



By *Dan Ephron* - 07.28.11

Inflation Sparks Big Protests in Tel Aviv

Some 20,000 people in Tel Aviv have come out to protest not politics, but economics. Israel is too expensive. Here's why. It started with a few college students who pitched their tents along a trendy boulevard of Tel Aviv earlier this month to protest the high cost of housing. Soon they were joined by everyday families who complained

that food, gas, and other staples had become unaffordable. Last week the tent dwellers drew 20,000 people to a protest, one of the largest here in recent memory.

Analysts are calling it Israel's Arab Spring—a local version of the political unrest that has been [sweeping the Middle East in recent months](#). Prime Minister Benjamin Netanyahu initially dismissed the protests as politically motivated, and then he offered a package of long-term reforms. Both strategies have failed to disperse the tent camp. This week, the head of Israel's powerful labor federation, known as the Histadrut, threatened a nationwide strike if the government did not take measures to lower prices and ease life for the middle and lower classes.

So why is Israel so expensive? Until a few years ago, Tel Aviv, Israel's main metropolis, had been considered only a moderately pricey city, ranked around 40 in surveys of the world's steepest and cheapest places to live. But its position has steadily climbed since 2003. One frequently cited study put it at 19 last year—well behind perennial frontrunners like Tokyo and Moscow but more expensive than Rome, São Paulo, and even New York City.

The standard explanation is that Israel spends huge amounts on its own security and, to finance the expenditures, must collect more in taxes on income and purchases than other Western countries. Staples like gasoline are heavily taxed here. Commodities are too. In one of the most painful examples, Israelis pay twice as much as Americans for a new car because of a 100 percent purchase tax imposed by the government.

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But defense spending is only part of the story. In fact, Israel's defense budget has come down dramatically since the 1970s, to around 6.3 percent of GDP in 2010 (the equivalent figure in the U.S. is 4.7 percent, and in France and Britain under 3 percent). In the meantime, Israeli spending on settlements in the West Bank and on welfare payments to the ultra-Orthodox community—where huge numbers of working-age males

are allowed to study in yeshivas and collect government handouts—have ballooned. In both cases, the policies are driven by strong lobbies in Parliament, according to David Rosenberg, an analyst who has written a book on Israel's economy. "Precisely how much is spent on settlements is hidden away in budgets, so it's hard to quantify. But it raises taxes for everyone else."

Economists also point out that there's little or no competition in major sectors of the Israeli economy—from food retailers to electricity providers. One reason is Israel's small size and population, less than 8 million. "You're just not going to get a lot of players in such a small economy," says Yakir Plessner, a professor emeritus of economics at Jerusalem's Hebrew University. The result is a concentration of business in the hands of a few players. "There's this well-known list of 15 or 20 families who control much of Israel's economy," says Daniel Levy, an economist at Bar-Ilan University. "There's not the type of competition you're familiar with in the U.S. If you want to buy a Toyota or Honda, there are many car dealers that import the cars in the U.S. Here there's basically only one importer of Toyota or Honda."

The upshot is that meeting the expectations of the protesters would require a major overhaul of the Israeli economy. More affordable housing has been their principal demand. Yet historically low interest rates continue to drive up the cost of apartments across the country. With the protest over higher prices spreading to other cities, some retailers have responded to the rising demand for tents by charging a premium. Because even tents, too, are getting more expensive.

<http://www.thedailybeast.com/articles/2011/07/28/israelis-protest-inflation-and-high-prices-in-tel-aviv.html>