

The Cost of Occupation under Coronavirus

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The ongoing Israeli-Palestinian conflict and occupation exact a heavy toll from both sides. Palestinians pay the highest price, but we are also paying dearly. How? And how is this related to coronavirus?



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The occupation – briefly overshadowed by the pandemic

What does the occupation have to do with the coronavirus pandemic? Ostensibly, nothing; in practice, however, a great deal.

Although the pandemic currently dominates the news, the occupation has not disappeared, but is alive and well. IDF troops are still encamped throughout the occupied territories and continue to patrol Palestinian towns and villages. Arrests have not ended. Closures continue, and not just to keep out the coronavirus. The disease has also had some positive side effects, such as cooperation between medical personnel on both sides of the Green Line, both in the West Bank and Gaza Strip. But these are cooperative ventures between an occupier and the occupied, not between citizens of equal status in two neighboring states.

While other countries are experiencing some relief with the flattening of the coronavirus curve, we in Israel continue to be impacted by the occupation and, more generally, by the Israeli-Palestinian conflict, which exacts a heavy toll, particularly during violent flare-ups.

The next bout of violence is already brewing with Prime Minister Benjamin Netanyahu's pledge to annex settlements – it is unclear how many – to the sovereign territory of Israel. This annexation, if it takes place, could draw the two sides into a brutal confrontation whose repercussions may be harsher than those of the coronavirus.

At the time of writing, the extent and effects of the pandemic remain unclear. Nevertheless, efforts must be made to reach a political arrangement that is acceptable to both sides. A political agreement was urgent prior to the pandemic – and is urgent today as well.

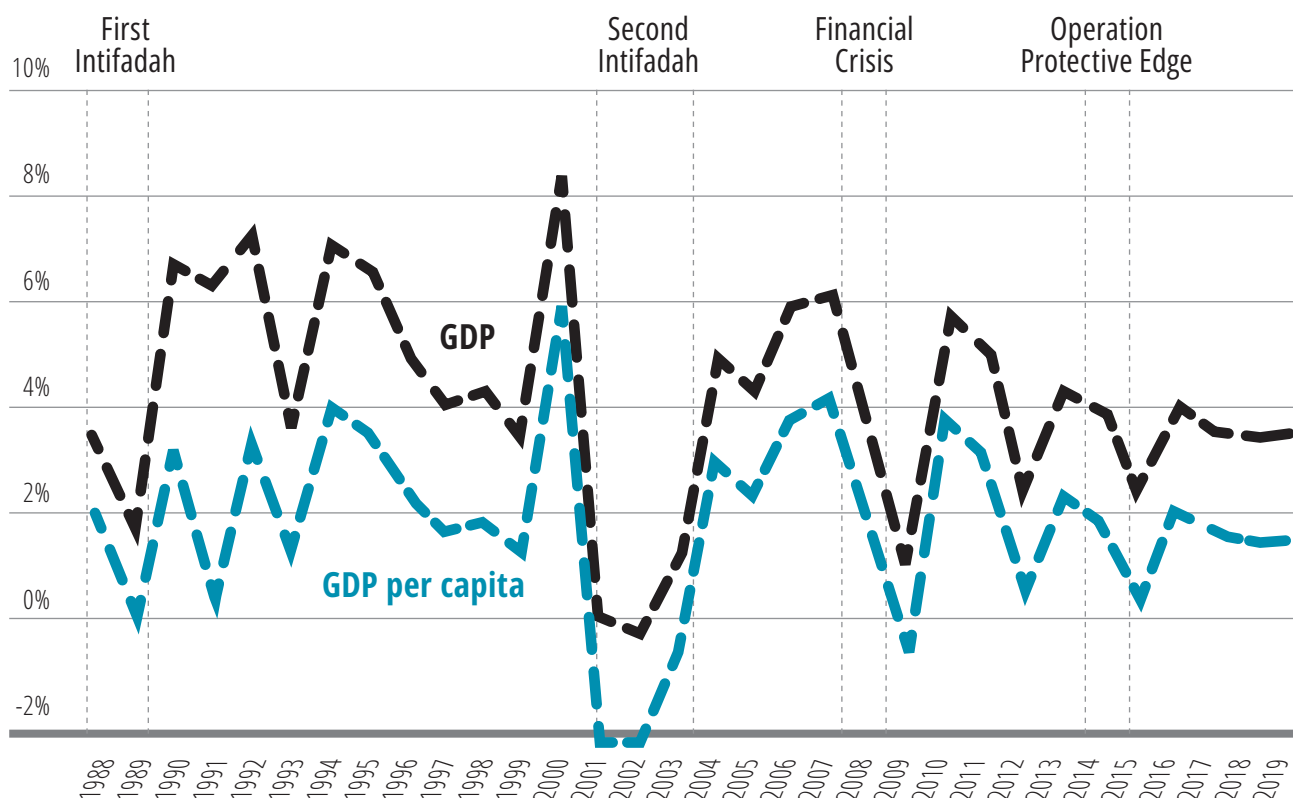
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Occupation and the economic roller coaster – it's not just coronavirus


