznits dared to say after he constructed the micro economic accounts for the United States that he was plus/minus five percent, nobody dared to do that ever after.

He was kind of right we have gotten a lot of flack here for that, but we believe very strongly and if you go to the website where everything is very interactive, you can download any of these data there on aggregate level, but also the dis-aggregate, all the sources are going to the data for any country and compare and create graphs in every data showing there for the country shows a margin of error, which allows us to be able to say this can be done with the data, this is what is not proper to be done. For instance, pretending to run the precise horse races and say, "I beat your country. Canada beat the United States by a nose," it makes absolutely no sense from a statistical standpoint. But overall we are patents, can come out and one can do economic analysis with that.

It is always very important to keep in perspective how to use judiciously any of this data, but we think this type of date, unlike it should be used more no less, because this is a significant vested interest against using it politically because the data by definition shows a certain amount of countries, which are not doing very well. In fact, very quietly many reformist in governments like the Chief Economist of the Government of Putin now resigned, but he used to call us before the release on United States, praying that we will be tough, so to continue arguing for reforms and for the reality in Russia.

But we need to keep in mind when using this data and the effective use of this data, the great statement by Einstein who said, "Not everything that counts can be counted and not everything that can be counted counts." So the data is just one element. But at the same time I saw the bumper sticker the other day saying, "If you

think there are problems with the data, try without it,” and that is a useful reminder in this field of when there is no empirical backing for policy purposes.

Now in a nutshell, what does it tell us about Israel? It portrays a very mixed picture about the quality of governance in Israel today. The power of data shows that on one level it is utter nonsense for anybody to suggest that Israel is endemically corrupt or systemically misgoverned, because our indicators is not just about corruptions; about rule of law; about government effectiveness; about political stability and absence of violence; regulatory quality and voice and democratic accountability. Six indicators plus all the disaggregated data, because country evidence helps us reject these blatant and what we consider sensationalist assertions, which are quite extreme.

In fact, Israel has undoubtedly had many achievements in governance over the past sixty years. In a worldwide comparison in control of corruption nowadays Israel rates among the top fifty countries, among more than two hundred worldwide. So that is one way of putting perspective and perhaps suggesting while the glass is half full or more than that. But if one starts benchmarking in a bit more ambitious fashion, Israel is far from rating among the top twenty-five countries because if one wants to benchmark with OECD for instance, while Chile and Ireland are up there among the two top twenty-five, Israel is between the forties and the fifties, depending on the indicator and worse on political stability and absence of violence and terrorism for obvious reasons.

Furthermore, the trend is not in the right direction, at least with our data over the past ten years, Israel's performance on control and corruption and on rule of law, for instance, has deteriorated somewhat since the mid nineties. Even the country's human capital, the technological development, its institutions in Israel, it can be said,

and on can do so with calculations to face the governance deficit, in particularly so, if benchmark against ambitious longer term goals for the next ten years and against industrialized countries today.

But, let me pause and ask, why so focused on measuring governance? Does it really matter that much? Well, in a nutshell, the worldwide evidence suggests that it matter in almost, if it is not the only factor and we are going to hear tomorrow about the macro and so on. But over the past fifteen years there has been such a revolution in macro economic policies and stability in no small measure, thanks to some people who are present here that nowadays it is not such binding constraint anymore. I mean, institutional and governance issues have become one of the being constraints for unleashing robust and sustained growth into the future.

We find on average, using the cross-country data and throughout the world, what we call the “Three hundred percent development dividend of good governance.” That means that a country that improves in rule of law, in control of corruption and one dimension of governance by one standard deviation and one standard deviation, just to give you a sense, is one fifth of the whole distance from the wars in the world to territorial gains to the Finland’s and the Denmark’s. So it is realistic, one standard deviation. One standard deviation is to go at least to the level of Israel in control corruption to a level of the Netherlands. So not the top, but up there.

That is associated with a three-fold increase in per capita income. Everything is constant in the very long-term until you reap all the fruits of that, but it is a very large dividend, similar dividend is a reduction of an infant mortality in terms of increasing investments for foreign and domestic and in terms of increasing competitiveness, the country competitiveness as rated by the World Economic Forum, we have around those statistical revaluations as one. Poverty elevation and income

distribution is also helped by improvement in governments in a very significant matter.

So in some, Israel overall is in the top cartel of the world but in benchmark against OECD Israel rates among the bottom three to five countries compared with all the other OECD's. The only one's which are below are the Italy, sometimes the Greece are out but with those few exceptions, and there are a few more depending on which one would look at it, it does not rate above it. While again, sorry for the reminder, but Chile is much higher and Chile is by far the best among emerging economies.

