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**JERUSALEM INSTITUTE FOR MARKET STUDIES LAUNCHES CENTER FOR STUDY
OF JUDAISM AND ECONOMICS WITH AN INAUGURAL LECTURE
BY THE NOBEL LAUREATE PROFESSOR ROBERT (YISRAEL) AUMANN.**

**PROFESSOR AUMANN: JUDAISM SUBSCRIBES TO MARKET PHILOSOPHY,
CONTAINS BLUEPRINT FOR SOLVING TODAY'S ECONOMIC WOES.**

Nobel Prize Winner in Economic Sciences in 2005, Professor Robert Aumann explored the relationship between Judaism, economics and the current worldwide financial downturn. He discussed obstacles to competition and causes of the credit crunch as reflected by Israel's and global economy, and made suggestions for policymakers tasked with overcoming the crisis.

- Incentives, increased competition vs. price fixing

Professor Aumann argued that Jewish sources acknowledge the importance of economic incentives within a competitive market economy. Talmud preceded Adam Smith's groundbreaking thinking on price competition by hundreds of years.

For instance, Talmud does not allow price fixing; only support for ensuring the use of honest weights and measures. Indeed, in a competitive market economy, the firm selling at the highest price either goes out of business or has to lower prices in order to survive. Not so in Israel, where monopolies and cartels in the energy and shipping sectors fix prices and stifle growth. Economic growth in Israel can be restored, productivity boosted, suggested Professor Aumann, by broadening policies supporting competition.

- *Pruzbul*

Another example of balanced, pro-free market approach in Judaism is *Pruzbul*, a legal arrangement that allows creditors to collect repayment of loans past the *Sh'mitah* (the seventh, or Sabbatical) year. Until *Pruzbul* was instituted, loans were cancelled during the sabbatical year. Since creditors could not collect these loans, they did not make capital available before the Sabbatical year.

Lack of liquidity, or credit crunch, had devastating effects on the economy. Jewish sages realized that *Pruzbul* would assure a sound credit market and a continuous flow of loans to businesses.

Small and medium size businesses suffer the most, yet, when given access to credit, they create most jobs and contribute to economic growth. Israeli policymakers should follow the Jewish sages' example and ensure that these businesses have easy access to loans during the credit crunch.

- Moral hazard

Moral hazard, much discussed in Jewish sources, is at the core of today's faulty crisis-tackling proposals. The term moral hazard is used by economists to describe the fact that when an individual or an institution is insured, there is an incentive to act less carefully and take harmful risks. For example, an individual with insurance against valuables kept in the home may be less careful about locking doors or investing in a good alarm system.

This point relates directly to current events as failing banks and large companies ask for government bailout to stave off bankruptcy. Government guarantees will serve as insurance, sending a message of approval for past bad business practices and leading to more trouble in the future. Ailing businesses that used bad practices should go bankrupt, not be bailed out.

Professor Aumann's lecture on YouTube: <http://www.youtube.com/user/JIMSIsrael>

On the JIMS website: <http://www.jims-israel.org/Aumann.aspx>

About Professor Aumann

Professor Aumann is a professor emeritus at the Institute of Mathematics at the Hebrew University and a member of the University's Center for the Study of Rationality. He authored eighty research papers and six books, and has held visiting positions at Princeton, Yale, Berkeley, Louvain, Stanford, Stony Brook, and NYU. Professor Aumann has received numerous prizes for his research, including the Nobel Memorial Prize in Economic Sciences for 2005.

About the Center for Study of Judaism and Economics

Center for Study of Judaism and Economics (CSJE) is a unique research and teaching center at the Jerusalem Institute for Market Studies that brings together leading rabbis, economists and policymakers to study economics from a Jewish perspective. CSJE aims to build a comprehensive Jewish economic theory through public lecture series, roundtable discussions, research fellowships and ongoing study of Jewish sources and economic research.

About the Jerusalem Institute for Market Studies

The Jerusalem Institute for Market Studies (JIMS) is an independent, non-profit economic policy think tank whose mission is to promote social progress in Israel through economic freedom and individual liberty. JIMS website is <http://www.jims-israel.org>.