

Karnit Flug: On the importance of strategic planning and the difficulty of implementing it in the political reality

Remarks by Dr Karnit Flug, Governor of the Bank of Israel, at the Eli Hurvitz Conference on Economy and Society, Tel Aviv, 19 June 2018.

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Bank of Israel Governor Dr. Karnit Flug:

- ♦ In order to achieve economic and social goals over time, it is very important that there be a strategic plan.
- ♦ At the start of the current government's term in 2015, it adopted a socioeconomic strategic assessment and directions of action. The test will be in its implementation over time. There is built-in and natural tension between advancing the agenda of an elected government and a policy based on a long-term vision and advancing a strategic plan.
- ♦ In governments with a fragile coalition that rely on many parties, the tendency to make decisions that advance short-term achievements becomes stronger.
- ♦ It is therefore important to strengthen the mechanisms that tie the work of government ministries to the strategic plan, and to strengthen the professional echelon in the government ministries.

Background

The Eli Hurvitz Conference is focusing this year on strategy: the design of policy that directs reality while looking far into the future. The conference contains various sessions in which analyses of the basic demographic and global trends are presented, and discussions are held regarding the policy required today to achieve targets in the coming decades in areas that affect the standard of living, inequality, the quality of public services, the level of infrastructure and more.

It is needless to go into detail about the importance of strategic planning in this forum. There are a number of layers: **setting targets; designing policy that will be consistent with the long-term planning; and no less important, avoiding policy measures that will make it difficult to attain the strategic targets in the future.** The late Eli Hurvitz, for whom this conference is named, led many strategic planning efforts, and today's conference marks a decade since the presentation of the "Israel 2028—Socioeconomic Vision and Strategy in a Global World" plan, which was formulated by a team led by Eli Hurvitz and managed by David Brodet, together with many partners.

The plan was presented and discussed by the government in May 2008. A decade later, we are at an appropriate place to stop and assess: Have the governments since then acted in view of the vision presented in the plan? Have they turned it into an operative work plan in various areas? And what have we achieved in terms of the targets that were set in the plan?

The plan indicated areas that required government focus, while presenting warning signs for Israeli society. It also presented the vision in quantitative terms for the level of per capita GDP, the GINI index of inequality, the labor force participation rate, and the employment level. (It is important to note that the two latter goals, which relate to employment, were achieved, and the current data are better than the targets that were set).

One of the areas emphasized in the 2028 plan is the need for "a fundamental reform of education, from kindergarten through the end of secondary school and higher education",

and another was “integration of the ultra-Orthodox, Arab, and peripheral populations in economic efforts.” The plan also emphasized the risks created by the development of a dual economy, in which there is an advanced economy that leads in innovation and technology, benefits from high productivity and answers the challenges of globalization, and which employs 6 percent of the workers in the economy (today 9 percent), alongside traditional industries that are characterized by low productivity and low growth. Later on, it is noted that “the income gaps in Israel are among the highest in the advanced economies, economic polarization is dividing society and preventing the maximization of economic growth.” **These issues remain a significant challenge for policy today.**

Government decisions and actions to formulate a strategy

Despite the fact that the plan itself was not adopted as a government plan, it did provide inspiration for in-depth strategic work within the government that followed. In 2012, the government decided, based on the work done by the National Economic Council, to adopt a plan to consolidate and improve the government’s ability to formulate and manage a socioeconomic strategy (Decision 5208). The plan included:

- ♦ Establishing a socioeconomic strategic assessment that is to be presented to each government in the first 100 days of its term, in which the areas of action that provide a significant response to main trends and characteristics are detailed;
- ♦ Establishing a ministerial committee for strategic matters (in practice, this recommendation was not accepted);
- ♦ Establishing a strategic management team led by senior officials in the Prime Minister’s Office and the Ministry of Finance (in practice, the team held very few meetings);
- ♦ Establishing a forum of Depute Directors General of Planning and Strategy in the government ministries (the forum is active and holds professional discussions).

In June 2015, the government adopted a socioeconomic strategic assessment, and then approved a series of government decisions to adopt directions of action in response to various issues, and to integrate them into the detailed work plans of the ministries, and into their budgets (Decision 145). The strategic issues that were defined were: **cultivating and maximizing human capital, productivity and competition, financing infrastructure, housing strategy, regional economic development, preparedness for the aging of the population, and “Digital Israel”**.

An analysis of the performance of all items in the government decisions in the various fields, which was done by the National Economic Council in the past few months, shows a positive picture in the performance of most of the decisions. These are mainly decisions to create the frameworks and processes, such as establishing teams, presenting and formulating programs, and progress reports to various forums. Of course, the most important test will relate to the formulation and implementation of detailed plans, and achieving the targets over time. At this stage, it is too early to assess the extent to which they will be realized.