So, the question does come up in terms of thinking about long-term growth. I am not thinking about the one-year elevator economics and I know that Israel has been doing very well very recently. But a useful reminder, any country I go to, even the Kenyans of this world, with enormous challenges of governance far worse than Israel, they always tell me the fantastic performance for past year or two, the world economy is doing great. So let us wait until the world economy is not doing so great and we are going to distinguish between the real sustained types and the others.

So one has to ask the more medium on longer term question of growth and further strengthening of the institutions, what if Israel went to ask itself, "What decisive steps, institutional reforms, governance reforms are required to try and reach the top tier of a top twenty, twenty-five countries in the world in terms of governance?" So in the next decade one has to be realistic. It is totally unrealistic to expect that overnight a country like Israel or any other like that can become the absolute model of Denmark or New Zealand or Finland, but there is absolutely no reason, in seeing other countries perform, why when there is political will; when there is leadership to implement political institutional reforms, in a framework of collective

action, which is very important in this area of governments involving, not only the executive, but the judiciary legislative civil society and the private sector working in tandem, there is no reason why major improvements over the next decade would not be possible.

We have seen it recently, in fact the past eight years in a number of African countries, major improvements in Botswana, in Ghana, Madagascar and so on and not to speak about Chile and some in East Asia. Including Korea we had undertaken a significant reforms in many governance areas since the East Asian crisis. So there are excellent examples of what can be done in a very short period of time. I consider eight years is just a speck in the history, particularly for institutional and governance issues.

Before continuing, I am getting to the last part, again about Israel. It is very important at this stage, because it is linked to the aggress and get back home, in this case not Chile, which I have spoken enough about by home at the World Bank and this is because ultimately, as I hinted before, the example of good governance first has to start at one's own home. An institution at the World Bank working on this issue globally, obviously has to practice what it preaches for us to be credible and effective on working anywhere else.

So when the scandal irrupted recently at the bank, I mean specially regarding the actions of the outgoing President Wolfowitz, who had approved an oversized pay package for his girlfriend and a very oversight promotion, some of us led an internal challenge to both the presidency but also we all called on the Board of Executive Directors to really act more decisively to restore leadership and integrity in the bank. Wolfowitz is now stepping down, Robert Zolot is now poised to take the helm, and he has already been approved. One thing we have learned and I keep saying from

experience in many countries and institutions is the strength in terms of governance and resilience of an Institution or a country is not measured by the complete absence of a scandal or a corrupt act, it can take place anywhere. The resilience of an Institution instead is shown by its ability to admit a failure, recognize it transparently, learn from a crisis and then decisively implement the reforms as a result progressing to the next level of integrity.

So emerging now from such challenging times I believe that currently there is an opportunity in the bank to learn from the crisis and implement very significant internal government reforms. The whole point is not just the change in the leader. One ought to use this opportunity as a window for significant reforms.

I was reminded by the fantastic case study many many years ago of the Tidanol Cyanide tainted laced product and how Johnson and Johnson reacted in a magnificent word by coming at with a sealed product. Within six months of that major crisis of people dying because they took it and after a share price how the plant significantly within six months their share price was significantly higher than prior to a crisis.

Over the past five years Chile has had two to three non-insignificant corruption scandals. A significant corruption scandal in my country in Chile is one, he was found out that the Deputy Minister of Transport had received a twenty thousand dollar bribe. That created a political earthquake and the ... and in 2001 and 2002 and then led to major reforms, including then later which was related on political campaign finance and so one. More recently with Bad Chilei something similar, a major anti-corruption program is now being approved by Parliament and being used.

Not to speak, you know much better, the cases of Enron and World Com, perhaps the pendulum has swung too much, Jacob can tell us, but those are opportunities obviously for reform, that is the main point in this context. Chile used it also in terms of reforming their recruitment of all the civil service, cutting down significantly the number of political appointees from four thousand to about a thousand. Public procurement was also revamped and nowadays everything is online in terms of public procurement in Chile totally transformed. Nowadays Chile rates at the top of the emerging economies and governance and anti-corruption and I heard this from OECD that I mentioned.

Getting back to Israel, the last thing I like to do and also I don't want to take that much more of the time at dinner, but I will make a few more suggestions. But I don't want to even attempt to start prescribing what, even though some people asked, "What would make sense in Israel as a package of governance and reforms." I don't do that in any other country, this is not for an outsider to come in with a template, if not like the Macro Economic Stabilization Program where there is a book and there are three things that need to be done with some variations, of course.

This is a multi-disciplinary, extremely complex issues that requires an in-depth expertise and diagnostic on the ground. We can suggest certain things that may have worked or don't work in other countries, but the young guard is for you for Israel to do this through think tank experts, idea analysis, academics, leaders of civil society, executive experts and the politicians need to determine what should be their real action program. But one of our suggestions what we have learned is that it is very important to do it, following a rigorous, serious country diagnostic and consultations.

