



Voting our pockets, or our fears

Events have conspired to put the high cost of living on the election back burner

“DESPITE THE cost of living,” a comedian once quipped, “living is still popular.” That one-liner captures a kernel of political insight.

No matter how furious social protests may be, Israeli elections are commonly dominated not by the high cost of living but by the existential threats inherent in living in our unstable Mideast neighborhood and the desire to elect those who will protect us and keep our families secure, alive and well.

And there is never a shortage of perceived existential threats. Leave it to Iran, Hamas, Hezbollah, Syria, Islamic State, Jabhat al-Nusra, al-Qaida, and Fatah to generate something during election campaigns that reminds us how unstable and hostile the region is and how many brutal enemies Israel has.

The mantra, “It’s the economy, stupid,” invented by Bill Clinton’s strategist James Carville in 1992, won Clinton the US presidential election in the midst of a recession. But, in Israel, somehow the economy and cost of living are failing to dominate or resonate. Rather, they metamorphose into “would you feel secure under another [untested] leader?” If Benjamin Netanyahu is reelected, this will be the reason.

For a time, after Netanyahu initiated the election that few people wanted, it appeared that the high cost of living would be a dominant issue. All the facts pointed that way.

In 2011, there were fierce social protests and demonstrations, especially over the high cost of housing. Kol Israel radio reported that as late as January, 53 percent of Israelis regarded the cost of living as the main issue in the election, far more than those who cited security and defense.

A government survey last June found that four out of every 10 Israelis are unable to make ends meet and nearly half are dissatisfied with their economic situation. And the Bank of Israel’s Research Department showed that a typical basket of basic products is 12 percent more expensive in Israel than the average of the 34 OECD countries, while average wages are \$10,000 lower.

The Consumer Price Index rose 23 percent in the past 11 years, while food prices alone jumped 39 percent. The Haaretz newspaper reported, “The high cost of living is set to dominate Israel’s March 17 election

A protester demands affordable housing during a demonstration in Jerusalem





MIRIAM ALSTER / FLASH 90

MARKETPLACE

Avi Katz, founder of the five-shekel Cofix coffee shop chain, has announced that he will open Super Cofix, a chain of five-shekel supermarkets

that could shake up Netanyahu's coalition, with voter anger symbolized by anger at an overpriced dessert, Milky chocolate pudding (see "A storm in a pudding cup," *The Jerusalem Report*, November 17).

However, events have conspired to put the high cost of living on a cold back burner. A combination of falling oil prices, deflation, economic growth and cut-price retailing may mean that Israelis will again vote their fears rather than their pockets.

A month before the election, Economy Minister and Bayit Yehudi leader Naftali Bennett wrote on his Facebook page that "the cost of living is the most important issue facing the government." This rings hollow, because Bennett's party itself had not yet drafted its economic platform just a month before the election, nor had Likud, Yisrael Beytenu, Shas, United Torah Judaism, or the Joint Arab List.

Only four major parties had issued some kind of economic platform: Moshe Kahlon's Kulanu, Meretz, Zionist Union and Yesh Atid.

As leader of Yesh Atid, and finance minister for two years, Yair Lapid had 19 Knesset Members and a golden opportunity to implement a pro-middle-class cost-of-living program. Instead, he blew all his political capital on an ill-fated plan to exempt new apartments from Value Added Tax – a plan fiercely criticized by experts wall-to-wall, including those in his own ministry.

Bennett has been claiming credit for falling consumer prices. The task force headed by his ministry has cut red tape and made it easier and cheaper to import foodstuffs and other consumer goods. This initiated a blast from Zvi Oren, president of the Manufacturers' Association. As expected, he criticized Bennett's use of imports to lower costs, saying "Bennett's decisions are populist and demonstrate short-range thinking, and are doing severe damage to Israeli industry."

In January, Central Bureau of Statistics figures show that consumer prices actually fell 0.9 percent. But Bennett's ministry can claim little credit. Two-thirds of this decline was directly related to the drastic drop in the price of oil, which slashed the cost of gasoline, transportation and household maintenance



YONATAN SINDEL / FLASH 90

(heating and electricity). Very little of the price drop was due to the Bennett task force that spurred imports. The Israeli consumer should write a thank you note to the Saudis, who are refusing to boost oil prices by slashing production.

The one party that has a full-blown cost-of-living platform is Kahlon's Kulanu. "Be like Kahlon," Netanyahu said of his then-communications minister in June 2012, "and find creative ways to lower prices." Kahlon opened the mobile phone industry to new

entrants and brought down cell-phone costs dramatically. His party, which is projected to win between 7-10 Knesset seats according to polls, runs on a platform of spurring competition in order to lower prices.

True, the Kahlon model worked like a charm for mobile phone costs. But the marketplace may be way ahead of him. A long-standing global trend in retailing – low-cost chains focused on value for money – is at last sweeping Israel. Decades ago, the cut-price supermarket chains Aldi and Lidi were

launched in Germany and have now spread worldwide. America's Walmart has been peddling "everyday low prices" for decades.

