

# Peretz Campaign Offers Israel A Turning Point on Economic Policy

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**EIR:** Amir Peretz has defined the socio-economic question as the key issue of the campaign leading up to the Israeli elections on March 28. Could you please comment on the significance of this?

**Gutwein:** To understand the Israeli political situation, one has to understand that during the last two or three decades, Israel has undergone a massive privatization revolution, which has dramatically changed the entire fabric and structure of Israeli society. However, the ramifications of this privatization, and the growing gap between rich and poor, and the undermining of the Israeli welfare state,<sup>1</sup> have never been issues in the Israeli political discourse or in any prior election campaign. Amir Peretz is trying to put to the fore the problem that many Israelis can't express for themselves: the fact that they feel insecure, that they feel their future is gloomy, and that the coming generation has fewer opportunities than the generation of their parents.

The questions of what is wrong in terms of economic policy, the future of the welfare state, the future of the education system, the pension system, the health system, all of which have been the target of massive attack by the neo-liberal forces in Israel through privatization, have never been openly discussed before, because the same neo-liberal forces have dominated the Israeli agenda. Peretz is trying to change the agenda, to get into the Israeli discourse concepts that have been long forgotten.

One has to understand that in Israel, contrary to the European countries, the social democracy has almost vanished. This is one of the peculiarities of the Israeli political system: We have not had, for the last 20 years, a real social democratic

party. So what Peretz is trying to do is not simply have campaign slogans, or try to manipulate public opinion during the election campaign. What he is trying to do is to use this campaign to establish, or renew, a social democracy in Israel, in three ways:

One, is to renew the social democratic vocabulary.

Two, is to make the real issues clear to the Israeli people: that there is a very great connection between social security and the future of the territories and so on.

And three, to make people translate their interest in their social security into votes in the elections.

**EIR:** Could you describe how these changes have affected Israeli society?

**Gutwein:** Let me begin with one more point about the Israeli political structure; then I will move on to the particulars of the situation. One has to understand that since the early '80s, Israel has been governed by what is in effect a national unity government. That is to say, there has been ongoing cooperation between the left and right in pursuing this policy of privatization, even when they have not been in the same ruling coalition government. What is the basis of this national unity government? They agree to disagree on the political questions, such as the Palestinian conflict, but they all agree on privatization. Privatization for the last two decades has been the common denominator between the Israel left and right.

Now this phenomenon called the Kadima party is just taking this concept of a national unity government, and transforming it into a party. They were able to do this because, practically, there was no left in Israel. On the contrary, the "left" in Israel has represented the middle classes and the upper middle classes, and has been an active player in privatization. In Israel the left means mainly holding dovish political views; it has nothing to do with socialism.

For example, the privatization of the Israeli educational system has been the project of the Meretz party, one of the more leftist parties.

## 'An Inequality Revolution'

Now as to particulars. Take, for example, the income gap. In the mid '70s Israel was one of the Western or industrialized countries with the lowest income gap: It was among the most egalitarian in terms of income distribution. Now, since the

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1. In Israeli parlance, the term "welfare state" has a somewhat different meaning than in the United States. It signifies that the government takes responsibility for the general welfare—including health, education, social welfare, social security, and unemployment and disability benefits—whether through state institutions directly, or in partnership with the private sector. See discussion below—ed.



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Israel's "privatization revolution" has resulted in one out of four citizens living below the poverty line, while the gap between rich and poor is one of the greatest in the industrialized world.

early '90s, Israel has become one of the more non-egalitarian countries, with its income gap among the highest among the Western countries. We are speaking about an *inequality revolution* in Israel, over the past 20 years.

What was the mechanism that made the dramatic change? The main mechanism was the privatization.

The turn came about in 1977, when the Likud party came into power, led by Menachem Begin, who became the Israeli embodiment of Thatcherism. In '77, almost four years before Thatcher came into power in Britain, Begin pursued a Thatcherite policy, using privatization as his main strategy for building the power of the right. But Begin had a big problem in the beginning, because of the structure of the Israeli economy. Israel in the 1970s, unlike Great Britain or Europe, did not have the private economic power, the private money, that could buy the privatized industries or services, because the entire Israeli economy was dominated by the public sector.

To deal with this, the Begin government pursued a dual policy, with two complementary goals. One was to create the private sector, and then to begin the privatization of the public sector. So, the first step they took was to degrade the public sector by cutting the government budget for services, such as education, health, etc. After their budgets were cut, they became inefficient, leading to demands that they be privatized, because here was the proof that something that is public can't work, and that only private services will work.