I see that in Israel there is no shying away from doing a very serious diagnostic on very tough and sensitive issues, like the conduct of the war in Lebanon. But interestingly is to see that about these issues perhaps that has not been done. You may know better why there has been reticence in that context. We do assist emerging economies in this context. We are involved in about twenty countries that do ask for this type of help in a very collaborative manner, but we just do the methodological part and we do the process, it is for the countries itself or for their teams to come up with basically analyzing the diagnostic results and come up as input for the action program.

So, I am reticent to say exactly what needs to be done, but at the same time not to totally disappoint you. Let me suggest that there are a number of general lessons and concluding from experience that have emerged, particularly perhaps in what lesson makes sense in this area, we will call myths and one stays here hears it, including here, so I will put them for the sake of discussion and debate forward. They challenge orthodoxy and governance sometimes.

Number one, myth, total myth. There is no possible to find large improvements in country governance in a short period of time. I mentioned that before and there are a number of countries over the past ten years that challenges the myth of institutional pessimism or Afro pessimism. It does not happen in a year or two, it takes six or eight years and it doesn't happen everywhere. I still not ask frequency that one would like. But we found that about one third of the countries in the world, at least in one dimension of governance, there has been some improvement over a period of eight to ten years. So it is possible, so that fatalism does apply.

Also we reject the myth of pessimism where the excuse is that this is all culture and look at our culture. This is historical and these are the legal origins and

this because of the colonial heritage we have. All these issues, all these are important and history matters but none of them is deterministic. Earlier on I did mention the par-wise country comparison contrast Chile and any of the neighbors with all the very similar features that I just mentioned or Ukraine and Poland or the two Koreas and there are other such examples of very interesting cases, thanks to leadership and other reasons, they have gone very different routes in terms of governance and development.

Third myth is the one that fights corruption. By fighting corruption, by hitting people in the head; by instances of some drafting of legislation; fine tuning the anti-corruption legislation by creation of more and more anti-corruption commissions or other commissions. Any problem we have, as a new scandal you throw in a new commission at the problem. We have not found that in general that is the answer. Instead, as I suggested before, mainstreaming within the existing institutional context and helping those institutions becoming stronger is very important. Anti corruption campaigns. Some places in the Former Soviet Union, they are in the 23rd Anti Corruption Campaign and continue to go downwards with that.

More and more codes. Codes are conducts. Many of them are totally voluntary, particularly for the private sector. What is the impact of that is also something to be questioned. There is also from some quarters where all mythology about civil liberties, protection of civil liberties, of freedom of the press is not that important. Just look at Singapore. Singapore is such an exception that proves the rule. We can discuss the case of Singapore later, very interesting, but I don't want to pick on one very particular city state case and imply that that model could apply to Russia or Nigeria.

The other myth is that ever more stringent regulation, whenever there is a scandal is needed in more areas of economic activity to determine its governance and corruption. That doesn't work to the contrary; it creates more opportunities for corruption. Then the other one is the focus and one has to be focused on the traditional bureaucratic or administrative bribery as a corruption issue instead over the larger issues, which we discussed earlier on capture, regulatory capture, capture by state. The whole issue of networks among different political interests and political parties and so on. Much more subtle but very pugnacious forms of misgovernments and corruption, which are particularly germane in a more advanced type of economies, although Israel and some of European economies as well.

So instead nowadays we stress, thanks to the experience and much systemic approach to governance reform and within it one, a key lynchpin with enormous potential we have found to be implementing a whole array and set of transparency related reforms, and I think there you would know better by the number of areas in Israel where it is still a bit behind compared with the state of the art or with some other countries.

Full public disclosure. Let me just give six or seven examples as bullets. Full public disclosure of the assets of high officials or politicians, of judges, under dependence where the word public is crucial, public disclosure. My understanding that that is not fully the action. Full, disclosure of campaign contributions and monitoring of the expenditure side of the contribution. There are very clever ways of monitoring the expenditure, which gets at some of the problem, which have been pioneered in Argentina and in Eastern Europe. Full and no exception of disclosure of the votes of parliamentarians.

If one matches, triangulates the these three types of transparency measures, assets of the politicians, high officials, campaign contributions, votes of parliamentarians with really active implementation of freedom of information laws and total freedom of the press, which it in Israel is very high anyway. Imagine the power that triangulation in exposing and putting sunshine, many potential over reality, acts of corruption.

That has begun to act as a very serious deterrent in the United States where a number of politicians, in fact are sitting in jail because of the power of being able to go to websites, very superb ones and triangulate through very good investigating journalism. Placing all public procurements transparently in the web and competition through procurement. Mexico and South Korea have a state of the arts nowadays. Chile compares and Chile and Guatemala are getting up there.

