

On Haze and Policy

third article in four-part **Socio-Economic Roadmap** series

by Dan Ben-David

It is not clear how much of the haze of uncertainty and vagueness is created on purpose and how much of it emanates from a deeply imbedded culture of “haltura”, a slang Hebrew term that serves as a cross between amateurism, improvisation and simple shoddy work. What is certain without a doubt is that this very damp and heavy fog is steadily corroding the pillars upon which Israel’s society and government are based. Telenovelas from Latin America are not the only cultural vestige that we are increasingly adopting from former banana republics.

It begins with increasingly lax enforcement of laws and regulations in as diverse fields as labor, transportation, sanitation, construction and environment that is cumulatively tearing away at the very fiber that provides us with civil, consumer and property rights which are the very essence of human rights upon which free and democratic societies are based. But lax enforcement is only one indicator the we have embarked down the banana highway.

One significant example, though certainly not a lone example, of the institutional usage of haze is the area of socio-economic policies. In recent years, forecasts that were widely dismissed as unrealistic regarding future growth rates served as the basis for creation of the government’s annual budgets. Similarly, forecasts of future tax incomes, which clearly had no basis in fact, provided the government with a comfortable background that gave a false premise of higher than actual incomes in order to avoid having to drastically cut fiscal spending prior to the most recent national elections. As if this weren’t enough, Israel’s government implemented some very “creative” accountancy (according to former finance minister Prof. Yaakov Neeman, and many others), in the weeks preceding the elections, in order to present a misleading picture of the budget deficit.

These are just the outer reaches of the enormous cloud that are visible to the naked eye. It is inside this cloud that our tax shekels are being divvied up – and this is the main source of the problem. There are a non-negligible numbers of excellent economists at the Finance Ministry that have to deal with a political reality that is unconscionable. In practice, the annual budgets are made public. But in fact, these provide very little indication regarding the actual allocation of public money. This underlying lack of transparency leads to a funneling of considerable amounts of public money towards some segments of society – where actual need is coincidental at best – while crowding out other segments of society into situations of abject poverty.

We avoid carrying out a nationwide mammography that would help us discern the degree to which this cancerous haze has spread. If we would at least perform “manual” checks, then we could get some idea of the dimensions of the problem.

On the one hand, comparisons made by academic researchers as well as non-academic research institutions suggest that Israel’s welfare expenditures are not excessive when compared to other Western countries. On the other hand, the government has begun to cut these without remorse under the argument that they have reached proportions that the country can no longer bear the burden.

What is going on here? How can other countries bear the burden while we cannot? Maybe it is due to the fact that in Israel there is more assistance provided than meets the public eye. After all, Israel’s civilian budget is one of the largest in the Western world.

Once, when our economic growth was rapid and our levels of unemployment, poverty and income inequality were low, our public expenditures were also low – even after discounting the amounts spent then and today on defense and on interest payments on the public debt. In the years 1960-1966, public expenditures were just 21% of GDP, compared with 40% last year. As can be seen in the table, total government expenditure rose substantially after the Six-Day War, and not just because of

Public Expenditure in Israel*

as a percentage of GDP

Period	Total	Excluding defense and interest payments
1960-1966	29.1	21.2
1967-1972	49.8	30.0
1973-1985	73.5	41.4
1986-2001	55.9	37.1
2002	55.1	39.8

* average expenditure each period

Source: Dan Ben-David, Tel-Aviv University, Data from Bank Israel

defense expenditures. Since the Yom Kippur War, civilian public expenditures – that is, excluding defense and interest payments – grew substantially once again, to a level that we have not been able to reduce since.

A large number of mushrooms grew in the thick fog we call public policy. While they were never legibly registered in an official and orderly fashion, the signs pointing to their existence are very difficult to hide. As the chart indicates, the number of Israeli woman choosing non-work lifestyles is 9% higher than in the West (compared to 22 OECD countries).

Non-participation of Israeli men in the work force is 22% higher than the OECD average. It is important to point out that even without the ultra-orthodox men, the rate of non-participation of non-orthodox Jewish men is still 16% higher than in the West.