However, since we didn't have the private money that could buy and operate such services, Israel made its own unique "contribution" to the privatization, by creating the so-called sectors to provide the degraded public services. What do I mean by sectors? The services were turned over to various groups, mainly marked by their religious beliefs, such as the

ultra-orthodox, or to special interest groups, who then began to provide these services. This is the reason for the creation of a party like Shas, which represents the Sephardim ultra-orthodox community, or the parties representing Russian immigrants. In this way the Israeli universal welfare state was broken.

So the idea is clear. First, the universal welfare state was broken by degrading it through budget cuts. Then it was supplemented by creating the sectors that became suppliers of services, thereby eroding the Israel welfare state, paving the way for the second phase, whereby the services were privatized, and bought up by private money.

Take, for example, the education system. The last Education Minister, Limor Livnat, a member of the Likud, published an official report called the Dovrat Report. Dovrat was chairman of the commission that drafted the report. This report laid out how to privatize the Israeli education system. Until now, privatization of the education system had been anarchic, but now this Dovrat Report gave the outline of a new privatized system of education.

Let's take the health system. After the health system was degraded, it was replaced with the so-called national health security plan. But it provides only the minimum health insurance, so you are asked to buy complementary health insurance, and Israelis are now divided according to what health insurance they have. If you have to go to the hospital to have an examination or a test, you will get it in a shorter time if you have good health insurance, and you will get it in a much longer time if you don't have additional insurance.

Another example is the labor market. The power or the strength of the trade unions was effectively broken, and more and more Israelis are employed now under a system of contractors: a system whereby workers haven't any prospects of job security or even of getting a pension.

So if you take health, if you take the labor market, if you take education, the privatization has turned social services into commodities. And as commodities on the market, you can buy them—or you can't buy them if you haven't the money.

In the last 20 years, there was a very interesting process. The middle classes cried that these services should be privatized, because it would make them much more efficient; and as a middle class, they would be in a better position to buy what was needed. But actually, as these services were privatized, they found themselves in a much less secure position. It took 20 years for large segments of the middle class to understand this problem! They supported the process that, at the end of the day, undermined their own situation.

This was the situation when Amir Peretz came into the picture. He began to be an effective political power five years ago, when he and certain other people pointed to this inner contradiction of the Israeli middle classes: that they support processes that in the end would undermine them. I think little by little, people are beginning to understand this problem.

This is the first success of Peretz: putting this point into the epicenter of Israeli discourse. He used the Histadrut [labor federation] and the trade unions, which were very effective in putting this point into the center of discourse.

**EIR:** You have a real problem, now that one of the architects of this whole process, Stanley Fischer, is the governor of your central bank.

**Gutwein:** The problem is not new. If you look at Stanley Fischer's predecessors, including Jacob Frenkel and David Klein, all of them were committed to neo-liberal economic policies, and were very effective in bringing about this privatization. Fischer is only one link in the chain; he is very effective, but nothing new.

**EIR:** One of Fischer's Israeli sponsors is Benjamin Netanyahu.

**Gutwein:** This brings up a very interesting point. An analysis of the current Israeli political system reveals a very interesting phenomenon. The political system has been broken across the full spectrum, from left to right. All the old parties have been broken. The Labor Party voted for Peretz, and the party's old mythological leader, Shimon Peres, moved over to the new Kadima party. The Likud has been split by Sharon, who then created the Kadima, leaving Netanyahu in the Likud. The Shaenui party, a sort of neo-liberal centrist party, was broken last week, when its two top leaders left the party. So the entire Israeli party system has been broken in the aftermath of this privatization revolution, rearranged according to the coordinates of the new neo-liberal system.

On the one side, Peretz is representing the interests of the lower and the middle classes, calling for a more social democratic agenda, to recreate the Israeli welfare state. On the right wing, you have Netanyahu—that is, right-wing in terms of both economic and political policies—and then, you have the Kadima party in between.

The Kadima party, for the time being, has the support of something like a third of the Israeli population. For these Israelis, this party represents the illusion that on one hand, things can go on as they are, but somehow they will become better. This is the great fantasy of many Israelis whose living standards have been eroded, who are very tired of this growing insecurity. They believe that somehow Sharon will be the father of the nation, and will take care of their needs; that the pull-out from Gaza will solve the problems of Israeli society. But this is an illusion. They don't realize that Sharon, his Kadima party, and his successor Ehud Olmert, represent the very neo-liberal forces responsible for their insecurity. So now there is a struggle between their illusions and their interests. The question is how fast will Israelis, especially the middle classes, give priority to their interests over their illusions. This is the main issue in this election campaign.