For just over three decades – since the first Intifada, which broke out in 1987 – the Israeli economy has ridden a roller coaster, with more ups and downs than the economies of other countries. The fluctuations in Israel have not just resulted from international upheavals like the global financial crisis of 2008 or the current pandemic, but also from clashes between Israel and the Palestinians, such as the two Intifadas and the fairly frequent flare-ups in the Gaza Strip.

The economic price: Erratic growth and GDP losses: GDP and GDP per capita, 1988–2019

Percentage change



Source: Adva Center analysis of data from the Central Database of the Central Bureau of Statistics, 15 March 2020; and Bank of Israel, *Quarterly Forecast of the Research Department*, April 2020, Presentation in the Staff Forecast Meeting, 23 April 2020.



Covid-19 has caused a global economic crisis. At the time of writing, the extent of the damage to the world economy and to Israel, in particular, remains unknown. In April 2020, the Bank of Israel forecast that the pandemic would lead to negative growth in 2020, i.e., not only would the Israeli economy not grow, it would contract by 6%.¹

Israel is not alone, of course: The International Monetary Fund estimates that in 2020, the global economy will contract by 3%; in Israel, they predict, the contraction will be 6.3% – a forecast more dire than that of the Bank of Israel.

At the time of writing, the data show a flattening of the coronavirus curve, both in Israel and the United States (between writing and publication, both countries have begun to exhibit increases in infections). Although this suggests that the economy is on its way to "liberation" from lockdown, the next Israeli-Palestinian confrontation is already in the wings, with its threat of economic instability – a result of prime minister Bibi Netanyahu's pledge to annex Israeli settlements.

The issue of annexing settlements came up during the run-up to Israel's most recent election, held on March 2, with the two largest parties expressing support: The Likud party of Prime Minister Benjamin Netanyahu directly backed it, while the Blue and White Party headed by Benny Gantz pinned its backing on compliance with President Trump's "peace plan." Annexation, however, could lead to resolute Palestinian resistance, which could again trigger a severe, if unpredictable, response. It could also lead to dissolution of the Palestinian Authority, which would then force Israel to shoulder the entire burden of state services to the Palestinians, leading to an acute economic crunch.

Israel is small and not immune to global economic turmoil. Local turbulence, however, might be preventable by forging a political agreement that both sides find acceptable – unlike the plan proposed by President Trump, which was acceptable to (parts of) one side only.

¹ Bank of Israel (6.7.2020). *Quarterly Forecast of the Research Department*, July 2020. Press Release.

Israel's roller coaster economy has projected an image of instability, which international credit rating agencies consider a liability to investors, both Israeli and foreign.

