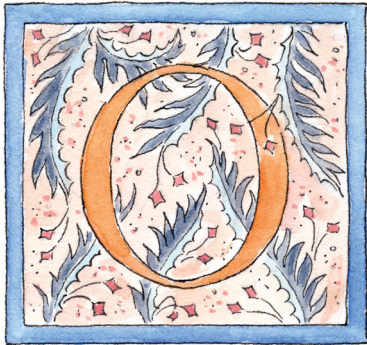


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Building Israel's Trillion-Dollar Economy

And why we must



IF ISRAEL'S many achievements since October 7—the pager operation against Hezbollah; the elimination of terrorist masterminds in Beirut, Gaza, and Tehran; the downfall of the Assad regime in Damascus; the crippling of Tehran's nuclear and ballistic missile infrastructure; the remarkable effectiveness of Israel's missile shields—perhaps none was as extraordinary, or unforeseen, as this: Since the start of the war, the Tel Aviv Stock Exchange is up by over 80 percent, reaching an all-time high.

That's not a development most casual observers of Israel would have predicted in the wake of a historic calamity and in the middle of a seven-front war. Yet that's exactly what happened. In 2024, Israeli arms manufacturers recorded a fourth year of record-breaking sales, according to the Israeli defense ministry, despite some canceled sales and

the perpetual threats of boycotts. The same year, in the thick of war, Israeli high-tech companies reportedly raised \$12 billion, a 31 percent increase over the previous year. In March 2025, Google struck a deal to acquire Israeli-founded cybersecurity company Wiz for \$32 billion. In July, Nvidia announced that it would expand its already significant operations in Israel with a new multibillion-dollar tech campus.

If all this looks impressive in the context of the past two years of war, it's even more so in the context of the past five decades. In 1973, when Israel's population was 3.3 million people, its GDP stood at a meager \$11.3 billion in today's dollars, or about \$3,400 per capita. Today, Israel's population has tripled to 10 million while GDP has grown 51-fold, to about \$580 billion, according to the International Monetary Fund, bringing per capita GDP to \$58,000, ahead of Britain's, Germany's, and Canada's. As the *Financial Times* columnist Ruchir Sharma recently noted, "Total factor productivity, which captures how well labor is using new machines, has grown four times faster in Israel than in other developed economies over the past 25 years." In fact, Israel now has the sixth-highest GDP per capita of countries with more than 10 million people.

Such successes demonstrate the resilience and capabilities of Israel's entrepreneurs and labor force. Yet the growth drivers that produced the start-up nation over the past three decades will not suffice to achieve a new imperative: much faster overall growth and the doubling of Israel's GDP over the next 10 years to more than \$1 trillion.



Look again at Israel's economy and you'll find singular challenges and, for a developed country, troubling signs. The good news is that these are man-made and surmountable, but we must start addressing them immediately.

The most obvious challenge is that Israel's multifront war has come at an immense economic price. The war with Iran cost 5.5 billion Israeli new shekels (NIS), or more than \$1.5 billion, in its first three days alone—almost 1 percent of the Israeli government's annual budget, which stands at 620 billion NIS, close to \$190 billion, not including debt service. As of the end of 2024, the direct costs of the war in Gaza and Lebanon were 141.6 billion NIS (more than \$40 billion; 80 percent military costs and 20 percent civilian compensation). This does not include the indirect costs to the economy or the reparations due to citizens from the Iranian missile attacks. Israel has borrowed 360 billion NIS (about \$110 billion) at a 5.5 percent interest rate, and debt service is now almost 150 billion NIS (about \$45 billion) per year and growing.

Israel can spare no expense in prosecuting the wars. But it still has to finance them. Israel entered the war with one of the best debt-to-GDP ratios in the industrialized world. Even today, it stands at 69 percent, better than that of the U.S. or the EU (except for Germany, whose economy is stagnant at best). But we cannot continue to grow our debt-to-GDP ratio at 9 percent over two years, allowing interest and debt payments to eat an ever larger share of the budget and burdening future generations.