You can't explain this huge support for Kadima, unless you understand that they are getting the support of all the



*Labor Party Chairman Amir Peretz is putting onto the Israeli political agenda a challenge to the disastrous, decades-long policy of privatization.*

Israeli media. This is amazing! All the Israeli media wants them to be in power, because they know they will be very friendly to business. It is a very crude example of how private money, or big money, or the oligarch system, you name it, uses its domination of the media—three great newspapers and two of the three television channels—to make very overt propaganda in support of Kadima, precisely because they know it will go on with privatization and diminishing the welfare state.

**EIR:** How do you connect this with the peace process? Lyndon LaRouche has proposed a peace based on regional economic development, organized around regional infrastructure, especially transportation and the introduction of new water resources, through developing desalination projects utilizing the newer and safe nuclear power technologies.

**Gutwein:** Now there are two phases. In the long term, of course, the solution to the Middle East conflict is dependent on the economic development of the entire region. These plans go back to the beginning of the 20th Century, when the Middle East was one political unit under the domination of the Ottoman Empire. At that time, the railroads went from one end of the Middle East to the other. But the fragmentation of the region after World War I has made this idea of rejuvenating the Middle East through regional economic development very difficult.

But, speaking about the current situation, the problem is that in every one of the countries in the region, you have very strong powers who are trying to block the idea of achieving peace through a regional solution. Let's take the Israeli-Palestinian conflict as an example: It is obvious that the prospect of a very bright future can bring hope to people who are living now under very severe conditions. The question is not only how do we portray the future, but how do we make people

believe that this future is possible. This is only possible by elevating their situation in the very short term.

Take, for example, the Israeli situation. Everyone talks about the settlements as being at the center of the Israeli-Palestinian conflict, which of course they are; but let's for a moment look at the settlement question from a socio-economic point of view. Then you will see something very interesting: As the welfare state was eroded and broken in sovereign Israel west of the Green Line [the 1949 Armistice Line between Israel and the West Bank—ed.], it was rebuilt in the settlements east of the Green Line. That is to say, the phenomenon of the settlements was not only a political phenomenon, but a socio-economic phenomenon as well. Those who were the victims of the privatization in Israel west of the Green Line, were told they could find a solution to their hardships by simply emigrating to the settlements east of the Green Line. Now this is the real answer to where the Israeli right got its strength: by this sort of an agreement between the lower classes and the right, where, as the welfare state in sovereign Israel was degraded, they were given a substitute in the territories. So if you want the people to understand that pulling out of the territories is a real option, you must give them hope, in terms of rebuilding the welfare state.

Shimon Peres was the prophet of the new Middle East. He said the fantastic new Middle East, with its economic development, would create new opportunities; yet he couldn't get any support from Israelis, because most of them saw that their near future was insecure.

I believe that if you want to get the people to believe in a real solution in the Middle East through a regional approach, a regional economic approach, you have to very quickly re-establish their economic and social security by means of rebuilding the welfare state. So I think it is very complementary, on the one hand to speak about rebuilding the welfare state, and on the other hand thinking about a regional development perspective.

**EIR:** I think you identified one of the main reasons why a regional approach to peace has been blocked up until now, by this neo-liberal economic policy.

**Gutwein:** And it will continue to be blocked. Take the situation in the Palestinian territories. What is the power of Hamas? Why is it strengthening all the time? And why all these fundamentalist movements throughout the region strengthening all the time? They are giving to the masses, the lower classes, what the state doesn't give them. What is the power of Islam? Islam has become an institution that is now supplying social services.

The same thing is true in Israel, with the creation of the sectors as I mentioned a few minutes ago, which is closely connected with the strengthening of the power of the Israeli right. That is to say, while the state fails to supply the social services, all sorts of religious and ethnic groups step in to give these services. All these sectors see the universal welfare state

as their enemy. So there is a very clear common interest between the ethnic and religious groups, who want to break the welfare state and the right wing in Israel.

Now, if you want to break the bondage between these groups and the right, you have to offer an alternative, which is the welfare state.

**EIR:** What is your programmatic solution?

**Gutwein:** Let me just say what the general assumption is. I don't think, contrary to the neo-liberal belief, that there is any contradiction between economic growth and social equality. On the contrary, a more equal distribution of income gives a larger segment of society purchasing power, and getting much more purchasing power to a larger segment of society is one of the engines of economic growth. I think this is a basic idea that gives economic justification to the welfare state. We are not speaking about being nice to people with hardships; the idea of the welfare state is a very solid economic concept of having more people taking part in the economic process.