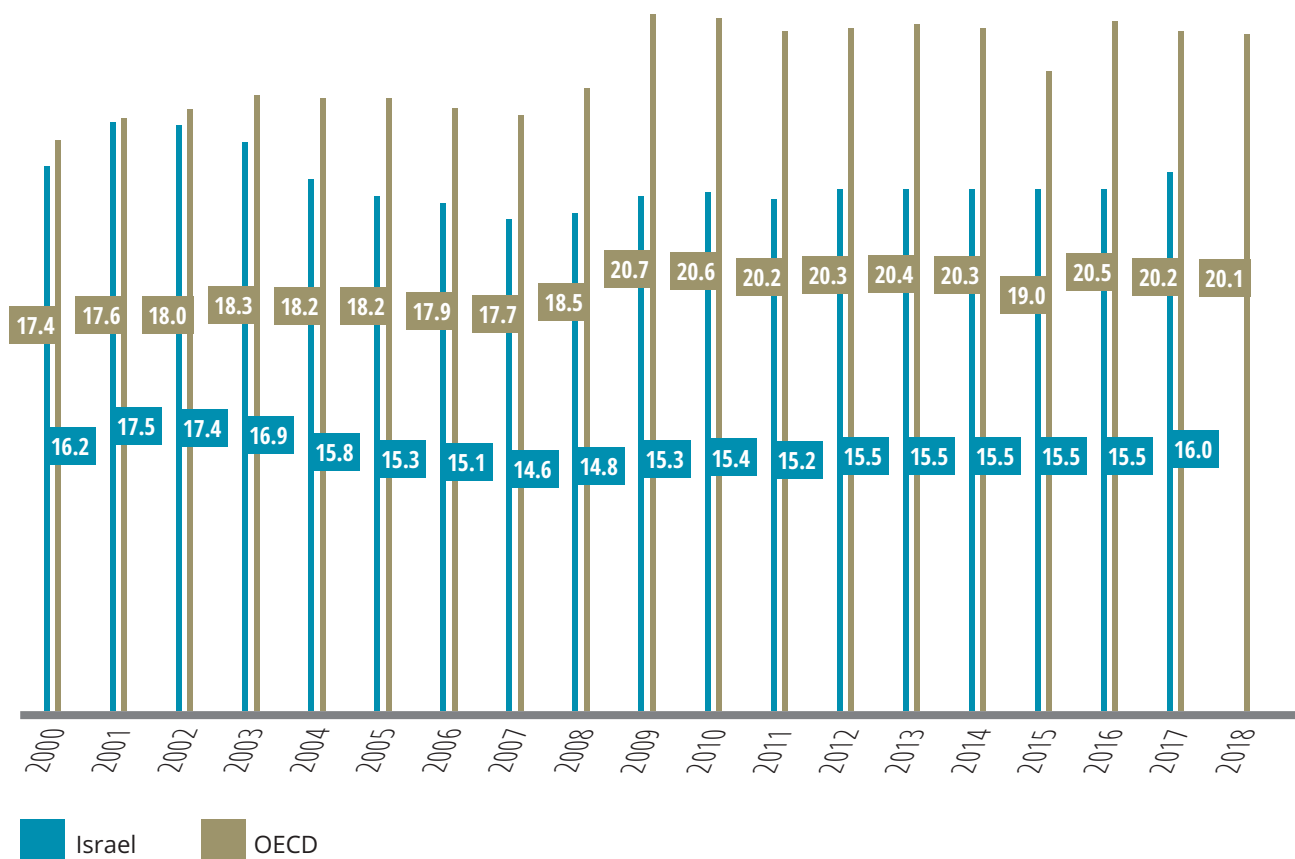
To address this threat over the years, the Israeli government has consistently turned to austerity policies designed to convey financial stability to the investors and international credit rating agencies, despite the actual instability due to the ongoing occupation and conflict. This approach gave rise to the Deficit Reduction and Limitation on Budgetary Expense Law enacted in 2004. As a result, in 2017, public spending on social services by the Israeli government was one of the lowest among OECD countries.

