



EXPENSIVE ISRAEL
Why is the cost of living here disproportionately higher than in other Western countries?

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Milking Israelis for what they're worth

How did Israel get so expensive?



A WOMAN shops in Rami Levy supermarket in Jerusalem's Talpiot neighborhood. (Marc Israel Sellem/The Jerusalem Post)

• ORIT ARFA

‘Look how dirty it is,’ LiAmi Lawrence remarked as we took a plastic cart at the Shufersal “Sheli” on Ben Yehuda Street in Tel Aviv. “The don’t even bother cleaning them.”

Residue from who-knows-what lined the bottom of the faded red basket-on-wheels, foreboding an unpleasant trip to his local Shufersal, which Lawrence always dreads. This immigrant of three years from Los Angeles joined me for an informal price survey of supermarket staples to understand how grocery prices and, by extension, the cost of living, have become disproportionately high in Israel compared to other Western countries.

But prices weren’t the only downer. The entire consumer experience made Lawrence even more convinced of the necessity of his work: leading an organization called “Keep Olim in Israel” to assist new immigrants with hassles, troubles and complications that often eject them out of a country they so wanted to love. He showed me a hand-written list of more than 150 friends and acquaintances who left the country in the last two years (including me).

“Israel’s not holding onto its citizens, especially new immigrants, because of the low pay and high expenses,” he said, explaining how difficulty in making a living ranks as the No. 1 reason why olim leave.

Lawrence started the group out of his own frustrations.

He came with great Zionist love only to find himself unemployed, in debt, blowing his savings on a small one-bedroom flat on Ben-Yehuda Street for NIS 4,600 per month. He’s too old to live with roommates, and lack of efficient, fast public transportation makes it impractical for him to live outside the city center. His earns about NIS 7,000 a month, less than the Central Bureau of Statistics’ stated national monthly average, which hovers over NIS 10,000 – a statistic he doesn’t trust.

We pushed the dirty cart to the aisle that has become emblematic of Israel’s high cost of living: dairy products.

The “cottage cheese protest” of 2011 made international headlines, triggered by angry consumers upset about the 45% increase in the price of cottage cheese over the span of three years. Israelis took to social media and the streets. In 2014, Israel’s “Milky” brand chocolate pudding whipped up the issue again, much to the chagrin of some Israeli parliamentarians and patriots.

An Israeli living in Berlin posted on Facebook a Berlin grocery receipt, encouraging Israelis to move to the German capital of all places (like I did almost two years ago) because, after all, Milky in Israel is three times more expensive than in Germany. Almost seven years and a few post-protest Knesset committees later, Israel has not gotten much cheaper, at least when it comes to dairy products and groceries.

At Lawrence’s Shufersal, cottage cheese goes for NIS 5.70. A cup of Yoplait yogurt goes for NIS 5.20. (At a NIS 3.50 to the dollar, that’s \$1.50.)

“In America, how much does yogurt cost? 60 cents? 75 cents?” A cursory look online confirms his estimation.

We move on to other staples: cleaning supplies, toothpaste, canned goods. Almost a third of the store is on sale, begging the question: Why doesn’t the market mark down prices from the outset? Four cans of Starkist tuna: down from NIS 30 to NIS 24.90. A pack of 30 Pampers brand diapers down from NIS 51.90 to NIS 39.90. Adidas-brand deodorant: NIS 28.70. A box of Kleenex tissues: NIS 11.80.

“\$3 for 75 tissues,” remarks Lawrence. “It’s just insane... Let’s look at rice and pasta because that’s what poor people feed themselves with.” At least in this aisle, he hopes the local brands would cost no more than a dollar (NIS 3.60), but a pack of Osem spaghetti goes for NIS 6.70 compared to the Barilla brand at NIS 7.90.

When I crowd-sourced for a virtual “man-on-the-street” survey on the “Keep Olim in Israel” Facebook page, which often serves as the “water cooler” for new immigrants to dish on their problems, some olim came to Israel’s defense.

- But Israelis are taxed to pay for defense.
- But Jewish education is free.
- But medical care is significantly better and cheaper.
- But mobile phone plans are affordable.

Still, the kvetching came full force through some 120 comments. Someone posted a receipt from Tesco, the UK supermarket, for about £8 spent on deli meats, cheese, rolls and water. Members cited other goods in which prices are more than double than in their countries of origin: cars and gas, wine and beer, restaurants and cafes. Topping the list: real estate. Someone complained about the rising cost of this newspaper and dared me to print it. (I’ll add: writer budgets are decreasing.)

An informal price comparison would not be complete without a walk through a Berlin supermarket, where about a week later I met Gilad Alper, an Israeli economist and member of the advisory board of the Finance Ministry who happened to be on a company retreat in Berlin with the Petah Tikva-based Excellence Nessuah Brokerage, where he serves as head researcher. At Lidl, among Germany’s most popular discount supermarket chains, this free-market advocate identified the main culprit for exorbitant grocery costs in Israel: the government. More specifically, taxes, tariffs and regulations. Israel’s economy, he said, is the most regulated in the Western world.

In the district of Mitte, we pushed the sparkling, metal cart over the spotless tiles. Some of the prices astounded him more than he expected.

A packet of romaine lettuce: 80 cents. A pack of frozen fries: 60 cents. A liter and a half of water: 19 cents. A packet of lox: €2.79. (Yogurt here starts at 30 cents and 34 Pampers go for about €5.)

“It’s annoying because there is just no reason for it to be like that,” Alper said, explaining how Israel exacts hefty tariffs on many basic food items, thereby diminishing competition: 160% on butter; 170% on eggs; 298% on onions; 60% on cheese; 127% on olives; 190% on beef; 170% on chicken, to name a few examples. The high cost of canned tuna in Israel can also be explained by tariffs and import quotas.

