

# Israel to set pre-election austerity budget

By Jean Shaoul  
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Israel's Minister of Finance Moshe Kahlon is to introduce a budget for 2020 that will raise taxes and reduce public expenditure by \$900 million, over and above previously announced cuts in education and defence.

His aim is to reduce a growing budget deficit, projected to reach at least 3.5 percent of GDP, before September's snap elections.

Kahlon plans to raise taxes on hybrid cars, introduce a new tax on industrial fuels expected to generate \$200 million, and transfer \$75 million from the national lottery fund.

He has yet to announce where the cuts will fall. That is likely to be the subject of protracted wrangling between Prime Minister Benjamin Netanyahu and his prospective coalition partners, all of whom want to shore up their own support base in the settlements and ultra-orthodox communities.

The austerity budget comes just two months after an election campaign in which the various political blocs and parties barely mentioned their economic and social programmes, much less the conditions facing Israeli workers and their families.

The budget cuts and tax hikes flow inexorably from Israel's defence budget, one of the highest relative to GDP in the world, much of which is not officially disclosed, and a tax regime that benefits the rich. The cuts and tax hikes will hit the poor hardest, in a society in which one-quarter of households already live in or near poverty.

The budget comes in the wake of a generous pension plan for the police and a hugely expensive housing programme, which was supposed to have made accommodation more affordable after huge demonstrations in 2011, when workers and young people took to the streets to protest the rising cost of homes and food. This ostensible concession was accomplished by the government "selling" publicly

owned land to residential developers at give-away prices, leaving the real estate speculators free to reap the profits without any observable effect on housing prices. As a result, the price-to-income ratio of homes remains among the highest in the Organization for Economic Cooperation and Development (OECD), a massive burden on household incomes that has not lessened since 2011.

With nearly 30 percent of families renting their home, at a total cost in 2017 of more than \$5 billion, this serves to transfer wealth from low-income to high income households.

Last year, the OECD report on Israel's economy insisted that the government's "planned budget deficits are high" and warned, "Steady fiscal consolidation will be needed to reduce public debt relative to GDP."

Israel's economy, which is highly dependent upon international markets, is expected to slow to a growth rate of 3.1 percent in 2019, driven by declining revenues due to the global slowdown, an appreciating currency, and a decrease in technology sales. This slowdown comes under a gathering threat of trade wars, protectionism, and competitive devaluations globally, sparked by Israel's benefactor, the US.

Irrespective of any minor criticisms, the main opposition bloc, the Blue and White party, supports an austerity budget. Yair Lapid, who once held the finance portfolio under Netanyahu and whose party Yesh Atid (There is a Future) is now part of the Blue and White alliance, said last March, "The State of Israel spends too much money... There is too much fat in the state budget... It was irresponsible to create this deficit, and it must be eliminated."

A recent OECD publication points out that while the middle-income class—a strata associated with access to good housing, education and healthcare—has shrunk from the mid-1980s to the present decade in most OECD countries, the decline was particularly steep in

Israel, Canada, Germany, Sweden and Norway. In Israel, the share of middle-income households in the total national income fell by about 8 percent, while the share of high-income households increased by 9 percent.

The latest Gini index, published by Israel's National Insurance Institute for 2017, was 0.352, positioning Israel as one of the most unequal societies among the OECD countries.

A recent study by the social justice advocacy group Adva found a deeply divided society.

In 2016, almost half of Arab Israeli households fell below the poverty line and 14 percent were living near the poverty threshold, compared with 13 percent of Jewish Israeli households below the poverty line and 7 percent near the poverty line.

Among the Jewish population, Ethiopian immigrants had the highest poverty rate (23 percent). Immigrants (post-1990) from the former Soviet Union had the highest near-poverty level (12 percent). Second-generation Ashkenazim (Jewish Israelis from Europe) had the lowest rate of households living in near-poverty (4 percent).

Those households headed by a woman (i.e., where a woman worked the longest hours) made up 43 percent of all households living in poverty and 43 percent of households living in near poverty.

What was remarkable—and indicative of the low level of pay, declining income and high cost of living in Israel—was the near doubling between 2003 and 2016 of the percentage of households with two or more people working that are nonetheless living in or near poverty.

Even a college education did not guarantee a way out. Between 2003 and 2016, the percentage of poor households headed by a person with college studies grew from 13 to 22 percent, with similar figures for those living near poverty.

Welfare policy has, since 2003, when Netanyahu was finance minister in Ariel Sharon's coalition government, been orientated towards slashing welfare payments, in particular child allowances, forcing people into work and subsidizing low wages—in effect a low-wage subvention that has benefited Israel's employers and fueled soaring social inequality.

While social benefits constituted 62 percent of the income of households living in poverty in 2003, this

fell to 44 percent in 2016, with a similar decline from 42 percent to 30 percent for households living in near-poverty.

Last March, Kahlon announced new measures aimed at reducing the cost of child care for working families, cynically rebranding it as “national early education plan” for one-year olds, in order to make low-paid, short-term, part-time and casual work more attractive.

While the share of income from work grew between 2000 and 2017, reflecting a rise in the minimum wage and work credits, this was largely because of the increase in the number of people working due to government measures. These included, in 2004, the raising of the retirement age and pension eligibility from 60 to 62 for women, and from 65 to 67 for men. But despite low levels of unemployment, currently around 3.5 percent, this has not resulted in any reduction in poverty.

This is the result of deliberate government policy in the service of a ruthless capitalist class, along with countless betrayals by Israel's trade unions, organized within the Histadrut.

The fight of the working class for its interests, including a vast redistribution of the wealth currently monopolized by a handful of families, an end to the ongoing conflict with the Palestinians, and the growing threat of war against its neighbours and Iran, raises the urgent necessity for a mass political movement of Israeli and Palestinian workers, independent of and opposed to both the Israeli and Palestinian political parties, against the capitalist system and its state, and for socialism.

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