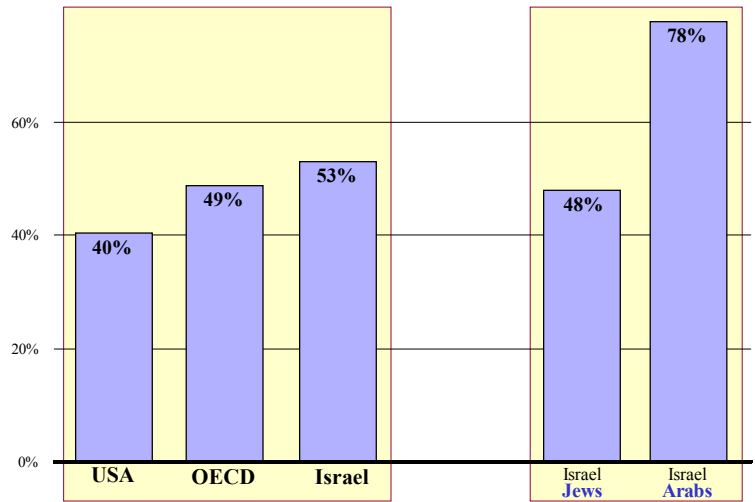
If job participation rates in Israel were to equal the OECD average, an additional 200,000 workers would join the labor force here. How is it possible to reconcile such gaps in labor force participation rates between the OECD countries and us with the fact that welfare payments in Israel are not particularly high in relation to other countries?

One possibility is that a large share of the population is working in the underground economy. To the extent that this is indeed the situation, then we are talking about extraordinarily high levels of fraud and deceit that enable entire segments of the population to avoid shouldering the already-heavy tax burden – while these same people dip their hands into the public till, falsely posing as needy individuals. Ignoring such wholesale breaches of the law, to the extent that these actually occur, is another facet of the haze that we have created in this country.

Another possibility, no less problematical, is that enormous sums of money are flowing behind the scenes toward various segments of the population in the accountancy haze that dominates Israel formal budgets. These are amounts not officially listed as aid by the Social Security Institute, or other formal aid channels. But in lieu of such hidden aid flows, it is not possible to reconcile the contradiction between a seemingly low degree of formal welfare assistance according to all international standards, and the degree of non-willingness to even look for work in Israel that is clearly extraordinary in its dimensions.

It is a fact that even after discounting defense expenditures, Israel's total civilian public expenditures are higher than the OECD average by 11 percent of GDP – an amount equal to 52 billion shekels a year of excess civilian public expenditure in Israel. If this excess is not going to defense (by definition) nor to formal welfare payments, then what exactly are we spending all of this extra money on? Israel's public sector is undoubtedly bloated, but the degree of non-participation in the labor force is so

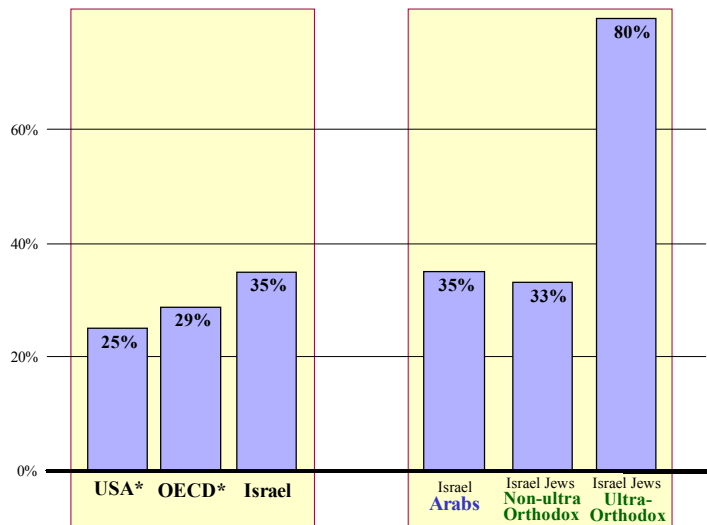
Percentage of Women Not in Labor Force, 1998*



Source: Dan Ben-David, Tel-Aviv University, Data from CBS and ILO

* ages 15+. U.S. data and 22 OECD countries is for 1997

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much higher in Israel that this provides a clear hint that there are quite a few fog-covered crevices in the budget through which substantial sums of public money are apparently flowing.

The problem becomes acute when the country is no longer able to finance such a huge public expenditure. Then, the government looks at the 280,000 unemployed workers and the 200,000 additional (compared to the OECD) people who aren't even bothering to look for jobs claiming that it is the bloated budget that facilitates this behavior – and then the government proceeds to cut back on the formal channels of welfare assistance. The problem is that these formal channels are not particularly generous in comparison to other industrialized countries, so those who do not have access to one of the informal channels of hidden aid are in danger of falling into some very severe poverty traps, with the non-negligible danger of actual hunger beginning to appear. This process has already begun and there are signs that it may increase substantially in magnitude.

In all of our huge budget, is there really not enough money to help the truly needy? Why is it that so many elderly are so poor in Israel? How come “free” education for the children costs their parents so much money? Why is the basket of eligible medicines (for the medically insured) being reduced instead of enlarged? Why don't we have suitable vocational training that is tailored to the needs of the economy? How come our physical and human capital infrastructures are in such dismal condition? How did we reach this point and why are we just steps away from the precipice? Where is all of our tax money going?

It is no coincidence that the word “accountability” has no suitable translation into the Hebrew language. People here first have to be familiar with the concept before it can become possible to translate it.

