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GOVERNMENT INTERFERENCE — THE SCOURGE OF THE ECONOMY

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Peres Pleads for Less Interference

Prime Minister Shimon Peres recently made an impassioned plea for less government interference in the economy. "The less the government interferes," he said, "the better it is for the economy . . . right and left alike want to get rid of the excessive bureaucracy which gobbles up the country's resources as well as being a heavy burden on its citizens."

There are, however, few signs that the Israeli Government as a whole shares the Prime Minister's views in this respect. The Treasury's apparent lack of enthusiasm for the Bejski Report's recommendations that the government loosen its grip on the capital market reinforces this pessimistic conclusion. The question of the

government's role in the economy is not purely a theoretical or ideological one. In fact, most of the economic problems we face today, including the challenge of renewing economic growth, hinge on whether or not the government will reduce its role in the economy's financial activity. In the view of this writer, and contrary to that of some of the ministers, Israel has, at best, concluded only the very first stage in putting its economic house in order. Complete economic recovery remains far off in the future. Even the containment of inflation — impressive as it is — remains fragile and may still be of a temporary nature. The government has successfully slowed the rampant inflation (and, to a lesser extent, reduced our current account

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foreign exchange deficit) through such administrative measures as "freezing" (thus actually eroding) wages, prices and the rate of exchange. This effort was helped by such extraneous factors as the fall in oil prices, the drop in the value of the dollar (fortunately, most of our foreign debt is in U.S. dollars) and last, but not least, emergency aid from the U.S. In the past few months, however, there has been a 5-10 percent rise in real wages, and political realities may prevent the government from continuing a policy of pay-erosion for any length of time. It should be added that the battered state of some industrial and agricultural sectors (whose prosperity is necessary for renewed economic growth) makes justification of a continued administrative lid on prices difficult.

This leads to my next point: to date, almost nothing has been done to correct the economy's structural distortion, which is the root of most of our economic troubles. Even the scandalous economic mismanagement during most of the period between 1977 and 1983 could not have wreaked so much havoc had these structural deformations in the economy not already existed.

Primary among these factors is the public sector, which is bloated in comparison with the "narrow shoulders" of the country's business sector. Add to that the low level of productivity; the unrealistically high level of taxation (which, together with high interest rates, has brought many of Israel's firms to a state of near-ruin); the system of index-linkage (which makes a mockery of any attempt at effective monetary policy); the profusion of government, Jewish Agency and municipal departments that all deal with similar subjects; and top all this off with that all-embracing, all-encumbering super-bureaucracy to which Mr. Peres referred, and you get the picture. Ask any shied-off potential investor about his experience, and he will tell you that his ardor to invest in Israel was cooled not by the so-called "political risk," or normal business risks, or even high taxation, but by the scourge of bureaucracy.

Encourging Economic Growth

Economic growth cannot be created by waving a magic wand or increasing the flow of money into the economy. In recent years, funds have not been lacking, but they have not been

used properly. In order to finance its budget deficits, the government competed with the business sector for the available funds — on terms which the latter could not match. Real economic growth can only come from those branches of the economy which produce goods (including agriculture) and services (such as tourism, transportation and banking) for export (or to replace imports) with a high added value in foreign currency. Important as other activities may be in other spheres, they represent just so much economic water-treading.

This brings to mind the joke about the fish which for years had been sold by one person to another. Someone foolishly decided to eat it, only to discover that it was completely rotten. The lesson: "This fish is for trading, not for eating." On the national scale, "trading" is not enough. The fish should not be consumed; it should be sold abroad, and quickly, before it becomes rotten.

Until the government understands that boosting economic growth is more than a catch-phrase and that it depends on profound changes in the economic policy-making process and the country's economic structure, there will be no real growth. Furthermore, the improvements of the last 18 months will be at risk. Due to the way they were achieved, as explained above, a breach in the wage-front, a rise in oil prices, or unexpected fluctuations in the international currency picture could cause our economy to resume its downward path.

The Bejski Report told us what we already knew: that the government's exaggerated involvement in the economy and the accompanying bureaucracy is a primary cause of many of our economic and social ills. However, bureaucracy (which Mr. Peres castigated in his speech) did not beget the government's over-involvement in the economy. Rather, the opposite is true.

Over-Involvement Begets Bureaucracy

Of course, some of Israel's huge public expenditure represents very real needs (such as defence) but over the years, the line between real needs and matters which could be handled more efficiently and cheaply by private enterprise (such as housing) has become more than a little blurred.

In no other Western country has it been so

easy for politicians to obtain political power through economic clout as in Israel. Most local funds (pension funds, life insurance, savings, etc.) are channelled through the government (which then decides, after covering its own huge needs, how to allocate the remainder), and the majority of funds from abroad (American aid, U.J.A., Israel Bonds etc.) flow straight into the government coffers.

This situation has had disastrous results, including the web of bureaucracy which thrives on public money, and the "bending" of the public's free will. What may be worse, however, is that the politization and bureaucratization of the economy often creates an attitude of indifference toward economic realities by government officials and the public. Instead of paying attention to economic decisions, the government often makes these decisions based on political or bureaucratic factors; or, in some cases, on outdated social theories. (Some of the problems currently affecting Histadrut enterprises can be traced to the mistaken belief that it would always be possible to isolate their modi-operandi from economic realities and business procedures.)

A further prerequisite for making our economy grow is to increase productivity. For this to happen, workers, managers, and entrepreneurs must be justly rewarded for their efforts. The desire for material gain is not the same as materialism, no more than love is the same as lust. If "love makes the world go 'round" so does the profit motive and the desire to get ahead. Indeed, true "materialism" and other negative phenomena are more often than not characteristic of the state-dominated, semi-free "hothouse" economics that we have in Israel. If an economy is not free, if the government is involved deeply in day-to-day economic decisions (and if it levies high taxes to cover the cost of this apparatus), some people are bound to bend the rules and try to achieve material gain in a less than forthright manner.

Harmful Economic Dogmatism

This is not to suggest that Israel should adopt a system of complete economic *laissez-faire*. We cannot ignore the political, social and military necessities which will continue to give the government a more dominant role than in other

western democracies. Further, anything which smacks of dogmatism — especially in economic matters — is usually harmful. Thus, "liberalism" or "anti-socialism" can become dogmatic if they are carried too far. (Members of the new "liberal-center" — beware!) There are no profound differences between modern post-Marxian Social Democracy and the present-day approach to liberalism. Except for some ideologists of the "old left," most people now realize that "socialist economics" is a contradiction in terms. Likewise, only a few ideologues on the "new right" champion a system of unbridled capitalism today. In most western countries, democratic parties — whether they belong officially to the "left," "right," or "center" — strive to strike a rational balance between the requirements of a free economy and social responsibility. The latter, it should be added, is regarded today less from a purely welfare angle and more from the point of view of creating new jobs and improving the general economic environment.

Judging by his statement about the "resources-consuming, oversized bureaucracies," Mr. Peres' views (perhaps not surprisingly) seem to resemble those expressed above. The attitudes of some of his government colleagues — in both Labor and the populist-minded Herut — are less certain. Not all seem to understand the direct link between the over-sized public sector — "gobbling up scarce national resources" — and the under-sized business sector, which needs those resources in order to grow.

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