

MARKETING

Michael Steinhardt Discusses Israel's Place in the World

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Following a high-profile career in finance in which he became one of the first well-known hedge fund managers, Michael Steinhardt began the Taglit Birthright Israel program, a philanthropic enterprise which has provided free 10-day trips to Israel for some 220,000 Jewish youth to learn more about their heritage. Steinhardt spoke with Knowledge@Wharton about how the program helps to improve the country's image and the challenges of what he calls a deteriorating educational system in Israel — marked by a brain drain in higher education. Steinhardt also discussed the country's culture of business innovation and how deep democratic roots can sometimes slow progress.

An edited transcript of the conversation follows.

Knowledge@Wharton: Mr. Steinhardt, thank you so much for joining us today.

Michael Steinhardt: My pleasure.

Knowledge@Wharton: I'd like to ask a question about something that you wrote in your autobiography, *No Bull: My Life In and Out of Markets*. You said that the formation of Israel had a profound impact on you, especially the image of people rising like a phoenix from the ashes of the Holocaust. Can you tell me a little bit about that impact, and how it has shaped your thinking and your life?

Steinhardt: The question itself is not so complicated but the answer is, because for me Israel became the substitute for the Jewish religion, which was fading in importance for me as I became an adult. And in some sense Israel was the miracle — the Jewish miracle — in my life; I refer to [it in my book], as you said, as a phoenix rising from the ashes, because I didn't believe in miracles. Yet the circumstance of Israel's birth, and the well-articulated vision of relatively few people — surrounded by tens or hundreds of millions of enemies — who were outnumbered in all sorts of ways, but managed to survive and ultimately achieve a vigorous, democratic, prosperous society, is an extraordinary phenomenon. And for many secular Jews it has been the single miracle of the 20th century, for that and other reasons related to its own growth — the fact that it attracted so many of the world's poorest third-world Jews from places like Ethiopia and Morocco, and has done so many wonderful things. So I am totally biased, totally unobjective in terms of Israel and its history.

Knowledge@Wharton: The image of Israel being surrounded by enemies has often had the effect of the country being seen as a zone of conflict. What effect has this had — if you think about it in corporate terms — on Israel's brand? And what has this meant for Israel's image around the world?

Steinhardt: Well, that's a very good question. On the one hand, for its first 30, maybe 40, years of existence, Israel was clearly viewed as an underdog because of its limited population and the fact that those [countries] around it seemed so much stronger, had all that oil, population and power. And that, on some level, remains true. However, in the last 20 or 30 years — maybe even 40 years — something has changed in that brand [image], because during the Six-Day War, Israel won such an overwhelming victory that it ... occupied — I can't use a better word — lands that heretofore had not been occupied by another Arab country but had either been disputed or, in one way or another, not controlled by Israel. [The lands were] controlled by Jordan, perhaps, or in some ways not controlled at all. But that process — whereby in the last 40 years, Israel has now been seen as an occupying power — has changed that image to the broad detriment of Israel's overall world image. Israel has gone from being an underdog to something else, and that has changed Israel's ability to gain sympathy.

I'm not sure how important that is, but one can't deny that, even though Israel has a population of seven million ... in its region it is stronger than the Palestinians and probably also the countries immediately surrounding it. It has, unfortunately, taken on the role of a militarily superior power and it has gotten a different image — one that I think is found to be unfortunate, in some respects, in the world. That quality has been taken advantage of by Israel's enemies and by others who are not necessarily its enemies but see the opportunity to use all sorts of imagery [to make] terrible analogies between the Holocaust and Israel being a

Holocaust creator.... So Israel's image in the world has really declined, and I think if one could have an index ... of Israel's image in the world over a period of time — if there were any such indices — I think Israel's image would probably be at a low today.

Knowledge@Wharton: As you just said, Israel has a small population of seven million. Israeli companies are, therefore, dependent on growth — not just in the domestic market, but at a relatively early stage of their lives when they are trying to go global. And I wonder how the image of the country affects the prospects for Israeli companies, in terms of the marketing challenge that they face. Could you speak to that?