A confluence of events has brought us to one of the more important junctures in the country's history in which a number of important issues are simultaneously coming to a head in all of Israel's main spheres of debate: the defense-diplomatic sphere, the socio-economic sphere, the religious-secular sphere, and the internal Arab-Jew sphere. But we are being forced to decide between varying world views in these spheres while in the midst of a dense factual fog.

For example, should we – and can we afford to – continue to settle the areas of Judea, Samaria and Gaza, or not? Should we – and can we afford to – continue to allow entire segments of the population to choose non-work and non-shouldering of the combined burdens of taxes and military service, or not? These are not the only destiny-determining choices that we are facing, but the way that these issues have been dealt with thus far reflects the reality that has brought us very close to the national precipice.

The entire discussion of budgets directed at settling the territories, for example, is completely beside the point. The degree that Israel “pampers” the settlers by subsidizing them in a differential manner than is common for citizens residing within the green line – if that is indeed the case – represents only the tip of the iceberg on this issue. The real question is how much the presence of settlements and settlers beyond the green line costs us in terms of building transportation infrastructure to areas with minimal access (at best), in terms of a public sector that builds subsidized housing in order to attract people who would otherwise not come, in terms of artificially creating public sector jobs and subsidization of private employers so that the settlers will have employment, in terms of physical defense of every settlement, hilltop, road, and lone mobile home – in comparison to the cost of protecting a fortified country behind a serious security fence along as short and defensible a route as possible close to the green line.

The answer is that no one has any idea what the total cumulative cost actually is of moving Jews to settle on the other side of the green line – which begs the question: why not? After all, the people would appear to be in favor of such settlement, and in their name government after government has acted. So why don't they spread before us all of the facts and data so that we will be able to make educated decisions? Why is everything hidden and implemented in the haze? Could it be that this haze-creation may be due to doubt on the part of the policy-makers as to whether a public that is more knowledgeable about the actual costs would still be willing to continue supporting the channeling funds to settle areas that could never be a part of a country that is both Jewish and democratic – and may prefer to use these budgets to fund other national needs? Isn't democracy not just about giving people the right to choose, but also about providing the transparency that will enable the voters to make informed choices? Tyranny can manifest itself not just in the deprivation of free elections.

Another aspect of our hazy budget is defense. As the country hurtles down the road to the precipice, our home-made blinders prevent us from getting a real view of what our defense budget is

really being spent on. The strategic threat from Iraq has dissipated. Isn't this supposed to save us money? Why have office clerks in military uniform been allowed to retire dozens of years before their counterparts in the civil service (a custom that is apparently about to be reigned in somewhat). Do all areas of the military really need separate systems for providing food, medical care and communications? What's wrong with the systems that we civilians have to live with?

A year and a half ago, Amir Oren wrote in Haaretz about the army's intention to purchase stretch Isuzu Troopers for 230 Lieutenant Colonels – and their spouses – at a cost of 220,000 shekels per vehicle. In the late seventies, Lt. Colonel's drove in simple Carmels with fiberglass bodies and tiny Ford engines.

There is no money for infrastructure, not to mention aid and medicine for the needy, but there is apparently no shortage of funds when it comes to enabling the defense establishment to build bases on the most expensive land in Israel that is situated in the heart of Tel-Aviv and is a non-negligible target for enemy missile fire (and we complain about the Palestinians whose combatants hide among civilians when they shoot at us). Why isn't it possible to rent out this valuable land, move the general staff headquarters and other key military installations to new bases in the Negev? Maybe then we would finally have to start building a respectable transportation infrastructure to these areas that could also serve the civilian population of the Negev.

One of the most dissonant notes that is so indicative of the asymmetry between civil rights and civil responsibilities in Israel is the large and increasing share of Israel's population that does not serve in the army – despite the fact that military service here is purportedly an obligation and not volunteer-based. According to a publication over a year ago by former head of Akka (the army's personnel branch), Major General (res.) Gideon Sheffer, roughly 42% of the males in each age-group do not serve in the IDF – a number that is increasing by 0.7% each year. The situation among women is even worse. One thing that needs to become increasingly clear is that this combination of declining conscription, during a period in which defense needs are not falling, is reflected in an enormous economic (not to mention personal) burden that is placed on the waning share of shoulders that continue to serve their country. So why don't this same country's leaders perform the minimum service of at least informing the public the enormity of the cost being placed on these shoulders from the increasingly unequal division of responsibilities regarding military service in this country?

A nation that is told by its leaders that it is nearing the precipice deserves the right to have the beaurocratic and budgetary haze lifted so that each one of us will be able to internalize the degree of severity of our predicament. Only then can a real consensus, based upon clear and transparent figures, begin to form on the allocation of our very limited resources. This is the only possible manner in which a national consensus for essential sectoral concessions can be achieved.