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Welfare states and socialism are about as dead as Elvis

By EMMANUEL NAVON
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Israel will find itself in even more turmoil if the protest movement is hijacked by pompous "mavens" bent on implementing obsolete economic models.

August 16th marked the anniversary of Elvis Presley's death. Yet some of his fans still claim that the King of Rock and Roll simply went into hiding and never actually died. The average person rightly scoffs at this sci-fi theory. But how can you ridicule those who believe that Elvis is still alive and at the same time continue to believe in socialism or in the Middle East peace process?

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In Israel, academics and journalists who claim that both socialism and the Oslo accords can be salvaged consider themselves to be at the forefront of sophistication and rationality. In truth, however, they are no less irrational than Elvis Presley's most wacky fans.

With Israel's social protest movement now in its fourth week, the government has established a [professional committee](#) made up of 15 ministers (dubbed the Trachtenberg Commission) to examine the social justice protest leaders' demands and to suggest ways of making life more affordable for the middle-class. High-ranking academics have volunteered to help the protesters formulate their demands.

Among the self-appointed consultants is Yossi Yonah, a professor of philosophy at Ben-Gurion University. But how exactly is Prof. Yonah qualified to engage in a discourse on macroeconomics with the Trachtenberg Commission? True, the same question can be asked about Yuval Steinitz, himself a philosophy professor turned Minister of Finance. But the issue is not whether philosophers are adequately equipped to grasp the economics of the situation—after all, Karl Marx held a Ph.D. in philosophy—but rather what the real agenda is of some of the movement's leaders.

Yossi Yonah has written extensively on the subject of "multiculturalism," and in a 2005 interview published in *Haaretz*, Yonah summarized his vision for Israel's future thus: "Besides the naturalization of the migrant workers, [the next steps for Israel] will include the annulment of the Law of Return; the cancellation of the arrangement of automatic naturalization for Jewish immigrants; and provision of a worthy solution for the Palestinian refugee problem, based on the Geneva Convention."

So you see, for people like Yonah, it's not only about economics.

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The Trachtenberg Commission also includes several experts on the economy including Prof. Avia Spivak from Ben-Gurion University. Spivak recommends raising taxes - especially corporate taxes - which will supposedly fill public coffers. This is despite the fact that companies might thus be encouraged to simply pack it in, and also despite the fact that economic theory and practice have both demonstrated that government revenues actually decrease when taxes are too high.

Then there is Shas' brilliant idea for lowering real-estate prices: Rent control. This would mean the government, and not individual landlords, would decide on how much to charge for rent. In the past, whenever such policies were implemented, they invariably triggered the adverse result of increasing the price of real estate. The reason for this is simple: when real-estate investors cannot charge the rent that would make their investment profitable, they stop investing in real-estate. And when investments in real-estate decline, the housing supply naturally follows suit. With supplies decreasing, prices then increase correlatively.

These days, the pervasive discourse in Israel's media is that the high cost of living and the hardships of the middle-class are the result of "ultra-liberalism" and that Israel must become a "welfare state." But in fact, the very opposite is true. Israel is not a liberal economy; rather it is dominated by oligopolies that strangle consumers and by monopolies (such as the National Land Authority) that control supply.

If the Israeli economy is strong and productive, it is partly due to the economic liberalization undertaken by then-prime minister Shimon Peres in 1985 and again by then-minister of finance Binyamin Netanyahu in 2003.

What Israel's economy needs is more, not less, freedom and competition.

As for the second suggestion of creating a welfare state, our know-it-all pundits are conveniently forgetting that this model is a central factor in causing European economies to crumble. If Greece, Spain and Italy are broke, it is partly because their welfare states were born at a time when the population was young and the economy was not exposed to foreign competition. With an aging population and the constraints of a globalized economy, the European welfare system has simply become unsustainable and too expensive. Europe's financial markets are suffering as the debts that welfare governments incur continue to rise.

Israel's provincial public discourse does not end there. The violence in Britain, we are told, is to be blamed on Thatcherism. The fact that the Labour party, and not the Tories, was in power between 1997 and 2010 is irrelevant. The truth, of course, is that former British prime minister Margaret Thatcher verily saved the British economy, and that were it not for her reforms, Britain's fate today would look similar to Greece's.

If the current social protest movement in Israel finally provides the opportunity to lower the cost of living by breaking up monopolies and cartels and by lowering taxes, it will be remembered as one of the best things that ever happened to the country. But if the movement is hijacked by armchair ideologues to implement policies that have been proven over and over to be counterproductive, then Israel is in trouble.

But I'm not being fair. The Israeli hard Left *should* be given a chance to put their multifarious economic theories into practice, but only once they tell us where Elvis is hiding.

The writer is an International Relations Lecturer at Tel Aviv University and the founding partner of the Navon-Levy Group Ltd., an international business consultancy. He is also the author of numerous books on Israel's foreign policy, including most recently, From Israel, With Hope: Why and How Israel will Continue to Thrive.

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