Steinhardt: That's something I have found enigmatic over the years.... [As a] Zionist, I have paid attention to Israel and its fate and fortunes up and down, pretty much since its birth. And I must say that, at times, I have really been surprised at the intimacy of some of its commercial relationships [with countries] when its political relationships with those same countries have been dramatically and starkly different. An example of that would be India, with which Israel has had close commercial relationships for a long, long time while, for various periods during that timeframe, political relations have been weak at best. Now, its commercial relations continue to be strong and its political relations have gotten considerably stronger — in part, I suspect, because India has begun to recognize that Israel is a reliable, strong ally in a world where it finds itself surrounded by uncomfortable neighbors. So India has finally been more comfortable in being more overt in its political relationship with Israel. Maybe that's a little simplistic, but not very much more than a little simplistic, I would say. That's but one example of where the commercial relationship has been strong, almost covertly, for a long period of time, and has now become overt.

Knowledge@Wharton: In addition to the political ties, there has also been a strong cultural affinity between Israel and India, based partly on the fact that there have been Indian-Jewish communities active in the commercial sphere for many, many years.

Steinhardt: Indeed.

Knowledge@Wharton: Some of the leading philanthropists who have done wonderful things in India — like David Sassoon and others — have contributed enormously to India. I think that [the relationship between Israel and India is] in some ways coming into its own, given the geopolitical situation — the most dramatic example of which was seen recently in the terrorist attacks on Mumbai.

Steinhardt: You are entirely right. As an aside, I just came back from Israel. As you may know, I helped create an enterprise — a philanthropic enterprise — in Israel, which is called Taglit in Hebrew, meaning “discovery.” In English, it’s called Birthright Israel. I was there for a summer launch during which we had, I think, 40 Indian Jews coming to Birthright. And I was amazed that all of these 40 young people were, I think, from Mumbai. It was a wonderful thing to see these young people celebrating their Jewishness in Israel, on Birthright, coming from Mumbai. There was something very special about it.

I have a friend who runs an organization and has devoted considerable energy to [encouraging people] from another section of India to make *aliyah* [or emigrate] from India to Israel. So you are right, there is an important cultural history, and I think India has mixed feelings about the efforts of some Israelis to [encourage] Indian Jews to leave India to live in Israel. But there is a special relationship there.

Knowledge@Wharton: You’re absolutely right. In fact, I don’t know if the students you met happened to mention that one of the oldest synagogues in India happens to be in Mumbai [the Gate of Mercy Synagogue built in 1796]. But to come back to the Birthright program, could you tell what inspired you to start it, and what your goals and your dreams were about the program? Sometimes dreams are more important than goals.

Steinhardt: I agree with you. In the world today, there are — depending upon one’s definition — between 12 million and 14 million Jews. At the end of World War II, after the Holocaust, the number of Jews was not much different than it is today, reflecting in some sense how bad, how weak, our demography is. At one point before World War II, it was said that there were 18 or 19 million Jews, and six or so million were lost in the Holocaust. But now, 60-plus years later, there has been very, very little population growth. And you can ask the question: Why?

Knowledge@Wharton: I was just about to.

Steinhardt: Because in a normal context, the number of Jews in the world should have grown quite a lot. But after World War II, particularly, it was so uncomfortable for so many people to be Jewish that there was a great deal of out-migration. People named Levi became Lang, or people changed from Jewish names to Anglicized names. People did all sorts of things to avoid being Jewish, and that happened in America. And it happened in Europe.

Even today in Russia and in other parts of Eastern Europe, there are so many strange and unusual, sometimes miraculous, things happening. In Poland, for instance, it was determined that there were a few thousand Jews, at most, left. And now [the number] has grown to maybe 15,000. Where did those people come from? They came from their parents or their grandparents

telling their children that they were really not their grandparents but that they were given these babies during the war to take care of them and they brought them up. But their real parents were killed in the Holocaust. Many people are finding out that they were really Jewish — and this isn't a vast number of people, but it's a meaningful number of people. So, Poland suddenly has at least some Jewish population. Now, put it in perspective that there were three million Jews in Poland, and maybe now there are 10,000 or 15,000, but there's this great burst of Yiddish and Jewish culture there. In Russia — if you speak to Sergio Della Pergola, who is the great demographer at Hebrew University, he will say there are 300,000 or 400,000, or at most 500,000, Jews in Russia. If you speak to the Chabad organization, they will say there are two million Jews in Russia. Now it's not a question of miscounting; it's a question of perception as to who is Jewish and how you define Jews and who is coming back and who — during that long twilight period called Communism when religion was outlawed — forgot their Judaism and who didn't, and who is now remembering it.