Fiscal austerity rapidly lowered the national debt, from 104.9% of GDP in 2004 during the second Intifada to 60% of GDP in 2019.² A small national debt calms investment jitters, but belt-tightening does damage to social services.

The graph below reveals that in 2001, prior to the initiation of austerity policies, social spending in Israel was 17.6% of GDP – equal to the OECD average. In 2007, following introduction of these measures, social spending in Israel dropped to a low of 14.6% of GDP. Although this figure did increase over time, it grew less than in OECD countries, and the gap remains large between Israel and these countries.

² Public debt includes local authorities. Finance Ministry, Accountant General, Debt Management Unit, *Annual Report 2004* [Hebrew]; Finance Ministry, Press Release, Accountant General, published the first estimate of the debt-to-GDP ratio in 2019, 20 January 2020 [Hebrew].

Social expenditures as a percentage of GDP, Israel and OECD average, 2000–2018



Notes:

1. Social expenditures include transfers (allowances, earned income tax credits) and expenditures on in-kind services provided by the national and local governments for education, health, welfare, employment, and housing.
2. The most recent figures for Israel are for 2017.

Source: OECD (2020), Social spending (indicator). Doi: 10.1787/7497563b-en (accessed 7 May 2020).

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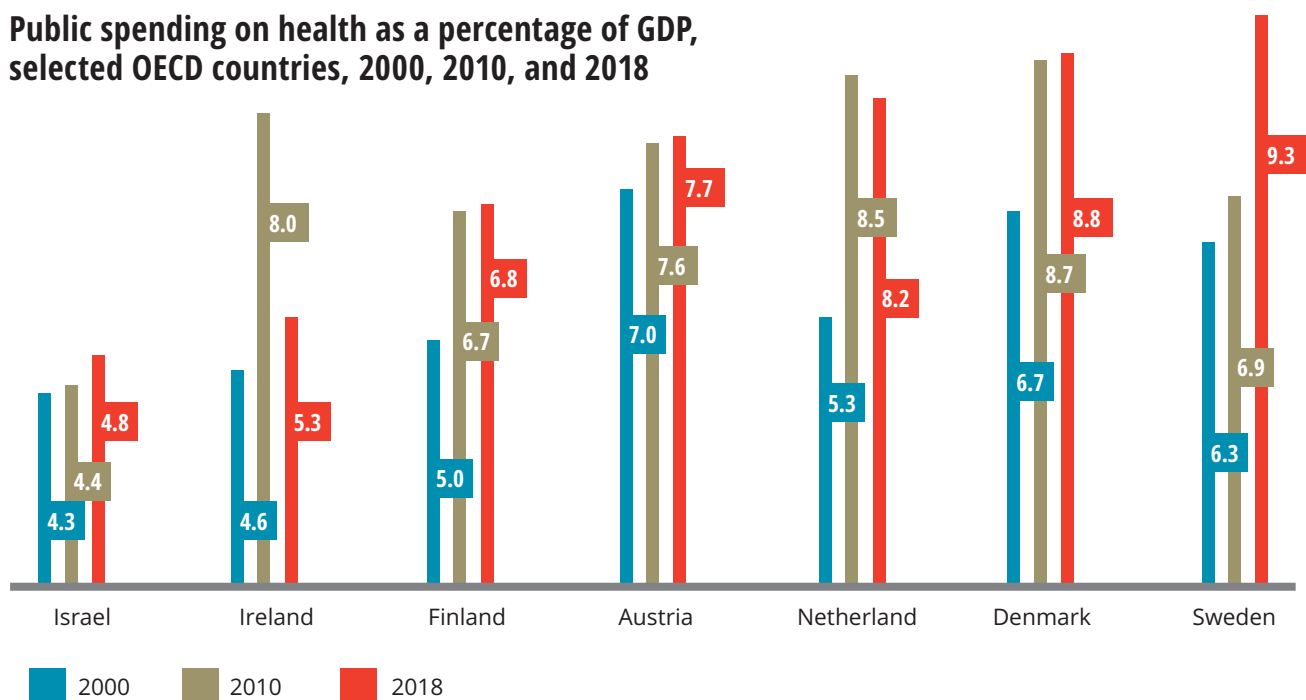
Some consequences of fiscal austerity: underfunded health infrastructure