Let's look at every level of rehabilitating the welfare state. Take, for example, education. I think the state has to take responsibility for creating a competent education system where, for example, the classes are less than 25 students. In Israeli schools, classes are as large as 40 students with one teacher, which is an impossible situation. Israeli students spend no more than four hours a day in school. Your children will only get more hours if you have money to buy more hours. If you don't have money, you can't buy them. A much greater education budget will create what we now call human capital, which will create the taxpayers of the future, who will repay all their expenses.

Now take the health system. I think most Israelis from the middle classes who have to buy private insurance, will prefer to pay more for better national health security than to rely on insurance that they are not sure of anyway. What I am trying to say, is that there is no problem in rehabilitating these services, because you have the money: The money is there.

If you go to the housing problem, in Israel it is the custom to buy an apartment, not rent one. I think the government should be very active in the mortgage market. What is happen-

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*Stanley Fischer, former director of the International Monetary Fund, emigrated to Israel to become governor of the Bank of Israel. Invited by Likud Chairman Benjamin Netanyahu, he is a staunch backer of the privatization policy.*

ing nowadays is that fewer and fewer Israelis can afford to get mortgages, because they have insecure jobs, and therefore the banks are not ready to give them mortgages. If you can't get a mortgage, you can't buy an apartment. Housing is one of the engines of economic growth everywhere; and one of the sectors in Israel that is now in recession is the housing sector. So, the state should be more involved in the mortgage market to allow people to buy flats.

Let's take another sector, the labor market. I think that the raising of the minimum wage is imperative, thereby on the one hand giving the lower classes more purchasing power, and on the other hand creating an incentive for employers and industry to invest in new technology. It will prove to be very crucial, in terms of regenerating the Israeli economy.

Another sector one should look at is the pension system, which has been privatized. These funds are a very important source of capital for the economy, but I think we have to make these funds much more secure than they are now, because they are dependent on the stock exchange. When the state privatized the pension system, the state abandoned its responsibility for the stability of these funds. These funds have to be made much more secure in order to ensure the security of the pension system into the future. I think the management of these funds has to be rethought, and I think here is one area where public management and responsibility can prove itself to be very efficient in terms of economic growth.

On the plan of economic development, I think more money should be invested in the development of Israel's municipalities. I think we have a big problem in the area of municipal development. In the very short term, this would be an effective power in creating jobs and so on.

I believe that implementing these reforms will make

Israelis much more confident in themselves and feel much more secure, more ready, to deal with the Israeli-Palestinian problem. Once they are more confident and secure, they will not need the settlements as a sort of solution to their problems, so the power of the fantasy of going on with the settlement enterprise in the territories will lose its power, and that will be the beginning of a much more rational solution to the Israeli-Palestinian problem.

If we understand the strength of re-establishing the Israeli welfare state, we have to see what is happening in the labor market in the territories. The development of the Palestinian territories is very crucial to the welfare of Israelis, because if the Palestinians don't have work in the territories, they will try to find it in Israel, where they are competing in the same labor market as Israelis. This leads to the reduction of salaries, and of course the Israeli lower classes will always see them as competitors; this is translated into economic competition and ethnic and national rivalry. So I believe Israel should be interested in the economic development of the Palestinian territories, not only for itself, but I think the simultaneous development of the territories and Israel—because we are speaking effectively here of the same market—will ease the socio-economic situation in the region, and will make it much more feasible to get to a rational solution to this conflict.

So from my point of view, addressing the socio-economic question is not only important in itself, but is a means to a solution to the Israeli-Palestinian conflict.

**EIR:** What you are describing for Israel has a parallel in the United States. There too, the privatization, globalization, outsourcing, have created similar problems. There is also a parallel in your solution as well in the policy outlook of Franklin Delano Roosevelt in dealing with the Depression.

**Gutwein:** If you mention FDR, the New Deal, and a Keynesian policy, I think Peretz has a very strong Keynesian element in his thinking, and I think the model of the New Deal, as an example of how to turn around an economy going through a deep recession or depression, to make it work again, is very important, and this is very strong in his thinking and in those around him.

That's why I think the Peretz campaign is so important, because in Israel we are in the middle of a process: We are standing at a point where the ramifications of the privatization revolution are becoming clearer and clearer. All these things I have been saying for the last ten years—and they were just as true ten years ago as they are today—but now I think we have here a turning point, because the entire Israeli socio-economic and political picture has been changed, and this change has led to creation of these new parties, and therefore the overall trend of the political scene makes it much more possible to think about these changes in much clearer terms than ever before. The fact is that change is much more possible now than it was before.