There's also an imbalance in economic growth. While high-tech sectors, particularly in cybersecurity, defense, and artificial intelligence, flourish, other industries such as construction are stagnant or at risk. Israel's construction productivity is 54 percent lower than the average in industrialized countries, and in the transportation sector it is 35 to 50 percent lower, even though overall labor productivity, buoyed by high tech, is only 11 percent lower and Israel's general productivity has been closing the gap with European counterparts over the past decade. Anyone who has been to Israel recognizes the mounting traffic delays, the poor public transportation system, and

the tortoise pace of construction. For example, the fourth railway track along the Ayalon will not be ready in 2028 as planned, but in 2032; the completion of the Green Line of the light-rail system in the Tel Aviv area has been pushed back from 2027 to around 2030. Jerusalem's light-rail system is years behind schedule. Israel needs more power plants, which are held up by lack of skilled labor, petty local election politics, and old-school methods of government approvals. Of course, many other infrastructure projects are delayed by lack of prioritization on the part of the Israel Electric Company.

Finally, Israel faces a unique set of demographic challenges. The country enjoys annual population growth of around 2 percent—the equivalent of adding a midsize city every year. Robust population growth can confer long-term economic advantages, and I believe it ultimately will. But that depends on whether society's newest members will contribute to the continued growth of the economy or merely feed off an ever-more-burdened welfare state. The advent of AI, better leadership, and management can help turn the demographic growth into economic growth.

Policy-wise, Israeli policymakers must adopt a business-state mentality to meet the challenges of the next decade. The acceleration of global events and technology demands this approach, which entails:

- Moving from social-entitlement budgeting to strategic capital allocation, investing massively in growth infrastructure such as advanced transportation, energy abundance, and digital/AI.
- Applying accelerated, internet-era business metrics, including ambitious service-level agreements (SLAs) between local government and the population it serves; productivity return-on-investment (ROI) metrics for all government budgets and workers; national key performance indicators (KPIs), and growth targets, all of which will be

shared transparently with the public. Politicians and bureaucrats must be held responsible when they are not met. Mayor Michael Bloomberg of New York successfully pioneered many of these efforts, and Singapore has been a shining light of this approach to government.

- Rooting this in Zionist values. To wit: national service + economic contribution = priority budget recipient.
- Adding additional growth sectors such as financial services, which I will outline below.

As I said above, *all* of these challenges we face are man-made by a currently stagnant bureaucracy and political system. They can be overcome. New leadership and technology, mixed with new regional superpower thinking alongside Israel's forte for creativity, will turn the tide.

And here is an outline of what we need to do.



The key to creating a trillion-dollar economy is to reorient government spending away from consumption in order to invest in the core of the productive population in Israel: those who perform national service, pay taxes, and work. The government needs to abandon the decades-long folly of spending massively on those who do not want to join the Zionist core. Simply put, those who want to benefit from the fruits of the welfare state will need to contribute to its prosperity and maintenance. (As an aside, all of the basically bankrupt European welfare states would do well to learn from this model and invest in the core of their productive populations.)

Were the government to employ this investment-minded model, it would end the silly political practice of broad, uniform budget cuts whenever it decides to reel in spending. I have critiqued this practice for nearly two decades, and I understand why it is done. First, government looks at total spending rather than investment and measures it by how much each ministry requires to satisfy its expenses. Second, nobody wants to upset petty ministers and politicians who measure themselves on inputs rather than outputs, so equalizing the cuts is the path of least resistance. The result is that periodic efforts at budgetary discipline and prioritization wind up hurting the very sectors that can help strengthen the economy as a whole. What is required is selective and judicious spending cuts, prioritizing investment-oriented spending.