Cuts to the social services budget made in the wake of the second Intifada have also affected funding of the public health system, particularly the public hospitals, whose budget has not sufficiently increased over the years to keep up with inflation and population growth. Public hospitals now have to treat Covid-19 patients with an insufficient number of doctors and nurses, a shortage of hospital beds, and a lack of testing kits³ due to low public spending on health compared to that of other OECD member states.

The bar graph below compares the past decade's changes in public health spending in Israel and in six OECD member states – Ireland, Finland, the Netherlands, Austria, Denmark, and Sweden. These countries resemble Israel in population and with regard to their reliance on human capital rather than natural resources. They are also countries that Israel aspires to resemble in per capita product and living standard.⁴

In 2018, Sweden topped the list for public spending on health – 9.3% of GDP – while Israel spent the least on health that year – 4.8% of GDP.

Public spending on health as a percentage of GDP, selected OECD countries, 2000, 2010, and 2018



Source: OECD (2020), Health spending (indicator). Doi: 10.1787/8643de7e-en (accessed 10 May 2020).

³ Swirski, B. (2002). The coronavirus crisis: Israelis, cheering us on is not enough. Tel Aviv: Adva Center [Hebrew].

⁴ This comparison is based on research by the Aharon Institute for Economic Policy.

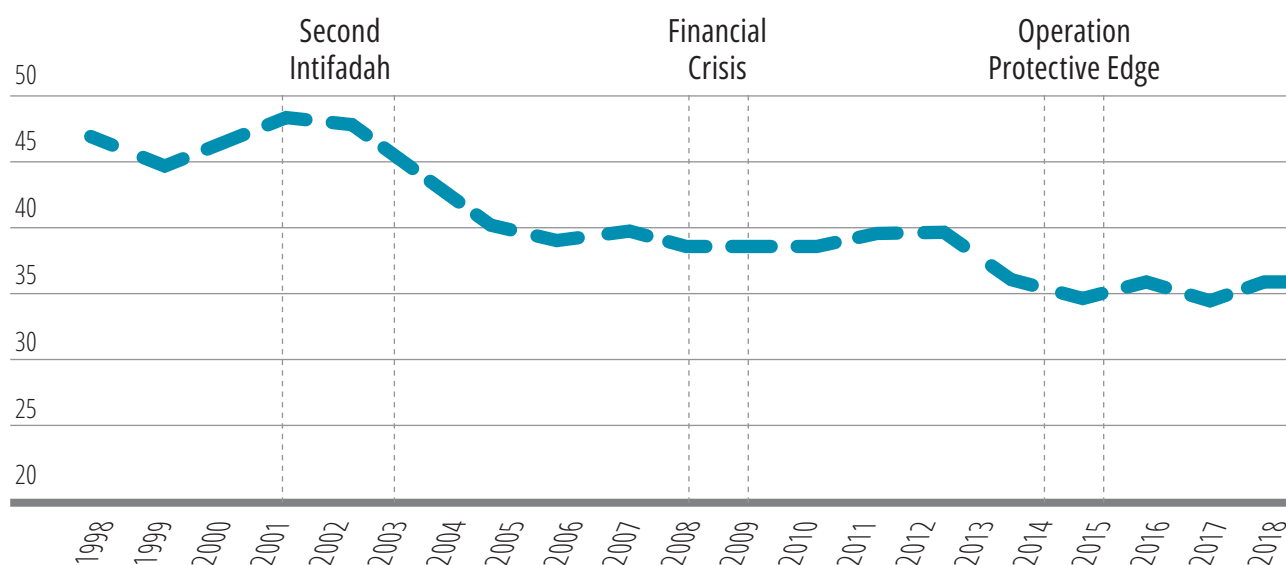
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Who will cover the coronavirus costs? The same people who paid for the second Intifada...

