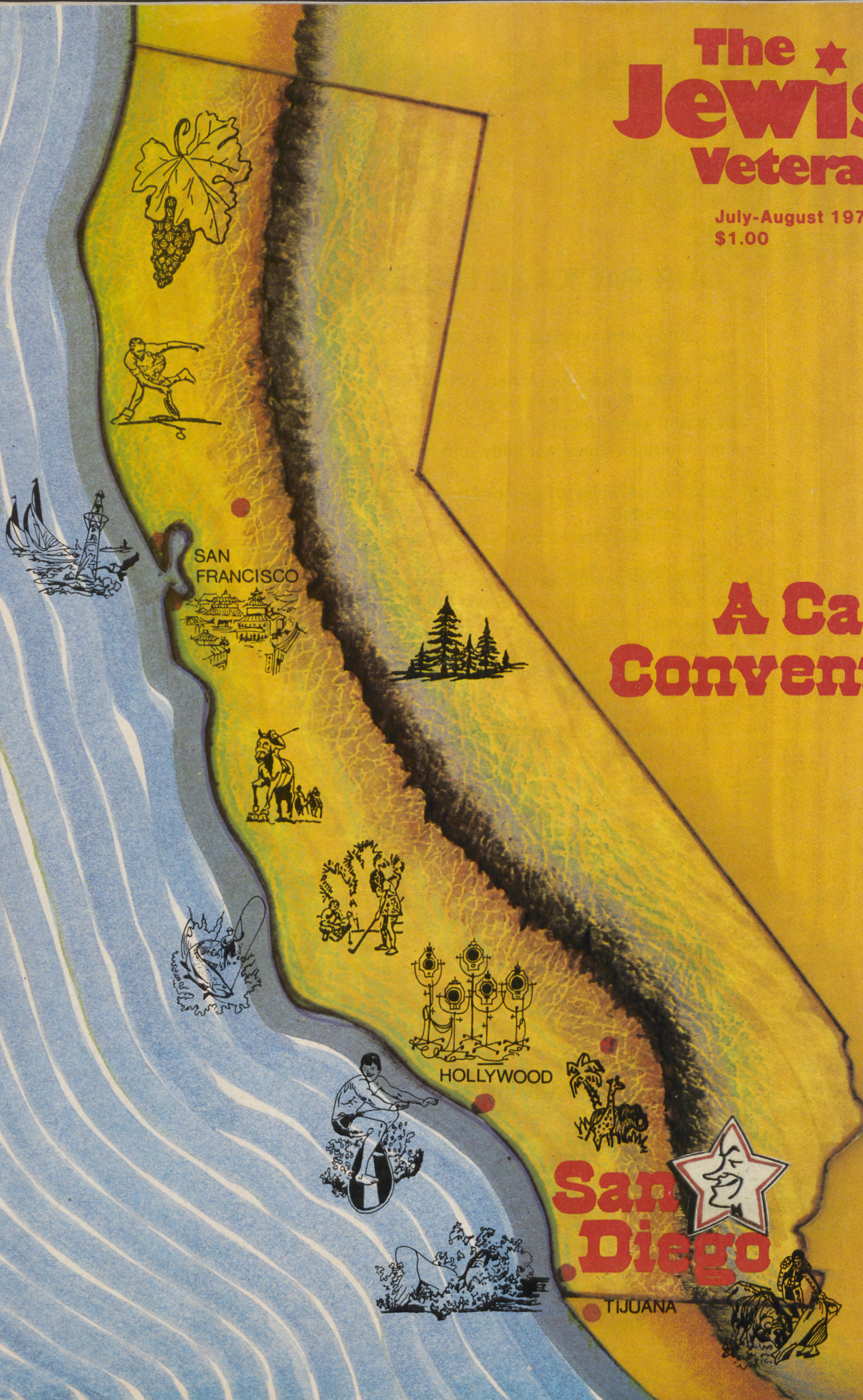


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# The Jewish Veteran

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The Jewish Veteran  
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**EDITORIAL OFFICES**  
1712 New Hampshire Avenue, N.W.  
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Phone: (202) 265-6280

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# Israel Today

by Ido Dissentshik

If prices in Israel continue to rise at their present rate—a staggering 8.7 percent—then for the first time in her history, the country would hit the plateau of triple-digit inflation. It is not clear if this would make Israel the world champion in this nothing-to-be-proud-of category. But it would certainly place her among the serious contenders for the title.