So you have all sorts of strange things like that happening, but the fact is that there are very, very few of us. One can almost cavalierly say that there are only two centers of Judaism left in the world that really matter, and they are Israel and North America. Israel has between five and six million Jews [in a] population of seven million, and the United States has maybe six million Jews. And if you take that six [million], and almost six [million], you get to 12 [million]. And maybe in the rest of the world you can squeeze out another two [million]. That is it. But in the United States, you have an intermarriage rate that is something like 50%. And if you go west of the Mississippi, it's like 80%. If you go to Denver and San Francisco, it's overwhelming. In the secular, non-Orthodox Jewish community, we are integrating, assimilating, which follows the long traditional American pattern — but if a Jew disappears, there's nothing there to replace him. If a Catholic isn't a Catholic [anymore], he still celebrates Christmas. He's still a Christian. But if a Jew disappears, what does he become? Probably a Christian.

I started Birthright to try to instill in the next generation of non-Orthodox Jews a sense of their Jewish heritage. And that's basically what it's about. The quality of Jewish education in America is really poor. Many young people go on the trip because it's free, and they would take a free trip to Israel or India or Italy or Ireland. But they're only offered a free trip to Israel. And many of them come back understanding that there is something to their Jewish heritage. They come back understanding that when they walk in the cemetery on Mount Zion and they see photographs on the graves of 20-year old Israeli soldiers that it's not but for an accident of history that they could have been a soldier in the Israeli army as opposed to a kid growing up in Great Neck [New York] and living an upper-middle-class life filled with luxury and never having to think about the military. The idea is to create, at this last moment in youth, a sense of Jewish identity, which the Jewish education system in America has failed to do.

Knowledge@Wharton: Has the program achieved what you wanted it to?

Steinhardt: I think the real answer to that will only be seen in the longer term. There are some positive indications. We've sent 220,000 young people on this program from, I think, 52 different countries, and I think as many as 15,000 have returned to Israel — even though the objective is not for them to return to Israel, not for them to make *aliyah*. But some of them are deeply inspired. Many of them, to the degree we can measure it — and we do measure it — act differently than their peer groups who have not gone on Birthright. They tend to want to marry Jewish people. They tend to want to observe Shabbat [and do] things like that relatively more. So, there are at least superficial indications that [the program] is having a positive impact.

Knowledge@Wharton: In your professional life, you think so consciously about return on investment. How would you measure the return on the investment you have made in the Birthright program?

Steinhardt: I would consider it almost infinite. I am an absolutely irreligious person. I am an atheist, actually. So I don't believe in [ideas like] if you save one soul or three souls, you save the world.... But so many of these young people have had their lives changed [by Birthright], and they say it openly and happily and proudly. I guess I buy those statements.... [And] it's only 10 days. Think about your life: How many 10 [day periods] do you even remember in your life? I think these 10 days have had a remarkable impact on many, many of these kids. In that sense, it justifies the investment.

Knowledge@Wharton: As you were speaking, I could almost see in microcosm the program that you described as being a part of the solution to the issue we began with, which is how does one market Israel and improve the Israeli brand? Are you aware of other such programs that have had a positive effect on Israel's reputation?

Steinhardt: The Diaspora community has at various times organized itself to try to facilitate the success of Israeli commercial brands. And to my knowledge, none of this has been very meaningful — getting together and buying Israeli food products and other things. I don't know of anything that's meant very much. I have some strong views, and some of them are a little bit enigmatic. They're not exactly a direct response to your question, but you'll see what I mean.

From the time of its inception, Israel was viewed as a place without natural resources. It was surrounded by countries with oil and other things. And it had nothing. It was a largely desert country that had but one asset, and that asset was the Jewish brain — thus all that talk in the early days of its statehood about how it turned its land green when the land around it was mostly brown; how it had used its ingenuity and its technology in agriculture to achieve

miraculous improvements in agricultural productivity, etc. And it was true. Indeed, some of that sort of stuff has gone into international markets.... It really has wonderful world recognition as an expert in using scarce water resources very effectively through fertilization and other things, and it has become a world leader in that. But my point is that it was the brain, the Israeli brain, the Jewish brain that was greatly emphasized. And in the first years of its existence, Israel built a number of universities mostly from immigrant European intellectuals who were first-rate by any standard.