Changing this will be no small political task. But it is essential for the government to allocate resources to their most productive uses, including core infrastructure spending. Four key areas for investment include energy abundance; digital infrastructure, such as regional fiber-optic cables and data centers; human capital; and advanced transportation.

Equally essential is to significantly speed up the permitting process and reduce regulation so we can build and rebuild faster. Currently, it takes an average of four years to obtain permits and build residential and most commercial real estate, and a decade to build core infrastructure including transportation, electricity plants, and desalination. The completion of these construction projects is chronically late, complicating planning even more. Israel will struggle to compete as a modern economy with this excruciatingly slow bureaucracy.

For example, since 1997, Israel has been actively considering building a second major airport to match the increase in air travel. Ben Gurion Airport will soon not be able to handle the quantity of travelers coming through. Additionally, operating only one major

international airport, as shown during the recent war, is an Achilles' heel for a country of over 10 million people. No fewer than three commissions have worked on the project. Two possible locations were chosen: one in the south and the other farther north in Emek Israel, southeast of Haifa. As in a ping-pong game, governments have alternatively decided between the two locations, each canceling the other's decision. Numerous Knesset committees and Prime Minister Netanyahu himself have intervened and suggested alternative locations. Coordination with the defense ministry, environmental ministry, transportation ministry, and various local councils continues to vex planners. There still has not been a final site choice. At this point, it will take at least 10 more years until Israel has another major international airport. This is embarrassing for the country and should be fatal for the political fortunes of leadership.

Here is another: The Tel Aviv (Gush Dan) metro and light-rail have been complicated and massively delayed by the political machinations of Transportation Minister Miri Regev, leading, among other issues, to nobody appointing a CEO for the metro. A lack of labor due to the war; failing relations with key supplier Turkey; mayors and citizens screaming NIMBY and trying to push construction into other municipalities — these have all contributed to years of delays.

Based on discussions with the minister of finance after the Iranian missile attacks, I am certain he understands the opportunity to leverage wartime budgets for residential rebuilding to cut through bureaucracy. This is an opportunity to increase housing in hard-hit areas by turning air rights into economic assets, laying critical infrastructure rapidly, and challenging municipal councils to move more quickly and more ambitiously. This is a historic opportunity to enforce absolute deadlines on all stages of infrastructure development processes, while insisting that timetables for approval be cut by 80 percent. This is completely achievable in the AI era.



Meaningfully increasing the investment section of the budget and getting the bureaucracy to move faster or get out of the way is a start. But we also need new growth and revenue engines—three in particular.

First, finance. There are many Jews in the hedge fund industry, particularly in the United States and the United Kingdom. Moreover, the world of investment opportunities is expanding eastward. While the United States is still the granddaddy of capital markets, markets such as Eastern Europe, the Middle East, and India are growing. The UAE has quickly become a destination for capital seekers—including an estimated 10,000 millionaires from the U.K. alone—and Saudi Arabia is now trying to catch up to its neighbor. Israel is closer to all of those time zones than New York or London.

Tel Aviv has an opportunity to become the second capital for finance, after New York. To capture the opportunity, the government must create certainty for investors in three areas: Equalize the regulatory environment for hedge funds with the United States; make Israel the most crypto-friendly regulatory system on the planet; and reduce capital gains taxes for hedge funds to be competitive with the United States. That number should be lower than 30 percent for both short- and long-term capital gains. Currently there is not a uniform tax system for different types of funds, and hedge funds are mostly taxed at marginal rates.

Then there's AI, probably the biggest technological shift of our lifetimes. After a committee led by Brig. Gen. (Res.) Professor Jacob Nagel published guidelines for a national AI strategy in a report over the summer, a government resolution establishing an AI directorate in the prime minister's office was recently passed. So far, the initiative has been stood up with 120 million NIS, or about \$35 million, and a great leader in Brig. Gen. (Res.) Erez Askal. But 120 million NIS is a drop in the bucket and must be massively scaled up. The directorate must be

powerful, swift, and backed by at least \$1.5 billion per year. It must be given powers to deploy AI experts into government offices, tasked to streamline operations and reduce the cost of government by 25 percent so that we can reclaim some public spending for investment in growth. To attract talent and put the government on a different path, this authority should tie compensation to success and efficiency metrics in government. This could be a precedent for a leaner, more accountable bureaucracy.