The coronavirus pandemic will require that the government increase its spending so that it can help all those affected – corporations, small and mid-sized businesses, and employees who lost their jobs. Who will pay for this? Among others, the same people who bore the brunt of the second Intifada.


The trauma of the second Intifada and the fiscal austerity policy then adopted underlie one of the most negative turning points in the history of Israeli social policy. In 2002 and 2003, massive cuts were made to the benefits paid by the National Insurance Institute, particularly income support, child allowances, and unemployment insurance.

Effect of government transfer payments and taxes on reducing the incidence of poverty, 1998–2018 (In percentages)



Source: National Insurance Institute. *Poverty and Social Gaps – Annual Report*. Various years [Hebrew].

These cuts fueled poverty and undermined mechanisms to support the unemployed, low-income earners, and large families. Since the second Intifada, the social safety net is no longer capable of reducing the incidence of poverty to the extent that it once did. Those harmed by the austerity policies have also been those most harmed by the coronavirus.



The fraying of the social safety net forced many into the job market, most taking low-paid jobs in the services and trade. And a new survey by the Bank of Israel reveals that those in services and trade were the main victims of the coronavirus – revenues in this economic branch declined and most employees were sent on unpaid leave.⁵ Furthermore, a survey by the chief economist of the Finance Ministry shows that throughout all branches of the economy, those with the lowest salaries have been hurt the most.⁶

Sadly, the Finance Ministry is hesitant to pay out unemployment insurance to the poor if they receive other national insurance benefits, on the grounds that it would reduce their motivation to work. These same slogans were sounded when national insurance benefits were slashed during the second Intifada.

5 Bank of Israel. *Companies Survey for the First Quarter of 2020*. Press Release. 7 May 2020 [Hebrew].

6 Ministry of Finance, Department of the Chief Economist, May 2020. *Characteristics of Job Seekers during the Coronavirus Period* [Hebrew].

Coronavirus proves it again: We're trapped between the top two one-percenters

The coronavirus provides further proof of the intersection of two forces that shape Israeli government policies: the wealthiest stratum in Israel, which we have come to designate as the "top one percent," and the other "top one percent" – the ideological settlers. An economic elite alongside a political elite.

The top economic one percent comprises some 90,000 Israelis (1% of the population), whose wealth far outstripped other Israelis over the last generation as a result of several factors – the growth of large, family-owned business groups, some due to the wave of privatization in the 1980s and 1990s; the Americanization of executive wages in large corporations; and the proliferation of IPOs and buy-outs, particularly in hi-tech.⁷ Although the pandemic hurt some of the large corporations, it has not affected the private wealth of their owners or CEOs. These corporations also enjoy generous government assistance.

The top political one percent is made up of "ideological" settlers. This group is often estimated at 60–80,000 people – comparable in size to the top economic one percent. But despite their relatively small number, the political leadership of these settlers is a powerful lobbying group in Israeli politics, one that can veto many political decisions, including measures to end the Israeli–Palestinian conflict. This power is currently evident in Prime Minister Netanyahu's pledge to annex some of the settlements.

If anyone wonders why Israel has some of the highest inequality and poverty rates in the west, consider the concurrent influence of these top two percentiles – the economic and political. One stands behind lower taxes and will probably oppose any tax increases to cope with the budget deficit expected in the coming years; the other will mount pressure to promote annexation and prevent any political accommodation that would be acceptable to both sides – thereby ensuring continued occupation and the need to grapple with economic instability through more fiscal austerity.

These two intersecting forces will largely determine how we recover from the coronavirus.

7 Swirski, S., Konor–Attias, E., and Liberman, A. (2020). *Israel: A Social Report 2020*. Tel Aviv: Adva Center.

