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Will corruption undo Israel?

By DANIEL DORON 06/07/2014 22:24
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Some Israelis felt pride that their lenient, liberal judges had finally started imposing severe sentences to stem increasing corruption in high places. Others resisted charges that their governance is increasingly corrupt by arguing that other nations also have corruption problems, but that they are ignored. Even the law-abiding USA, they added, has a huge lobbying industry misallocating astronomical amounts to powerful interests. The recent scandals in the Veteran's Administration health services illustrated again that no government are immune to serious corruption.

Yet no one considers America corrupt.

Political favoritism that breeds corruption has indeed become the norm even in better governed Western democracies, let alone in the developing world. Unlike past tiny governments, big, welfare-dispensing governments take today a large part of GNP in confiscatory taxes. They use it imprudently and with little accountability.

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Governments have become huge employers and spenders with immense economic clout, a source of great wealth for manipulative special interests.

Government's wasteful ways have also infected big business, especially firms that benefit from huge government contracts and from competition- suppressing regulations. Such enterprises, notably banks, which are allowed to create money, become too large to fail, an economic moral hazard, as the recent mortgage-derivatives crisis on Wall Street amply illustrated.

While it is true that growing corruption, tied to increasing wealth, is a worldwide problem, Israel seems to have a bad case. As a young, rambunctious democracy (reminiscent of Elizabethan England) composed of so many different "tribes," each with its own mores, Israel did not have a chance to develop the common traditions that fashion a civil society, and determine what is "not done." It therefore lacks an effective tool for resisting corruption, namely vocal public revulsion.

Like some Eastern European countries, Israel has contracted the disease of a corrupting collusion of politics with big money because, ironically, of its Socialist anti-capitalist ethos.

Zionist leaders, blaming the devastating First World War on the failures of Capitalism, embraced, when Zionism was taking shape, what were fashionable Socialist and Communist ideas held by – who else? – intellectuals and cultural icons.

They also adopted the romantic adulation of "soul purifying" manual labor, preferably in farming; this, at a time mechanization and innovations were cutting sharply the need for farmers, while grain became much cheaper. Socialist Zionism established a politically dominated, anti-productive highly centralized economic system. It became inefficient and corrupt and virtually destroyed the labor collectivist sector which came to be the flag bearer of Zionism.



Under the British Mandate, the Socialist camp, assisted by the Jewish Agency, a government in the making, came to dominate Zionism. Financed by American Jewish (capitalist) contributions, Labor pushed for the nationalization of almost all land, labor and capital. The heavily subsidized, economically failing Communist kibbutzim became Zionism's settlement model. Urbanization and commercialization were despised and undermined. A nasty class warfare was waged against the small private sector that successfully pioneered the Zionist enterprise since the 1880s.

Labor took also control of education, health and welfare, as well as the media and cultural institutions, establishing a retrograde, centralized, inefficient economy that was highly politicized and corruptible.

After Israel's independence in 1948, government and Histadrut control of the economy became near total. The state's heavy-handed bureaucracies caused economic retardation and impoverishment.

In 1977, economic dysfunction and spreading corruption unseated Labor.

A Likud government that replaced Labor vowed to l beralize the economy.

But Begin and his ministers, who did not understand economics, strengthened the role of government in the economy by greatly expanding Israel's lame welfare system. They launched a misguided privatization program that "sold" for a pittance bankrupted government and Histadrut assets to politically connected oligarchs and granted them monopoly rights. This led to their eventual control of the economy.

Twenty family-owned highly leveraged pyramidal business groups came to own half of Israel's market share while one percent of lenders received 70% of loans from the semi-

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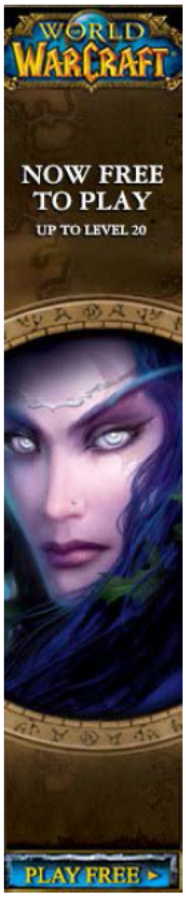




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nationalized banks. Socialism was replaced by Statism, inflicting even greater harm on the economy.

Bureaucracy and regulation created insurmountable entry barriers, discriminating in favor of politically immune big business and destroying competition (It takes 10 years to execute a real estate project; for 60 years not a single bank was established in Israel). They caused low productivity, growing income gaps and widespread impoverishment.

Israel, with its exceptional human capital, should have become one of the wealthiest countries. Instead most Israeli workers earn monthly about $2,600 while prices of goods and services are double the USA's.

Apartments cost 140 monthly salaries.

Young people cannot make it economically. They have few career opportunities in most tycoon-controlled firms that are rife with nepotism.

Hundreds of thousands of Israelis have left Israel, a grave and present danger to its viability.

Gradually, under the stewardship of Prime Minister Binyamin Netanyahu, Israel has successfully reformed some of its economy doubling its GDP in the past 15 years. But it is a race against time, since unless the laggard Israeli economy is reformed soon its problems, including its morally debilitating corruption, may threaten its future.

The author is the founder and director of ICSEP (www.icsep.org. il) an independent public policy think tank.

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