Oligarchy and inequality in Israel

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A number of high-profile economic "successes" and technological achievements associated with Israel's economy conceal one of the most polarised societies in the world.

Last May, Israel was admitted to the Organisation for Economic Cooperation and Development, underscoring its transformation into an advanced economy. Israel's per capita GDP, at $28,365, is the fourth largest in the Middle East and larger than all its neighbours combined. Only the tiny oil-rich Gulf States have a higher per capita income.

Last month, Stanley Fischer, the governor of Israel's central bank and former deputy general of the International Monetary Fund, was voted central banker of the year by Euromoney, the banking and finance magazine. In September 2009, Fischer had, contrary to other central bankers, initiated an interventionist approach to exchange rate policy—raising interest rates to 4.5 percent to bolster Israel's exchange reserves and take the shekel to 25 US cents. He is credited with playing a key role in Israel's economic growth, which averaged 4 to 5 percent a year until the onset of the recession in 2009, and is expected to grow at 3.7 percent this year.

Thanks in large part to immigration from the Soviet Union, Israel currently has the highest per capita number of engineers and scientists, scientific publications and registered patents in the world. The Arrow, the world's most advanced anti-missile missile, unmanned drones, the Given Imaging's diagnostic pillcam, MRI and CAT scans, dental and medical imaging, drip irrigation and text messaging were all invented in Israel. All of the major IT, aerospace and aviation companies have subsidiaries in Israel.

But the technological successes and the new wealth, flowing from Benyamin Netanyahu's "free market" policies when he was finance minister in previous governments—most recently under Ariel Sharon from 2003 to 2005—has benefited only a narrow social layer.

According to the 2009 Merrill Lynch World Wealth Report, Israel has 5,900 people with at least $1 million in liquid assets. Between 2005 and 2007, Israel produced more millionaires per capita than any other country. The Marker, Ha'aretz's financial section, estimates that the wealth of the 500 richest people in Israel is $75 billion, equal to $150 million each. To put this in perspective, last year, Israel's total GDP was $205 billion—making 500 people worth more than a third of this total.

Even this fails to fully show the concentrated nature of Israeli wealth and power. The wealthiest 20 families control about half the stock market and 25 percent of the top companies in Israel, notably the newspapers, banks and high tech companies, through a vast pyramid of companies that involve very little of their own money. The families appoint their relations and close friends to manage these companies. Such corporate structures and trusts were outlawed in the United States more than a century ago. Even in Saudi Arabia, the world's largest family-run business, corporate control by 70 ruling princes is less concentrated than in Israel.

Israel's Central Bank recently issued a report indicating its concerns about the stranglehold these families have over the economy and their "close"—a euphemism for corrupt—relations with Israeli politicians, likening it to a developing country.

The Kadima party, which former Prime Minister Ariel Sharon formed as a splinter party from Likud and Labour, is widely seen a political front for Israel's oligarchs, with Shimon Peres, Israel's president, as their man. The former Kadima leader and prime minister, Ehud Olmert, was forced to resign over numerous corruption scandals.

Israel is one of the most socially polarised societies in the developed world. According to the Adva Institute, an Israeli equality and social justice NGO, top managers earn $523,000 a month, nearly 500 times the average monthly salary of $1,440. This is fives time the differential in the US.

At the same time, one and a half million people, or more than 20 percent of the population, live in poverty—defined as living on 50 percent or less than the median income. Fully 34 percent of Israeli children live in poverty. Among the advanced countries, only the US has higher poverty levels.

Adva reported last April that in 2009, when GDP growth fell to less than one percent, employers' share of GDP rose from 15 percent in 2008 to 17 percent, while workers' share of GDP fell from 62 to 60 percent. Over the decade as a whole, when GDP rose by 30 percent, the employers' share of national income rose from 14 percent to 17 percent, while workers saw their share fall from 66 percent to 60 percent, equivalent to a loss of $250 a month, or about one sixth of their income. While the economy has been growing at 5 percent a year, wages have been falling by 3 to 4 percent a year.

Public spending on anti-poverty measures, education, health, transport and social security has been cut, while the wealthy have gained from tax cuts and the protection of capital gains.

The Taub Centre for Social Policy Studies in Jerusalem published a report, The State of the Nation, showing that 19 percent of Israeli men aged 30-54 do not work, compared to an average of 12 percent among OECD countries.

Fully 27 percent of Arab men in that age bracket do not work. Last year the average annual per capita income of Arab Israelis was $6,756, compared with $19,150 for Jewish Israelis. While Arab Israelis constitute 20 percent of Israel's population, in 2005 they received less than four percent of the education budget, and eight percent of the welfare budget. As they receive 30 percent less welfare per capita than Israeli Jews, there are three times as many Arab families living below the poverty line as there are Jewish families. Fifty percent of poor children are Arab. Israel's Arab schools are grossly underfunded in comparison with Jewish schools, and Israel's Arab citizens face all kinds of discrimination that prevents them from getting jobs in the public sector, police and security services.

In addition, a staggering 65 percent of Jewish Orthodox or Haredi men do not work. While Haredi schools are funded by the state, they refuse to teach core curriculum subjects such as science and foreign languages, which are crucial in Israel's high tech economy. Dan Ben-David, the report's author, commented, "We've created a situation in which a large and growing part of the Israeli population simply doesn't have the tools to work in the modern economy."

The impact of Israel's free market policies have been felt throughout Israeli society. The elderly have been particularly badly affected. Even those who survived the Nazi extermination of European Jewry, for whom Israel was supposed to provide a safe haven, have not been spared. Support groups claim that 80,000 survivors, one third of those living in Israel, do not have enough money to make ends meet and are forced to turn to soup kitchens, charities or welfare agencies.