

YOUR SHEKEL OR YOUR WALLET?

A current joke in Israel asks; 'What is it like to live under hyper-inflation? When you leave behind a wallet full of shekels and you return to find the wallet stolen and the money left untouched.'

What is new in the country is a widespread belief, corroborated by public opinion polls, that the government has lost control over the economy, is unable to steer it and that a crash is almost unavoidable. Opinions differ about the exact timing and the severity of the blow. Predictions vary from between a few months to two years, and between 'we'll pull out somehow' to 'catastrophe'. The future depends, however, largely on the US government and its willingness to bail Israel out.

The two most glaring problems for Israel's economy are hyper-inflation and a massive foreign debt. Government spending is the root cause of both problems. Since its inception in 1948, the Israeli regime has been able to pursue economic and political targets beyond the resources available from the Israeli economy. The deficit has been made up by donations and favoured loans from Zionist Jews abroad, by grants and loans from the West German government — the 'reparations' agreement — and since 1971, by huge and unprecedented aid in credits, grants and loans from the US. US aid to Israel has exceeded its aid to Korea in the 1950s, to Vietnam in the 1960s and roughly equalled aid given under the Marshall Plan after World War II. These injections of foreign resources have enabled Israel until recently to maintain a high rate of economic growth and a Western standard of living, and to build a massive military machine.

The 1973 war, the oil crisis and the settlement projects in the 1967-occupied territories increased further the already high rate of inflation and the level of government borrowing abroad. With inflation rising in the West, it seemed for a while that borrowing at fixed rates was a bargain. In 1977, the Likud, headed by Begin, gained power. One of its few novel economic measures was to abolish government restriction on individuals holding foreign currency. This resulted in the opening up of a new avenue for private banks and individuals to borrowing abroad.

Government expenditure is not only financed by borrowing abroad. Israel has one of the highest taxation rates in the world. Besides, the government has built a huge internal debt (through bonds) and when this has not been enough, it has

syphoned more resources by printing money. At the moment, Israel's foreign debt stands at 22bn US dollars (more than 1bn has been added in the last year alone). The current balance of payments deficit is 5bn dollars. The government's internal debt burden is currently around 32bn US dollars, and the rate of inflation has increased from around 130% in 1980 to its current figure of 200%. This is the economic background to the present crisis.

In 1981 Begin won a second term of office, riding to power on the crest of a populist vote due, partly, to the deliberate policy of reducing tariffs and surcharges on imported durable goods, sending the country on a shopping spree. Despite the growing burden of foreign debt and high inflation, the Likud persisted in large deficit spending on its settlement projects, and on military expenditure culminating in the war in Lebanon. The present economic situation is thus the result of a deliberate political decision to buy the Likud time, a policy which had a delayed economic price-fuse attached to it. The coincidence of the impasse in Lebanon with the current economic crisis indicates the total failure of both military and economic planks of Likud policy.

In response, Likud last year reshuffled its cabinet; first to go, under American pressure, was General Sharon, architect of the Lebanon war. The prime minister himself sank into a deep depression, and resigned last summer. Most recent victim was Finance Minister Aridor. The excuse given for his departure was the leaking by the press of his plan to curtail inflation at a stroke by the ingenious idea of making the US dollar an official currency, but underlying the move was the crisis facing Israel's economy. Israel now has a new government, still headed by the Likud, but shorn of its glory, and stumbling for solutions both in Lebanon and the economy.

October was for many Israelis the worst economic month in memory. Due to rampant inflation, money cannot be saved even for short periods in current and savings accounts as these bear nominal but in fact negative real interest. In an attempt to preserve the value of their savings, Israelis of all walks of life are forced to invest in more speculative ventures, in shares, index linked bonds, unit trusts, etc. Most favoured, until recently, seemed to be bank shares, safeguarded by the government. When in October public expectations of an impending devaluation of the shekel led to extensive sales of bank shares (in order to purchase US dollars), the fall in



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the value of these shares affected a large section of small savers, including pensioners, who lost a large portion of their savings. And the subsequent devaluation measure was coupled with a crippling rise of consumer prices of more than 50%.

This twin movement hit at a stroke the waged population, who could not pass the price increases on to others. Wages in Israel are index-linked and the indexation is calculated quarterly. If inflation increases by less than 30%, the level of compensation is 85% of the increase. Recent increases, however, were so large that this mechanism, unique to my knowledge, was not adequate, as the quarterly period of calculation was too long. Workers' commit-

tees are now demanding to have wages paid fortnightly, indexation calculated monthly, and full compensation for inflation.

A significant problem has been that the Histadrut, the Labour Party-led Israeli equivalent of the TUC, has flinched from radical action to avoid a general confrontation with the government. In the last month, however, a tide of strikes has swept the country. A port strike prevented agricultural exports from reaching the Christmas markets in Europe. Copper miners in the far south have clashed violently with the police over the threatened closure of the mines. A general strike took place in the southern town of Eilat. Strikes have also occurred in several public

services, and a strike in the education system was only temporarily averted. This wave of strikes is bound to increase as the current measures to erode wages continue.

A second front is now opening over the issue of redundancies. From 1966 until recently Israel had practically no unemployment, due to the large section of the Jewish population employed in the military and security sector. The large public sector too is less affected by cyclical market movements. Low unemployment was also a result of the high rate of growth, which has only slackened in the last few years. Unemployment in Israel is a sensitive issue not only because of its relative novelty; it is immediately associated with an increase in emigration and a decrease in immigration, thus affecting the country's demographic balance with the Palestinians — a touchy ideological point for the Zionist state. Of late, unemployment has nevertheless started to rise and is currently 5.5% and rising.

A particular problem in this context is the Palestinian labour force from the Gaza Strip and the West Bank, which represents about 8% of the country's workforce. They will be the first to suffer from redundancies and although by law they are made to pay full social security contributions, they are not entitled to unemployment pay and other welfare benefits, but are treated as 'guest workers'.

The new government, headed by Shamir with its new Defence Minister Arens and new Finance Minister Orgad, seems incapable of implementing any orchestrated economic plan. Governmental coalition factions will resist any curtailment in their fiefs, thus making it impossible to reduce significantly government spending, the key to any economic solution. The narrow base of the coalition means that it is enough for one of its smaller components, the ultra nationalists, one of the religious parties, or the oriental Jews' party, to defect and thus cause the government's downfall.

The Labour Party too is not eager to pick up the helm now. Its leadership is split, its policies are not so different from the Likud with perhaps one exception, the establishment of new settlements in some parts of the West Bank. Labour knows that to take up government in mid-term at this particular conjuncture would bring down upon them the wrath of the people at the next elections, as they would have to introduce the painful measures which the Likud has flinched from implementing. It has been a warm winter in Israel, not only weather-wise; but the spring and summer are going to get much hotter.

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