Whenever the Israeli Central Bureau of Statistics publishes the monthly change in the index of consumer prices, finance ministry officials express surprise. They did so when the March numbers indicated a 5.8 percent rise and again in April. In March they felt it would be only 4 percent (48% annually) and in April they expected no more than 6 percent (72% annually).

There are other indices which rise even faster than the consumer price-index. For instance, the price of an average residential unit—in the case of Israel a three-room apartment in a condominium—has gone up 400 percent since January, 1978. The price of such an apartment in a new building in a good neighborhood in one of the major Israeli cities is about 2 million Israeli pounds. As of May, that translates into about \$85,000. But since the dollar is rapidly gaining against the pound, it could go down to \$75,000-\$80,000 within two weeks. The unreliability of the pound reached such major proportions that prices of items such as apartments, cars and even electrical appliances are now quoted in dollars.

The prices mentioned earlier in this article do not tell the entire story. It is misleading just to translate them into dollars. For an Israeli to earn two million pounds at today's average income, he would have to work 80 years and not spend one penny on anything but his apartment—and that does not include the interest. More important is the fact that in Israel, there is no such thing as a long-term mortgage. At this point when one buys an apartment he has to pay the entire sum on the day he signs the contract and then has to wait two years or more for the con-

tractor to finish the building. If one does not pay the entire sum, he would find himself faced with increasing mortgage payments almost to the point of bankruptcy. This would be the case because the mortgage payment is linked to the index building material prices which goes up twice as fast as the consumer price-index.

Israelis' salaries are linked to the consumer price-index. There is an automatic adjustment every six months. At that point every Israeli who earns a salary gets an automatic raise of 70 percent of the rise in the index.

This policy has now come under strong attack from Histadrut, the Israeli Federation of Labor Unions. It argues that this policy was fine when the rate of inflation was much lower. Now, Histadrut demands full linkage rather than 70 percent and adjustment every three months rather than six. The government would have to meet these demands or the strikes—which have brought Israel to the verge of total anarchy—would become even more widespread and more violent than they already are.

Despite all this, Israelis' real average income has gone up by two percent in the last two years. The GNP has also gone up after being stagnant for three years. The government is now trying to do something about the situation. Finance Minister Simcha Ehrlich has introduced a few proposals that are intended to cut the national budget. Most economists believe the proposals have not gone far enough to alleviate the predicament. In the beginning, Mr. Ehrlich had trouble with his colleagues in the cabinet. They all agreed that cuts were necessary, but in the other guy's share. But after the April figures came out the ministers became so worried they now seem to compete on who would give up more of his cake. Even this late-blooming show of responsibility on the part of the members of the cabinet may not do any good. Israel is in a very peculiar situation. Though no one can tell exactly—it is believed that at least 50

percent of all economic activity in Israel is outside of government controls. Fiscal and monetary policies will not touch or influence that part of the economy which operates on what we in Israel call "Black Capital"—that is, money on which income tax was not paid. This kind of money results in cash transactions that are not recorded anywhere. Part of this money is Value-Added-Tax (VAT) collected by merchants and others and not transferred to the government as the law provides.

There are billions and billions of Israeli pounds in the Black Capital market. It is a result of the government's continuing failure to collect true and full taxes—either income taxes or indirect taxes. Cheating the Israeli equivalent of the IRS is more than an epidemic—it is a national pastime. It is not surprising in a country where the income tax rates are the highest in the world and the bureaucracy too weak and ill-motivated.

The government is looking into ways to deal with this problem. The finance ministry promised to enforce tax collection and to impose stiffer penalties on violators. But the most controversial proposal is to "whiten" the black capital through some sort of amnesty. Any person coming forward and declaring his black capital to the IRS would be required to pay only 25 percent in taxes. This amounts to giving a prize to the violators. They can get away with no jail term, no fine, and with taxes which in most cases are less than half of what they would have to pay had they complied with the law.

There is some doubt that even this would attract violators. There is so little faith in the tax collectors' ability to catch them, that they would consider paying only half of the tax—a stupid thing to do.

The end of the economic catastrophe is not in sight. The best the finance minister is ready to offer is to bring inflation down to 30 percent by 1983. Given his record for predictions, very few Israelis doubt that he would deliver.