But now it's 60-plus years later and the Israeli education system has fallen apart — shockingly so, where both the higher education system and the secondary education system are ranked well toward the bottom of the OECD [Organization for Economic Co-operation and Development] measurements.... It's almost shocking that Israel, which is the product of the great Jewish brain and a great emphasis on education, has fallen to such a low level. There have been, as you may or may not know, all sorts of education commissions and conclusions and recommendations within Israel as to how to change things, and the results to date have been zero.

Knowledge@Wharton: Why did that happen? What do you think went wrong?

Steinhardt: It's a good question. I think what went wrong, which goes wrong perhaps in a number of Western countries is, number one, the country allocates insufficient resources to its world of education. The teachers in Israel are paid really poorly. Now you might say they are paid really poorly in a lot of places, but in Israel they really are, relative to other countries, paid appallingly poorly. In the higher education system, a good 25% of Israel's senior professors have left Israel to teach at first-class universities in other countries, mostly in the United States, seemingly on a permanent basis. When you talk about brain drain, there ain't no brain drain as there has been in Israel. So, a vast number of people have left Israel for considerably higher salaries outside of Israel in higher education.

And in secondary education, the compensation is appallingly poor — an objective statement by almost any measure. You might then ask the question: Well, what's going on? If that's happened, why does Israel continue to have this extraordinary degree of innovation? Why does Israel have the second-largest — or largest — number of NASDAQ listings of any foreign country? You hear all these things that don't seem to make sense in light of the fact that Israel's education system is so bad. What's the answer? I'm not sure.

There are two possible answers. One, the economist's answer, is that there's a lag. A lousy education system is going to catch up with them and they're going to start falling apart in terms of innovation. Another, different, answer is that so much of this extraordinary innovation which has created these extraordinary companies — which have done so well — doesn't come

so much from their education system but comes from their military. And their military continues to be truly first rate. Another possible answer is they have had this extraordinary injection of people beginning in the 1990s where almost 20% of their population was in one fell swoop added from Russia. That was a highly educated population and they added a lot to their innovative potential.

Knowledge@Wharton: Could it also be that the Israeli brain is more resilient than people sometimes give it credit for?

Steinhardt: That's another interesting question. What is it about that environment that provokes innovation, that provokes competition? It is, I assure you, the toughest, most competitive environment in the world. And maybe education or no education, these people work in an environment that is so challenging that somehow only the fittest survive. And when they do survive, they become extraordinarily able. It seems that there's something to that, but I'm not exactly sure how you articulate it.

Knowledge@Wharton: Necessity being the mother of invention might be one way.

Steinhardt: That's one way to say it. Exactly.

Knowledge@Wharton: Despite all the things you just described, there seem to be so many obstacles that Israel faces in improving its public image. How can these be overcome?

Steinhardt: Well, there's been a great deal of focus on that question. The Hebrew word used to describe what you're talking about is "hasbara." Do you know that word?

Knowledge@Wharton: No. Could you please explain what it means?

Steinhardt: "Hasbara" means explanation — means to help in articulating who one is, who we are, who we are supposed to be. I'm not doing such a good job of it, but I think you got the sense that Israel's hasbara is not so good. Israel's effort at explaining itself is a failure. And this has been a self-criticism of Israel for a long time. It's as though if Israel's hasbara was better, then its public image would, therefore, be better.

Knowledge@Wharton: How can Israel improve its hasbara?

Steinhardt: I have a different view. My view is that hasbara invariably reflects reality. And you can't get away from it entirely. If you are there in Israel, you can understand it in more sympathetic detail perhaps. But how can you get away from the fact that you're an occupying

power? Those are harsh words and it's not nearly that way, but in the unsympathetic world at large, in the Islamic world at large, they're not going to say anything nicer than that. And even when Israel has done things that were profoundly ameliorating, it's gotten no credit. We left Gaza voluntarily. We left Lebanon voluntarily. Nobody has been giving a party for Israel saying, "Israel, thank you very much. You left Lebanon. You left Gaza." Nothing. Nothing. So it's not a world that celebrates Israel under any circumstance and I'm not sure Israel has the ability through its hasbara or any other way to change very much of that. And that goes back to another issue, which we haven't directly discussed but you can't in any discussion of Israel totally ignore, and that is anti-Semitism. That's somewhat enigmatic to me. But one can't but acknowledge it. One can't but acknowledge that throughout the Islamic world, the textbooks are filled with anti-Semitic trash, anti-Israeli trash for kids. Why this is allowed I really don't know.