Examples of issues that require a strategic plan that were included in the government decision in 2015

Human capital—As early as the Israel 2028 plan, the area of education and professional training was identified as a main component in providing the basic values and skills required in the modern labor market. This is one of the areas where the importance of a strategic plan is clear—a plan that formulates targets, defines work plans for achieving them, and allocates budgets is essential in order to achieve an education system that is tasked with providing values, abilities and skills that will enable its graduates to deal—as workers and in

general as citizens—with the challenges of a changing labor world, for many years to come.

The low achievements and the gaps in scholastic achievement and in the abilities relevant for the labor market are constantly being raised by the findings of PISA and PIAAC tests. Despite the increase in the average number of years of schooling, literacy, numeracy and functioning in a digital environment among the adult population in Israel—at all levels of education—are lower than those in most of the advanced economies, and the situation is no better among students.

The need to deal with low abilities and skills is also shown by an analysis of labor productivity trends in Israel relative to the other advanced economies, and by productivity and wage gaps between various groups. Improvement is needed in the education system and in professional training, so that it will prepare its graduates for the labor market of the 21st century, which will require a variety of cognitive skills as well as critical thinking, creativity, teamwork ability, and more.

The Ministry of Education, led by various education ministers, has set various goals, and has focused on dealing with various issues in each period. While in Gideon Sa'ar's term, the ministry focused mainly on improving **METZAV test scores**, during Shai Piron's term it focused on advancing "**significant learning**". In the current term, under Naftali Bennett, the focus moved to **increasing the number of students learning mathematics**. During the term of the previous government, the need to provide basic skills to everyone was emphasized, and budget allocations were even supposed to be conditional on providing courses such as mathematics, English and sciences, but the current government cancelled that condition.

These changes in priorities, concepts and emphases included budgetary changes and the diversion of a significant portion of the ministry's flexible budget every time a new minister took office. The variance in philosophies, and as a direct result in the action strategy and the targets derived from it, impaired consistency and made it difficult to qualitatively implement the plans.

In 2015, as part of the strategic assessment, one of the decisions made by the government was to focus on "cultivating and maximizing human capital". Most of the activity directions proposed by the government at the time were approved and are being advanced. For instance, increasing the number of students studying 5 units in mathematics, increasing hi-tech manpower through various means, and reforming the technological colleges. However, it is clear that achieving a target such as increasing the number of students studying 5 units in mathematics requires consistency over time, as providing mathematical thinking skills must start at a very young age, and only based on that can we reach high proportions of children with the potential to cope with studying the highest levels of mathematics.

It therefore seems that the strategic goal adopted by the government to cultivate and maximize human capital, and individual decisions derived from it, have an impact on Ministry of Education goals and work plans. However, **it is too early to determine whether setting the strategic goal leads to focusing the Ministry's efforts on achieving the goal over time, and particularly whether the required continuity is created even when there are changes in government or in ministers.**

Another example of an area in which it is necessary to adopt a strategic plan that will be implemented over time is housing.

The need for a strategic plan in this field is due to the long time needed for policy to be implemented. Decisions made have an impact on how land is used and conceptualized, and are to a large extent irreversible. Decisions on dispersal of the population also form the

basis for infrastructure planning. There is also need for a high planning inventory based on the strategic plan so that it will be possible to respond relatively quickly to changes in demand, and particularly in view of the long time required from initiation to completion of construction (about 12–15 years).

In 2005, the government approved National Outline Plan 35, which was intended to define the policy of planning and the placement of localities in Israel until 2020. The main points of the plan are strengthening existing localities and avoiding suburbanization, urban renewal, and strengthening public transport. The national outline plan is intended to serve as a basis for all construction and development initiatives in Israel according to the principles upon which it is based, and set geographic dispersal targets that would increase the proportion of the population in the northern and southern regions at the expense of the proportion in the center of the country. The plan was supposed to be updated every four years.

Examining the developments since then we find that the targets of the plan in the area of construction planning, both in relation to the overall volume and in relation to the dispersal of the population, did not succeed in directing demand to the housing market in the periphery (the gap between the number of residents in the periphery according to the target and the actual number is 600,000), which increased the gaps between demand and supply in the center of the country. We may assume that this also has to do with the non-use of transport development plans.

In May 2017, the strategic plan for housing that was led by the Planning Administration and the National Economic Council was published. The plan set active targets for the planning system that will enable the construction of 1.5 million housing units between 2014 and 2040, in accordance with the need shown by models based on demographic trends. The plan also set targets for the future geographic dispersal of dwellings, taking into account the periphery's absorption capabilities, the shortage of land in the center of the country, the distribution of demand, and the economy's efficiency. This target differs substantially from the targets that were included in the previous plan. (In this context, by the way, it is worth asking whether the Housing Minister's decision to advance the construction of 18 new localities in the Negev is consistent with this strategic plan).