In Israel, it began with Rami Levy, who built a single store he opened in 1976 into Israel's third-largest supermarket chain offering low prices, with a billion shekels in annual revenue. Then came Avi Katz's Cofix – coffee shops offering coffee for five shekels, less than half the price of established chains. That five-shekel price bought Cofix an enormous amount of free publicity.

YES, WE DO WANT TO KNOW WHAT YOUR ECONOMIC PLATFORM IS WELL IN ADVANCE

Now we have Ehad ("One"), a chain of supermarkets opened by entrepreneur Iri Shahr. Only one low-cost, non-brand variety of each product is offered, rather than 10 or a dozen high-cost name brands. And Shahr reports that he still manages to pay good wages – 25 percent more than minimum wage for cashiers, 40 percent above minimum wage for stockers. Katz has responded by announcing he will open Super Cofix, a chain of supermarkets that offer 600 leading food and houseware products in each store for five shekels each.

According to Economics 101, when awareness of the cost of living grows, mostly during hard times, even those with comfortable incomes pay attention to prices and consumer demand becomes more sensitive to prices. Stores with high profit margins become vulnerable. According to The Marker business newspaper, supermarket and mini-market revenues were down 5 percent in January compared with a year ago.

Some of this decline surely reflects lower prices driven down by consumer resistance and low-price stores. As a direct result, Israel's second-largest supermarket chain, Mega, with more than 200 branches, announced it will close five of them, claiming it was "trying to adjust to the cost structures of a changing retail market and the high cost of living."

My favorite example of value-for-money retailing is a social protester, 32-year-old Simon Amit, who has opened a small conve-

nience store in Kiryat Haim, a low to middle income Haifa suburb, selling cigarettes, soft drinks and munchies almost at cost.

He sells a can of soda for 2.50 shekels, compared with as much as 10 shekels in most places. "I still make a profit," Amit claims, with a smile. One of his clients told Channel One TV news that he saved 20 shekels in Amit's store on a fairly small purchase. For many in this neighborhood, that is a big saving.

Sometimes, voters may be confused about their gains and losses from lower prices.

In Europe prices are falling, but nobody is exulting. Instead, there are fears and complaints about deflation. The European Central Bank now vows to fight this deflation by so-called "quantitative easing" – expanding the money supply by massive purchases of bonds. The goal: End deflation and restore inflation.

Israel, too, has falling prices. Should we be worried? The answer is "no." Deflation is like cholesterol – there is a good kind and a bad kind. Good deflation is what Israel has; it is caused by falling costs – in this case, energy – and usually leads to higher demand (because more money in consumers' pockets allows them to buy more), higher employment and higher GDP.

Bad deflation is caused by weak and falling demand, caused in turn by unemployment, budget cuts and austerity programs. This is what Europe has. Led by Germany, Europeans have made Greeks paupers by imposing a disastrous austerity program on them as a result of which Greece's GDP has fallen 25 percent in a severe deflation. This is putting the entire euro system at risk. In Israel, leave it to consumers and the defense budget to keep demand strong and foil bad deflation.

Last year, Operation Protective Edge lasted for 50 days from July 7, and effectively shut down all economic growth in the third quarter. But the economy bounced back surprisingly in the fourth quarter, with Gross Domestic Product (GDP) growing at a robust 7.8 percent, higher than China's growth rate. Business sector GDP grew even faster, at 8.8 percent. Growth was spurred by a big increase in government spending, mostly for defense; by higher fixed-capital formation; and by higher consumer spending. This mini-boom, too, has taken some of the sting out of the hard-to-make-a-living perception. It proves how resilient Israel's economy is.

The current election campaign has been superficial, boring and often irritating. In

a small country facing numerous social, economic, political, and military challenges, both internal and external, it is folly to waste time debating whether Sarah Netanyahu kept the money from recycling bottles bought with government money. Campaigning has been largely negative, on the principle that if you throw enough mud at your foes, some will stick.

And the worst part is that all this sound and fury may be for naught. Interviewed by Haaretz editor-in-chief Aluf Benn at the Israel Conference on Democracy, President Reuven Rivlin said, with brutal honesty, that Israel could well face another election within 18 months. He was likely referring to polls showing a virtual dead heat between the Zionist Union and the Likud.

One day, perhaps, we will have a real election campaign with all parties seriously debating how to lower the cost of living and the cost of housing. We the voters will have a choice, based on right-wing let-the-market-do-it vs. left-wing let-the-government-intervene policies. We will hear fierce head-to-head debates among political leaders about markets, policies and laws, rather than slurs about how much the Prime Minister's residence spends on ice cream.

A MINI-BOOM HAS TAKEN SOME OF THE STING OUT OF THE HARD-TO-MAKE-A-LIVING PERCEPTION

We the voters will affirm to our political leaders that yes, indeed, it *is* the economy and no, we are not stupid. And, yes, we do want to know what your economic platform is well in advance. And, yes, we do understand that our pockets and our fears are intertwined, because if we overspend on defense because of our fears our pockets will soon be empty and we won't thrive, but if we overspend from our pockets and neglect defense, we may not survive.

And, yes, we will one day vote our pockets, not just our fears. Despite my pessimism, perhaps some of us will indeed vote our pockets on March 17. ■

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