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## The Privatization Revolution and Social Inequality Policy in Israel

*Daniel Gutwein*

The rising incidence of poverty and the worsening of its manifestations in Israel are the result of economic and social policies aimed at destroying the welfare state over the past three decades from both right- and left-wing governments. The economic crisis wrought by the war during the past three years has merely emphasized these trends but did not by any means bring them about. The new finance minister, Benjamin Netanyahu, also uses the economic crisis and the state of war as an excuse to continue dismantling the welfare systems, breaking the organized work and the trade unions in the public sector and changing the structure of Israeli society in a way that will only worsen the inequality and poverty both in the short and the longterm.

One of the main policies that generated economic inequality and poverty in Israel was the privatization revolution that Israel has undergone since the 1970s. In the mid-1970s, Israel had one of the smallest economic social gaps of Western societies. But by the mid-1990s, the country's social gap had grown so large as to rank it second within the Western world. Israel's ethos of social solidarity has been replaced by an ethos of privatization. The privatization revolution was conducted in two tracks: sectorization by the right and commercialization by the left. Both of them, however, advanced economic and social inequality. After the 1977 defeat of the Labor Party, Menachem Begin's government understood that dismantling the universal welfare state was a means of hurting the power bases from which the left drew its strength. A central target was the Histadrut — the primary axis of the Labor Party and one of the anchors of the Israeli universal welfare system. The universal welfare state was replaced by an alterna-

tive mechanism that allocated social services: sectors that were defined along religious, ethnic, national, cultural, or geographical lines. The fullest expression of the sectoring policy came in the form of the activities of Shas, an ultra-religious political party that entrenched the sectoring based not only on religious observance but also on ethnic origin. This policy turned Israel into a federation of rival sectors, leading eventually to privatization.

In the mid-1980s, the traditionally left Labor and Meretz parties representing the middle classes — among which the Ashkenazi and secular elements were prominent — understood that the left's loss of power was not an accident; it was the outcome of a fundamental social and demographic change that transferred power to the *Mizrahim*, the *haredim*, and through them to the right. To ensure prolonging its hegemony, the middle class also started to adopt a privatization policy. By privatizing and commercializing the social services, they meant to reduce the state's influence on the economy, on society, and on the ruling bodies, and to transfer this power to the marketplace, to professional establishments, and to the civil society in which the middle classes retained their power. Thus, for example, it was Yitzhak Rabin's support of the dismantling of the Histadrut that hastened the privatization of health services and the labor market; similarly, Meretz ministers acted to hasten the privatization of the educational system.

The most far-reaching political influence of the privatization revolution is found in the middle class, which — though the champion of privatization — is increasingly becoming its victims and downwardly mobile. Based on the experiences of other Western countries that have un-



dergone similar changes, this new situation places the downwardly mobile class at a crossroads where it has two alternatives. It can look back longingly at the privileges of the past, adopting a “politics of hatred” that emphasizes the cultural differences between it and other identity groups within the population and fight for its slice of the shrinking pie. Alternately, the interests common to both the downwardly mobile middle class and the lower classes may serve to bridge the cultural differences that divide them and to be the basis

for a common cause against the privatization revolution and for the rehabilitation and modernization of the welfare state.

The fulfillment of this goal is now the challenge of the Israeli left, which can rehabilitate itself if it chooses to distance itself from its neo-liberal past and to adopt an agenda focused on economic growth and social equality.

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## Leaving Poverty Behind

*Nachum Ido*

It is much too simplistic to suggest that the rise in poverty and inequality is caused primarily by privatization. The Israeli economy has undergone significant upheavals that have all but destroyed Israel’s traditional industry, like the tens of thousands of unskilled workers who used to make a living in the textile industry and are now unemployed. Another reason is the phenomenon of foreign workers — about 300,000 living legally and illegally in the country today. At the same time, there are 300,000 unemployed Israelis. If the foreign workers were not here, a large number of Israelis might find work in construction, agriculture, and health care. Earning salaries higher than the foreign workers, they would reduce the number of people living in poverty. Only 70 percent of 25–54-year-olds are a part of the labor force, compared to an average of 80 percent in developed countries. Large segments of the population, such as Arab women and *haredi* men, do not work, thus hurting the gross national product and causing the poverty among these families to rise, a rise exacerbated by the high birthrates in these two population groups.

Researchers at the National Insurance Institute estimate that, as a result of the latest round of economic decrees, the rate of poverty will reach 19.5 percent of families in the country and that 33.8 percent of children — 661,000 children — will live below the poverty level. While several factors contribute to the crisis in the economy, primary are the current state of war, the downswing

of the high-tech market, and the high rate of unemployment that is forcing high government expenditures in the form of national insurance allowances. These allowances — intended to help the poor rise above the poverty level — have reduced the number of people living below the poverty line significantly. However, plans to reduce these allowances as well as layoffs in the public sector — especially recent plans from Benjamin Netanyahu’s Finance Ministry — will only worsen the problem of poverty and inequality.

The solutions to reducing the poverty rate lie primarily in stimulating economic growth. If the economic plan stimulates growth and causes foreign workers to leave the country, more Israelis will be able to enter the labor market, earn decent salaries, and leave the cycle of poverty. This is both the plan and the forecast of the Finance Ministry. The labor and welfare minister has suggested reducing benefits given to the upper percentiles and giving the difference to the poor. That suggestion was part of a package that included postponing the tax reforms that would have reduced the tax rate paid by the highest income brackets, stopping employers’ exemption from paying into national insurance, and instituting a high Value Added Tax on luxury goods while lowering the V.A.T. on basic commodities. These suggestions were not adopted.

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