

Weimar-style inflation comes to Israel: What can be done?

by Muriel Mirak

Lining up at the cash register of a crowded Jerusalem supermarket, frazzled housewives reach into their purses, and shaking their heads, pull out bunches of crumpled shekel bills, shoving them towards the equally frazzled cashier.

"How am I supposed to pay my electricity this month?" asks one, gazing in disbelief at the total her weekly grocery bill amounts to. "There is no way," responds another, "electricity, rent, clothing for the children, and food! We just can not manage to make ends meet. I don't know where it's all going to end." "What I don't understand," chips in a third, "is, why doesn't the government do something about it? If they don't know what to do, then who does?"

That is the big question circulating these days in Israel, and given the current dollar-shekel rate, it's a costly question. The problem, stated bluntly, is that Israel's fragile national economy has entered a terminal phase of disintegration, and the experts intervening on an emergency basis allegedly to save it are actually hastening its demise.

First, the facts. The inflation rate has reached such record heights that the new coalition government was forced on Nov. 2 to declare a general price freeze. Had this step not been taken, there is no telling how high consumer goods would have zoomed. According to official statistics, a family living in an Israeli city would require 319,000 Israeli shekels (IS) to purchase the shopping basket of goods which, in 1980, cost only IS3,680.

Throughout 1984, prices rose, increasing 339.4% by October, but in the last three months, that rate itself has been increasing, such that October's figures went off the boards entirely. Food, home maintenance, transportation and communications, education, entertainment, health, furniture and appliances all increased more than 20% in that month alone, while fruit and vegetable costs rose 30.5% and clothing and shoes rose 47.6%.

The price freeze instituted by the government was a stop-gap measure, intended at least to tourniquet the hemorrhage until longer-term solutions could be worked out.

The social effects

But even the price freeze has not yielded the desired results. And what it may have achieved in terms of halting some rises is dramatically undermined by the negative social effects it has unleashed. Stories fill the pages of the national press about shopkeepers who, not respecting the government order to display prices in shekels for all goods, are subjected to fines from \$10 to \$150. The action carried out by the so-called "rapid justice" tribunals instituted to police violations of the price freeze has done little to calm popular frustration.

In a more dramatic development, the losses which importers of vital medical supplies incur due to the price freeze has led to a drop in supply stocks of about half the 150 types of imported drugs; since many of these are substances used in chemotherapy for cancer treatment, the effect of short supplies may create intolerable crises for needy patients.

The other arm wielded by the government in its alleged fight against inflation is unemployment. Led by Finance Minister Moda'i, a man whose sympathies for drastic austerity economics have never been hidden, the idea dominant in Jerusalem is that the economy can begin to recover only when it has settled accounts with itself, i.e., when it has succeeded in balancing the budget. Therefore, Moda'i's solution to the balance of payments crisis and to inflation, is budget slashing.

What he has requested of the coalition is a \$550 million cut, which he is trying to implement through the good graces of a specially formed, cabinet-appointed committee, including himself, Economic Planning Minister Gad Ya'acobi, and Ministers without Portfolio Arens and Weizman. The sector to be hit by cuts is the social sector, and 14,000 public sector

workers are thus slated to lose their jobs.

This proposal set off a minor explosion, not only through the affected sector, but within the shaky government coalition, as Minister of Social Affairs and Labor, Moshe Katsav, complained that he could not sanction the \$70 million cuts against the needy welfare recipients.

Employed workers are not much better off. Although formally they are protected against rising cost of living by a COL escalator, they are due to receive only 80% compensation for inflation above 12%. However, through a special agreement dictated by the emergency situation, workers have agreed to forego one-third of these COL payments for the last two months of 1984, cutting down significantly their ability to keep up with rising prices.

Doomed to failure

As Minister Katsav in an interview with *EIR* makes clear, such approaches to the skyrocketing inflation are doomed to failure. As he points out, trying to manipulate unemployment, and throw people off the payrolls as a way of penny pinching to balance the budget, is not only inefficient but dangerous, especially for Israel's particular security problem. A government can not keep people unemployed for months, and then expect them to go to the front and risk their lives for a state which cannot feed them. By virtue of the same sensitivity to security considerations, the government is hesitant to cut any of the military budget, although that is a glaring source of inflation. Out of a total \$21 billion budget, defense costs account for \$5 billion, a figure which increases in relative terms, when one considers that only \$11 billion of the remainder goes to actual outlays, since \$10 billion is eaten up by debt financing requirements.

Yet, Minister Katsav's proposed solutions to the problem, although motivated by concern to maintain employment levels, also fall short of the mark. It is not by handing over a few thousand jobs, now held by illegal laborers, to Israeli licensed workers, or by forcing those seeking jobs to travel hours from their homes for whatever employment is available, that the situation will be corrected. On the contrary, such measures may inadvertently fuel the explosive social tensions between Israeli Jews and Arabs, which demagogues like Meir Kahane are seeking to exploit.

What must be faced in drafting viable solutions for Israel's economic mess is the debt, first of all, and the structure of the economy more generally. The debt takes up half the total budget. Unless it is reorganized, in the form of an orderly moratorium agreed upon by creditors, there is no way that additional funds, like the \$5 billion Israel is seeking in U.S. foreign aid, can be channeled into productive areas of the economy.