Knowledge@Wharton: One variation of this — is there anything you think Israel could do to market itself to non-Jewish populations? I thought in view of your atheism you might have some unique insights on that.

Steinhardt: Well, Israel is remarkably popular with certain Christians, particularly fundamentalist Christians, who are deep believers in the literal Bible. And Israel gets a large number of its tourists in the world from these sorts of Christians. I go to Israel often. The second-to-the-last time I was there was in the fall and it was a day called Jerusalem Day. There's a parade and the parade consists almost entirely of Christians marching in Jerusalem Day. These people are all Christians who believe and love Israel primarily for its religious context.

Now I'm not so much of a theologian as to be able to explain what these Christians believe. They believe, I think, that something related to the next coming of Christ is to happen. You'd have to find somebody more knowledgeable than I, but Israel is popular with meaningful numbers of Christians, and I don't know what else it can do. It is a totally — it is an open democracy. It has the most combative, argumentative, democratic newspapers and media. It is a democracy like almost no democracy on this earth. And in that sense, one should admire it. It really is a good place to be. It's a place that true democrats have to admire — too democratic in a certain sense; it has too many parties. They can't get anything done.

It gives the religious — who, in my view take advantage of certain things — too much leeway. Ultra religious young people in Israel don't have to serve in the Army. They don't have to do all sorts of things that other citizens do as responsible Israelis, but it's because it's a very, very respectful democracy. Now is it so simple? No. Are the Arab citizens of Israel given the right to vote, etc., etc.? Absolutely. But are they treated as second-class citizens in some ways? That's

true because they have such security concerns. I could say things that might sound good about Israel, about what they might do to improve their image, but the real objective in improving Israel's hasbara, the real objective, is to come to something better than a cold peace with the neighbors that it's made peace with — Jordan and Egypt — and to come to a real agreement with its immediate neighbors. [Doing this] would improve its image like nothing else — if Israel, for instance, could make a peace agreement with some of the distance Arab countries, if Israel could make a peace agreement with Saudi Arabia and if, in so doing, Israel could make meaningful concessions on the West Bank and places like that — this would enormously improve its image. But they're not going to do those things for image reasons alone.

Knowledge@Wharton: One final question. If we had in this chair Mr. Benjamin Netanyahu sitting here asking you for one piece of advice that you could give him to improve Israel's marketing abilities or Israel's hasbara, what advice would you offer?

Steinhardt: The advice I think I would offer Bebe at the moment — this is a very momentary statement, and I say momentary because of the immediate focus on Obama's recent statements — is that Israel and Netanyahu have been put on the defensive by Obama. Netanyahu, in his recent remarks, has responded to Obama by saying things like, "We're prepared to have a demilitarized Palestinian state" and things like that, which are unrealistic. My advice would be to do less on the front of making world headlines and responding to Obama because I think Obama will go his own way and he'll have plenty of other problems to deal with besides Israel.

I don't think Israel has very much to offer unless some of the Arab states — the other Arab states — become forthcoming. And I don't think they're going to become so forthcoming. But what I would do — and I think, ultimately, this is the thing that has to be done for Israel to become a great nation — I would devote enormous effort to making Israel what it once was in terms of being a light unto the nation. And in order to do that, what Netanyahu has to do is dramatically improve Israel's education system to the point where, again, it is right at the top of the world. It's not there now, but it can be.

But it's going to take an enormous change and a change which asks very fundamental questions such as, is it necessary for there to be a different system between the religious and the secular so they're segregated from each other? Is it necessary for the Arabs to go to different schools than the Jews? Is it necessary for college tuition to be \$2,000 or \$3,000 and, therefore, to put so many strains on so many places, so that the government becomes the overwhelming factor. Is it necessary for college tuition to be \$2,000 or \$3,000 and, therefore, to put so many strains on so many places so that the government becomes the overwhelming factor? If he's such a free-market person, I think he's got to face the fact that tuition should go up a lot, that the whole education system should change and should be measured so that Israel can be right at the top of

the world's quality of education, where it was at the beginning of its statehood and should be again. And if it does that, it will — maybe not in a year or two, but ultimately — regain a great deal in terms of its image.

Knowledge@Wharton: Michael Steinhardt, thank you so much for speaking with us today.

Steinhardt: You are most welcome.

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