Finally, Israel needs more energy. This transformation is already more than a decade underway, thanks to the discovery of vast offshore natural gas fields that have allowed the Jewish state to become a net gas exporter. But Israel's energy needs will continue to grow as its population expands. And an AI revolution is impossible without vast amounts of energy to power data-center operations.

There are still unexplored hydrocarbon fields both on land and at sea. There is more opportunity for solar power in Israel and in partnership with neighbors such as Jordan, Egypt, and perhaps Saudi Arabia, all of whom enjoy easier regulatory environments than Israel's and can create partnerships that supply Israel. Israel has not pursued civilian nuclear power because it is not signatory to the Nuclear Non-Proliferation Treaty. However, the advent of small modular and microreactors and the increased interest in nuclear power must cause Israel to explore nuclear opportunities as well.



The final challenge is to capitalize on a changing region.

In January 2024, I was fortunate to join my friend Shervin Pishevar, an Iranian expat who lives in Miami, in establishing an Israel-Iranian alliance. Iran is an innovative country of 90 million people who have been brutally oppressed for 46 years. It also sits along the India–Middle

East–Europe Economic Corridor (IMEC), America’s competing vision to China’s Belt and Road Initiative, which travels from India through the Gulf Cooperation Council to Israel and the Mediterranean.

The Iranian regime—hated by its own people and humbled by Israel and the United States—is shaky at best, its fall probably only a matter of time. Whether it takes a year or a decade is impossible to say. Should it happen—or rather, when—it could bring an additional 90-million-person market into proximity, which would mean both sides of the Persian Gulf could become pro-West and integrated into both the IMEC and the Abraham Accords. It could also bring Iranian oil, which currently goes largely to China, into Western oil markets. All this would be a game changer for the Israeli and American economy. The combination of India’s production power with the energy and natural resources of the Persian Gulf together with Israeli technology and finance may create a mid-Asia economic giant. With proactive diplomacy and a spirit of partnership based on each country’s unique resources and abilities, this is eminently achievable. It may also serve as an alternative trading partner and blunt Turkey’s increasing neo-Ottoman ambitions in the region and Africa.



I grew up in a Zionist family on the Upper West Side of Manhattan. I was 19 years old and studying in an Israeli yeshiva when the Gulf War broke out in 1991. A week after Purim, the day the war ended, I found myself in a room with 15 other young men and Rabbi Yehuda Amital. I asked him a classic yeshiva question: Would it be a bigger fulfillment of the mitzvah of settling the Land of Israel if I moved to an unpopulated place in Israel like the Negev and the Galilee? Or would moving to a populated place like Jerusalem or Tel Aviv be the same level of fulfillment of the mitzvah?

He looked at me and said, “Your question is nonsense, utter nonsense. Move to Israel and establish a factory to employ 10,000 people so that they can earn an honest and decent living, that would be the biggest mitzvah!”

I had not planned to move to Israel before that life-changing moment. When I lifted my jaw off the ground from hearing a rabbi talk so passionately about the economy and economic empowerment of others, I resolved to make aliyah and see what I could do to improve the economy of the Jewish state.

Wars are a time of change, challenge, reflection, and inspiration. In Rabbi Amital’s spirit, I call on all of you, readers of SAPIR in the Diaspora, to bring your capital, talents, networks, and sense of purpose to a Jewish state that cherishes life, peace, and human dignity. Help create Israel’s trillion-dollar economy. Abraham’s descendants in the land were promised to be blessed and to be a blessing, which is literally translated as material prosperity.

This is the moment to bring that promise to fulfillment. *

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