If the debt burden is temporarily lifted, massive funds should then be directed into those areas of the Israeli economy which can most rapidly contribute to expanding the entire productive base: large-scale infrastructural projects like the

Mediterranean-Dead Sea canal project, the national and regional railway grid, and the nuclear energy-vectored development of Sinai agricultural production. These sectors, together with Israel's advanced laser industry and advanced agricultural-technology sectors, are those arteries of the economic body whose strengthening will immediately provide fresh flows of lifeblood to the entire organism.

The question thus posed is not only a conceptual one, regarding differing schools of economic theory, so to speak. There is a difference, to be sure, and it is fundamental, between the American system policies of development of the power of labor through intensive technology-vectored projects, and the Milton Friedman school of lifeboat economics, intent on triaging sectors of the real economy to save the fictitious values of pieces of paper, called debt.

Readers of *EIR* will recall that in January of this year, after this writer's first visit to Israel, the question of which

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economic approach Israel should follow was outlined, and predictions were made regarding what disastrous effects the then-hegemonic view would have.

Those predictions have been borne out, with excruciating exactness. The policy-makers responsible for those choices, whether sitting in Washington or in Jerusalem, have continued to insist, against the advice of the better-informed and against the hard facts of economic realities, that the only way to save an ailing patient is to amputate one limb after the other until there is nothing left.

If the view of people like Milton Friedman, George Schultz, Shultz's race-science economist W. Allen Wallis at the U.S. State Department, and the ubiquitous Henry Kissinger, continues to determine U.S. foreign economic policy towards Israel, then that nation risks being transformed into a Spartan economy, rigged out for war and nothing else.

'Our main problem is unemployment'

The following interview with Moshe Katsav, Israeli minister of labor and social affairs, was conducted in Jerusalem on Nov. 17 by Muriel Mirak.

EIR: How are you concretely approaching the immense problems that the economic crisis has put at your doorstep?

Katsav: Our number-one problem is unemployment, which is the first agenda item at every cabinet meeting. Since we are not the finance or the industry ministry, it is not our task to attack the unemployment problem, but rather to try to help the workers. The comprehensive program we have, related to other ministries, includes increasing job opportunities in Israel. For example, we have 6,000 unlicensed foreign workers; these are not the 80,000 Arabs working in Samaria and Judea, who constitute no problem, but rather workers who have no permits. We want the jobs they now have to be available for Israelis.

There are two problems in the economy: the inflation rate and the gap between exports and imports. I don't believe one can use the same tools to attack both at once. For example, bridging the gap between exports and imports will increase inflation, if we increase exports and cut imports. Trying to cut inflation at the same time is like trying to dodge rain drops. We want to increase investments in export-oriented sectors and try to absorb more workers. By Israeli law, a worker receiving unemployment compensation can be forced to take a job 40 kilometers away from his home, something we are trying to raise to 60 kilometers. We also want to raise the minimum age for unemployment compensation, thus urging youngsters to take whatever employment is available.

EIR: What is the current rate of unemployment?

Katsav: Out of a workforce of 1.4 million, there are 40,000 who seek work and 10,000 who are receiving unemployment benefits. Our government's policy is that unemployment cannot be used as a tool against inflation, because we have a security problem here which the U.S. and Western Europe don't have. Clearly, we cannot allow a man to sit at home idle for six months and then call him up for active military duty and expect him to go to the front to fight in a war.

Unemployment has a negative impact on his motivation. One of the problems we are trying to solve is related to the poorer layers of unemployed, who are immigrants from eastern Muslim countries, and who have not yet been fully integrated into Israeli society. We want to correct this, so as to guarantee that there be no "discrimination" against this layer.

EIR: Our magazine and Mr. LaRouche, a contributing editor, have promoted the policy of technologically advanced, large-scale infrastructural development projects as a means of overcoming the current world depression. We are therefore supporting the Mediterranean-Dead Sea canal project, as well as nuclear energy-vectored agricultural development of the desert regions. What is your view of this approach?

Katsav: The way we are currently trying to solve the crisis is by budget-cutting. I have just signed a letter to the Prime Minister protesting attempts to cut my budget; the government must accept my position or [Finance Minister] Moda'i's. But I must admit, the tendency is to cut, cut, cut. This thinking comes from the fact that of our national budget, 30% goes for security expenditures, 30% for repayment of debts, and the rest is all that's left for education, welfare, and other social needs. As for great projects, yes; large-scale projects utilizing advanced technologies, although they may appear to increase unemployment in the short run (because of the more efficient technologies used) will actually pay off in the long run, by expanding the real economy.

EIR: Given that such a large chunk of the national budget goes to debt repayment, have you given any thought to orderly debt moratoria?

Katsav: In principle, this is a good idea, but a small country alone cannot take that kind of step. We want to keep our reputation for being reliable and responsible towards our debt obligations. A global reorganization of debt of the sort you are talking about would solve the world economic crisis, to be sure, and in that context, I would agree. But nothing could be done on a purely national level.

EIR: If you could tell President Reagan how you think U.S. foreign policy could be improved, what would you say?

Katsav: Our approach to foreign policy, including relations with the U.S., is the following: Although we are independent, we must consult with our friends in the world, especially with America, and ask for their opinion. We want to sit down with them and adjust our positions, but the ultimate decision must be ours. We are a democratic country, there is no junta here, and we want to pursue policies which will respond to the real needs of the population. What makes our situation absolutely different from that of the Western European partners of the U.S. is that we are in a state of war still with most Arab nations, except Egypt. That is a determining factor in policy-making.