The holiest of lobby law is very important. Let us discuss the key here is accepting that the invisible hand is all thumbs. Human nature, institutional nature is to try to lobby for their interests there, that is one was mentioned today. The point is to open it to much more competition and not to let lobby de-monopolize by the few elites and powerful elites and how does one create that environment through a regulatory mechanism of allowing much more entry than usual is something very important. Again, incentive driven from that standpoint having less barriers of entry.

Total transparency about the budget. Line item by line item in a user friendly way, not sometimes the way of doing it is one puts in the web by such an obscure and difficult way to do it that the media, for instance, all the NGO's cannot fully monitor, Similarly, for ownership in the banking financial sector. Who are the real owners of banks and other sources of finance, that is very important.

Let me give one example, I was asked after the intervention this afternoon of how very particular, brilliant incentives come into play in this context of transparency? There is one innovation that is being done in the World Bank is called “A Voluntary Disclosure Program.” Naming and shaming of enterprises that have been basically caught in the act of corruption and penalized. Now in the World Bank we have public disclosure. You go to the web and over three hundred phones and individuals that have been blacklisted for corruption. The main thing that these firms here nowadays, is not the sanction of the World Bank of being out of business with the World Bank for three years or forever. They fear the public disclosure of that, because basically they are doing business with bona fide type of Institution. So that is one of transparency, increasing the cost.

But another one, that has been now pioneered, a voluntary disclosure program. We let the company, which are not under investigation, so we don't know that they have been engaged in corruption in World Bank funded projects. There is a new CEO, he or she comes in, opens all the books and says, “Look we have been bribing left and right in such and such a country and we have one pilot, thirteen different countries, twenty some different partners of how they collude and bribe through a maize of corruption.”

They open all those books, if they disclose, they get very lenient treatment. It is like a plea-bargaining, but they open the book about everybody else and their partners. So now, I don't sleep well thinking, “When will Manuel go first?” If Manuel goes first, he gets off scot-free and I don't. So you basically, by breaking that collusion, so it shows that one is going to do it. It is just to illustrate that in this area again, using as we discussed earlier the issue of incentives is extremely important.

In the same context, doing an in-depth diagnostic in a country as we have done in many places and through this in-depth service and diagnostics from officials and citizens being asked, all the institutions in the country are righted. If this is fabricated it is closed and there is a competition starts, of which ones have probity, lower probity in the eyes of the whole population and these are done every year. This is outer incentive structure.

Let me end by suggesting in this context that obviously complimenting transparency driven and incentive driven approaches is absolutely crucial from our experience in many countries to safeguard the independence of the judiciary. I know that here there is a bit of noise about it. You think there are problems with a fewer independence of the judiciary, try without it. How many countries are we working with, they are totally captured by the Executive in a total culture of impunity.

Obviously one want always to add the right balance but on balance we find an independence of the judiciary is absolutely crucial. Very autocratic civil service obviously is crucial. Those obvious type of things that we have known and you all know for so long, I am not mentioning too much and giving enough due. Of course the vibrant and free press is also key, which is an enormous strength as I can tell in the case of Israel. So Israel has enormous strength to build on as it goes forward within a picture of some challenges. The recent report on the Lebanese war as well as a judiciary challenge to the President's office, I don't know if you know these were seen in incredible positive eyes. Everywhere else in the world, as how many countries can do that, of challenging the office of the President by the judiciary? Of doing the type of totally find soul searching on Hertz Road type of report about that.

So that those rather than leading to fatalism that we have problems, almost every other context where everything is put under the rot is an enormous source of

strength from our standpoint and that is of enormous important to build on these places and breaks for future reforms.

Let me end, since we are at dinner and some wonder apparently when I made some brief mention and I showed some drafts about this issue of capture, I cannot help you before you have dinner and since my good friend Manuel is here is to tell an Argentinean story. It is an acute story because it comes from a book written by two Argentinean authors around 1993, and the Argentinean authors went to the Whitehouse at Government in Buenos Aires, like *Casa dol Sala* the Pink House to interview the chef of the Pink House. They went to Chef and they wanted to know basically, because he had been there for so long, "How do the tastes of Presidents change from one to the other," and therefore he has to completely adapt in terms of the dinner menus from one to the other.

At first the chef didn't understand fully the question, he paused for a minute and he said, "I don't really understand fully the question. Of course, Presidents come and go but the menus are always the same because the guest list is always the same." So that is the capture by the way in case one was wondering.

So for the sake of fighting the conformism, let us hope that the guest list in Israel do change from time to time. Thank you very much.

פרופ' סטנלי פישר:

דני, בשם כולנו ופורום קיסריה אני רוצה להודות לך. בשם כל מי שמתעניין ומודאג מהסוגיה של משילות במשק הישראלי. תודה רבה שבאת, תודה רבה על ההרצאה המאד מעניינת והמאד מרשימה וערב טוב לכולנו.