

Views

Tackling the causes of the protest

Three core elements - the tax system, regulation and competition, and living beyond one's means - must be fully addressed.

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A civil agenda has been pursued in academia and outside it for many years, but until now it has never come to the forefront. A few weeks ago, we witnessed a shift, when protesters were able to articulate a message that the prices of cheese products labeled "cottage" were intolerable. Soon after, a housing protest emerged and gained momentum, as many Israelis embraced the claim that housing prices are too high and that the government must secure housing for all at manageable prices. The protesters' message was so appealing that many actively joined the protest in a variety of ways, and many more felt sympathy for their ideas, although they remained largely passive in the pursuit of them. In response, the government has formed a committee of experts to recommend solutions.

In order to deal effectively with the high cost of housing (and high living costs in general) in Israel, we need to understand the underlying factors. Three core elements the tax system, regulation and competition, and living beyond one's means must be fully addressed.

The tax system in Israel is complex, but the problem is not with the ability to grasp its details, but with the amount of net income available to each person to save or spend. High indirect taxes on gasoline, vehicles, land development, capital levy, municipal levy, and VAT of 16.5%, along with direct taxes (including social security), and extra spending on health insurance and education, create an unbearable burden. The "free net income" after these taxes is very small, and doesn't enable people to gain economic independence.

The Israeli system is highly bureaucratic, and many citizens have experienced red tape obstacles in dealings with government agencies. Although this is often seen as a major problem, I tend to think that it is not fundamental. Instead, the problem with government agencies is that they fail to notice signals beneath the surface, and so often cannot contain emerging issues and prevent the eruption of a crisis. The power of the civil servants is so great that elected officials are shackled and seem frustrated at their inability to implement changes through the current system. It is well-known that in certain markets there is a lack of competition which results in high, often unjustified, prices. Regulatory and other government agencies should coordinate actions to ensure competitive markets, but despite some efforts, basic conditions have remained largely the same in many industries.

The third element underlying the current problem is not to do with government or civil servants, but rather with the citizens. I mean the well-known phenomenon that has unfortunately become prevalent in Israel, that people live beyond their means. It is desirable to find happiness and live well. However, a person cannot complain unless she or he takes responsibility and sets priorities in life. It is not the government's problem, but a matter at the individual level that becomes collective over time, and has important consequences for the economic, social and political systems. What government has to do is to make rules that prevent, for instance, banks from giving salaried employees extensive credit lines (some employees have credit lines of more than 5 times their net

salaries). However, individuals must be held accountable for living beyond their means, and unless some personal restrictions are put in place, the situation will deteriorate even further.

The three elements require the following responses: 1) Reduce the tax burden, direct and indirect, such that no salaried employees will pay more than 30% tax. This will leave people with more available cash to ease the burden of the current cost of living. More importantly, it will free up money for investment in the future of each family. 2) Create intense competition in every possible industry, particularly in consumer products and housing. Because this is a long process, tight price controls must be imposed on basic products, along with immediate solutions such as imports of goods for a specific period of time. 3) Encourage families to save about 20% of their net income in mid- and long-term investments for education, health, housing for their children; these investments will not be taxed.

Only a coherent plan that takes into account these key elements will address the problem effectively. Those who seek a silver bullet or an easy solution will only see conditions deteriorate further. It is not just the government's task, but also the responsibility of the protesters and their supporters to make an effort to find a viable solution, not a temporary remedy. This will require tolerance and constructive communication from all sides to facilitate productive coordination.

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