The importance of advancing a strategic plan in the area of housing is also derived from the certainty that it is supposed to create for the synchronization of the infrastructure required for building the dwellings and adding more residents to the localities.

The Planning Administration, which led the plan, continues to implement the decision, including by mapping building sites, formulating a detailed work plan, coordinating the surface infrastructure that is required, and advancing processes in terms of employment and industry that are intended to provide a response to the employment needs of the population in places that will be built.

It is entirely possible that had the strategic plan in housing been implemented at the beginning of the 2000s, it would have helped create a large planning inventory and would have enabled policy makers to deal with the rapid increase in demand for homes in 2007 in a more rapid and successful manner.

And one last example that mainly indicates difficulty in the implementation of a strategic plan is in the area of transport infrastructure.

One of the factors that affects both the difficulty in geographic dispersal of the population and the low level and slow growth of productivity in Israel is the low level and poor quality of the transport infrastructure, particularly public transit. In order to deal with this, the government made a number of decisions on long-term investment plans in transport infrastructure that are intended to improve and expand the road network and the public transit system,

including “Netivei Yisrael”, the light rail systems in Jerusalem and Tel Aviv, and the Tel Aviv-Jerusalem train route. Monitoring the performance of these plans over time shows that they have encountered many problems in implementation and time tables. Only a fraction of the plans ever make it to execution, and most of those significantly overshoot the planned time tables for their completion, leading in the medium term to underinvestment in transport infrastructure.

For instance, the gap between the 2012 expectation of budgetary expenditure on transport infrastructure in 2015 and the expectation at the beginning of 2015 was NIS 10 billion. In other words, actual expenditure was 45 percent lower than planned, even though the government did not cancel significant transport development plans. This is not a cost savings: the plans are simply being executed at a slower pace than planned. The slow progress has significance beyond the lack of transport infrastructure: The delay impairs the ability to plan residential and business locations, since the construction of residential neighborhoods requires roads and access to employment areas for future residents, and the functioning of businesses is affected by their access to transport infrastructure.

Alongside areas where it seems that the government’s decision to adopt a strategic plan at least to the formulation of a working plan derived from it, there are also examples of issues that were included in a plan and are not being implemented. For instance:

- ♦ Establishing a financial stability committee. There is agreement over the text of the law, but it is still delayed in the Knesset Finance Committee.
- ♦ Gradual adjustment of the retirement age. In July 2017, the Knesset Finance Committee again stopped the automatic increase of the retirement age for women, which was supposed to gradually rise from January 1, 2017 until 2022 to the age of 64 in a number of increases.
- ♦ Dealing with the actuarial deficit of the National Insurance Institute. A process for solving the problem has not been formulated. A public committee (Domenicini-Nissan) submitted recommendations in 2012, which weren’t even discussed by the government and remained in a drawer. Since the decision in 2015, the issue hasn’t been discussed by the government.

What all these things have in common is that the way they are being dealt with is not bearing results in the short term, and some of them even carry a public cost in the short term. No politician gets credit for an actuarial or financial crisis that does not happen.

Alongside the government’s progress in creating the infrastructure for planning the strategy, there is room to strengthen this process and to assimilate it further in the government work process, similar to the budget process. This can be done in such a way that the strategic trends presented and approved by the government will constitute the vision with which five-year plans and annual work plans will be formulated. In particular, it is important that the annual government targets for the ministries be derived from the long-term targets of the government’s strategic plan.

The existing mechanisms must be strengthened and supported by the establishment of a ministerial committee for strategy, and through the strategic management team.

In summation:

There is a natural built-in tension between promoting the agenda and priorities of the elected government and policy that is based on a long-term vision and the advancement of strategic plans. On one hand, planning, formulation and implementation of a strategic plan that acts to achieve targets over time are necessary conditions for progressing consistently toward

the achievement of goals that affect main areas of economic and social development. On the other hand, every government elected naturally has the desire to impact policy directions and leave its mark. This desire is brought into sharper relief when the government relies on a fragile coalition in which the composite parties will be tested at the ballot box in the not-too-distant future (and at timing that is not always known). Such a government has an increased natural tendency toward making decisions that focus on short-term achievements rather than the alternative of following a strategic path that was outlined by the previous government, or the fruits of which may be harvested only by the next government.

The test of the government's strategic work will be in implementing work plans for the government ministries that are derived from the strategic plan, and the continuity of their implementation over time and during the terms of different governments. The plans must be based on an infrastructure of broad knowledge (in this context, the Bank of Israel's role as a professional, and independent advisory body is important) and on high-quality staff work in the relevant ministries, monitored when necessary by the Budget Department. For that purposes, it is also very important to strengthen a stable professional echelon that will ensure the proper weight is given to continuity and to a long-term vision.