

## Jerusalem Institute for Market Studies:

### **Trachtenberg's Plans Will Be Costly Failures JIMS Cites Report's Faulty Logic, Offers Alternatives**

According to a report issued October 30 by the Jerusalem Institute for Market Studies (JIMS), the members of the Trachtenberg Committee “correctly identified the reasons the average Israeli finds himself in debt and pays too much of his wages to the government, which manages a centralized, cartelistic economy. But they then devoted most of their report to planning an even more centralized economy with an even heavier tax burden.”

The committee recommended increasing taxes by NIS 30 billion, increasing the budgets of various government ministries that have until now failed to perform, and empowering government employees to supervise Israelis' housing and educational efforts.

JIMS has identified alternate policies that would be less costly and more likely to succeed. These policies would reduce the budgetary and bureaucratic burdens imposed on Israelis by the government.

#### **Trachtenberg's Housing Policy: Crush the Market**

The committee recommends additional millions of shekels for the Housing Ministry, sending government bureaucrats to identify the people living in future government-engendered rental housing, having cities fine land owners who do not build, and that the government essentially micromanage the entire sector. JIMS disagrees:

- **National land policy:** Do not create the Trachtenberg Committee's recommended inter-ministerial committee of 6 ministries and an untold number of agencies. The lack of this new bureaucracy alone will do much to facilitate future reforms.
- **Urban renewal:** Instead of higher taxes and fines, revoke the 70-year-old rent control laws, and the new arnona law that ties arnona hikes to municipal salaries rather than inflation. Allow public-private projects such as BIDs and TIFs, and urban enterprise zones, with one-stop shopping and no bureaucratic obstacles.
- **Tenders:** Don't accept the committee's attempt to determine the right number of homes and most efficient discounts. Instead, sell lots of land all over the country so individuals, not contractors, will buy. Sell until there is so much land on the market the price falls and a market develops.
- **Bureaucratic obstacles:** Municipalities should be required to automatically approve any plan (that meets zoning regulations) or explain what changes would need to be made to allow approval, within three weeks.
- **Empty apartments:** This is not a problem the government needs to rectify. This is the basis for a market. End tax disincentives to rent such as the current tax imposed on landlords who rent to businesses and reject the idea of fining people for not building according to a government-set timetable.

- **Affordable housing:** Increase the supply, cut taxes, and housing will be affordable.
- **Public housing:** The Trachtenberg Committee wants to stop selling public housing to its residents. This would reverse a decades-old social policy aimed at empowering the residents.

## **Fiscal Policy: The Wrong Prescriptions for the Israeli Economy**

The Trachtenberg Committee concluded that Israel's policy of reducing the tax burden and the deficit "served Israel well" during the decade's economic crises; it therefore recommends changing the policy now. This is bad policy because:

- The crises are not over. The US will be going through rough economic times for the next few years. Government spending there has not solved the problems but has brought a reduction in the country's credit rating.
- Even were the crises a thing of the past, Israel's policy was not enacted in response to a worldwide crisis but in response to a domestic one. Israel's government was too large – and it still is; its tax burden was too heavy – and it still is; its deficit was too high, and though it has been reduced, Israel still devotes the largest part of its annual budget to interest payments.
- The committee says the strength of an economy and competition is based not only on low taxes and growth, but also on education, medicine and infrastructure, and so the government must get more involved in these areas and therefore raise taxes. The committee's conclusion does not follow from its analysis:
- 1) Higher taxes will reduce foreign investment and hurt the economy; 2) the committee's setting a goal of income redistribution is an ideological statement in favor of taking more earnings from those who earn them, to give them to those who the government decides are better suited to use the wage earners' money. 3) the committee says Israelis should be taxed an additional NIS 30 billion to pay for an increase of the government's budget by that sum. It is hard to understand how a committee formed in response to a protest that the "middle class" cannot meet its bills is recommending increasing the tax burden on them by another NIS 30 billion.

## **Social Policy: Misguided and Costly Recommendations**

Regarding education policy, the Trachtenberg Committee is trying to do what it is trying with all policy: to sweepingly increase state control of the market and the private sphere, without proper public discussion of the issues involved.

- The government is responsible for the poor state of Israel's education system, whose students score lower and lower on international exams. Recommending that schoolchildren spend more time in failing schools will not solve any problems. The proper solution would be to distribute the education budget by means of vouchers to parents, who would then be given freedom to put their children in the school of their choice.

- Enacting a mandatory education law for 3 year olds assumes that only the government is fit to educate them; this is wrong because: the government has failed at educating; it would put hundreds if not thousands of privately employed nursery teachers and staff out of business; and because it destroys the family unit, telling parents that they are not able to be with and raise their young children.
- Increasing the tax burden in order to fund tens of thousands more places for children who would be forced to enter “public” education further increases the burden on already overtaxed Israelis.
- Similarly, regarding employment policy for Arabs and Haredim and a policy toward foreign workers in Israel, the committee took the easy road of recommending increased government supervision and putting more people into state-operated programs.

## **Cost of Living and Competitiveness**

The Trachtenberg Committee accurately identified the main causes of the high cost of living in Israel: lack of competition because of barriers to imports, and deep and harmful government intervention; the excessive power of trade unions in the public sector; and the inefficiency of many government agencies.

Its recommendations for removing barriers to imports are significant and should be implemented. When it comes to regulation and intra-national competition, however, its recommendations are good at times, partial and vague in others, and harmful in others still.

- The committee writes of the difficulties faced by the government in reducing prices because of a lack of control over powerful institutions. But this does not refer to corporations owned by "tycoons" nor to publicly traded companies, but to government owned enterprises and authorities. The committee estimates the value of excessive pay to employees in the government monopolies of electricity, water, rail, and air and sea ports – beyond what such employees would be paid in a competitive market – at 1 billion NIS annually. As long as the government continues to accept unions' and monopolies' every demand, Israelis will continue to pay more for basic goods and services than in any developed country.
- In spite of important recommendations in the realm of international competition, the committee focused entirely on imports of products, and ignored the service sector. Competition from international service providers, particularly in the banking and financial sectors, would likely improve the average Israeli's living standards.
- JIMS notes that the rise in the cost of dairy products results directly from the "Dairy Market Planning Act." The Minister of Agriculture, and not supply and demand, dictates the amount of milk to be produced in Israel every year. A government committee decides how much will be produced by each manufacturer, and the Industry and Agriculture ministers decide how much the dairy industry will pay for milk. The right policy would be to abolish the quota system and open the food market to national as well as international competition.

- The committee recommends increasing government funding for research and development. A JIMS position paper revealed that such funding, over NIS 1 billion annually goes disproportionately to companies controlled by "tycoons" and exacerbates the problem of the concentrated nature of Israel's economy.

For further reading (in Hebrew) visit [www.jims-israel.org/pdf/TrachtenbergPP2.pdf](http://www.jims-israel.org/pdf/TrachtenbergPP2.pdf)