As we get to freshly baked loaves of bread that go for less than €2 each, Alper laments the limits

placed on bakeries in Israel.

“In Israel, bakeries are considered ‘food factories,’ so they’re heavily regulated and you can’t really bake stuff yourself on the spot as the owner of the bakery,” Alper explained. “Food factories” must comply with specific regulations regarding facility size, equipment and employee conditions, including the requirement to provide showers for employees. “You need to buy frozen dough from some industrial complex in some industrial part, where they typically use margarine rather than butter. You need to bring it over, heat it up and serve your customers something that is not as healthy and cheap and tasty as it could be.”

And the infamous German “Milky”? The price has remained steady at 19 cents, although there is a “catch” proud Zionists smugly like to point out: it’s made with beef gelatin, making it very unkosher.

As we glide through the aisles, I point out the pleasantness of the consumer experience. The store is quiet and spacious. No employee is perfunctorily shouting over the loudspeaker. Items are impeccably packed on shelves.

Alper laughed. “Okay, now I feel like I have to protect my own country. You have the instinct to protect your own country.”

An instinct the government exploits. Government protections for local food producers and farmers are often justified by Israeli patriotism.

“Israel needs to be independent in food production, goes the argument,” Alper said. “But it’s a made-up excuse. Israel was never self-reliant and will never be.” For example, Israel imports most of its livestock feed, since it does not have the land and climate required to produce grain in large quantities and high quality.

It stands to reason, then, that tariffs should at least generate lower prices on blue-and-white products for Israeli consumers, but after crunching the numbers for Bamba, Israel’s iconic peanut snack, Israelis pay more for some locally made products than do consumers abroad.

As one “Keep Olim” member pointed out, Bamba is now being sold in Trader Joe’s, much to the joy of proud Israelis celebrating this victory over the Boycott, Divestment, and Sanctions movement to boycott Israeli products. But while the supermarket shopper in Los Angeles pays 99 cents for a 100-gr. pack of Bamba, the shopper at Lawrence’s Shufersal pays NIS 4.90 (\$1.40) for 80 gr. The logical conclusion: Osem price gouges because it can. (An inquiry to Osem has gone unanswered.)

Some Israeli-based food manufacturers that are household names among Zionists worldwide are not even Israeli-owned anymore. Osem is owned by Nestlé of Switzerland; Tnuva is controlled by a Chinese state company; and Telma belongs to Unilever. Collectively, these conglomerates control large parts of the Israeli market, making it easy for them to push their corporate elbows against smaller competitors.

“The number of companies doesn’t necessarily determine fierceness of competition,” Alper said. “What really matters is barriers to entry... The process aspiring importers would have to go through to get this or that approved is going to be so time consuming, so riddled with bureaucra-



A WOMAN pushes children in a shopping cart in front of a Shufersal 'Sheli' in Ma'aleh Adumim. (Ammar Awad/Reuters)



cy, politics and corruption that unless they're part of a large company with time, compliance officers and lawyers, there's no way they're going to do that."

In 2015, Channel 8 launched an investigative series (a "Guide for the Perplexed") on rising costs in Israel. The first two episodes of *Magash Hakesef* (The Silver Platter) were dedicated to a growing bane of Israeli consumer life: monopolies and cartels.

In the first, Guy Rolnik, founding editor-in-chief of Israeli financial magazine *The Marker*, demonstrated how major sources of Israel's capital and industry – banking, insurance, real estate, media and communications – are owned by several tycoons involved in an economically incestuous relationship, effectively preventing checks, balances and competition.

In the second episode, Yaron Zelekha, former accountant to the Finance Ministry and now dean of the faculty of Business Administration at Ono Academic College, visited a supermarket to show how a handful of conglomerates dominate the shelves.

"We have over 100 monopolies. This is the largest number of monopolies in the Western world and the government, instead of fighting the monopolies, is helping them," Zelekha told *The Jerusalem Post Magazine*.

He pinpointed exactly when the cost of living in Israel spiked. In 2009, the Bank of Israel implemented an expansionary monetary policy by lowering interest rates.

"That means that the quantity of money in the economy grew by dozens of percentages," Zelekha said. "I remember one year, there was 70% growth in the quantity of money, and that was only one year. Of course, when you double and quadruple the amount of money in the economy while the GDP stops growing per capita, that means that much more money is running over the same product and the prices start to rise.

"In 2009, in addition to the expansionary monetary policy, the government decided in parallel to raise taxes on consumers and workers. That brought them into a state in which they cannot expand their demand or products. So when you print so much money, which is running in an economy where consumers are not increasing their demands, that means that the money is moved from the product market to another market, and that other market is real estate. So the prices of real estate from 2009 until today, for an average flat, grew over 120%."

Neveh Daniel resident and New York native Baruch Brenner considers himself fortunate to have built a successful importing business for household materials

and amenities, such as windows, decking and flooring. Most businesses in Israel, he surmised, don't make it beyond the third year. In 2016, Israel ranked 53rd among OECD countries (after Moldova) in the ease of starting a new business. The time and expense it takes to register a business, acquire a permit, draw up contracts and hook up to utilities render the founding of a business a risky endeavor.

Brenner works around the clock, dealing with Israeli customers and suppliers during the day, and American suppliers at night, dramatizing another statistic: Israeli productivity per capita is ranked among the lowest in the OECD (between Korea and Slovenia) while annual hours worked per capita are among the highest (between Estonia and Poland).

A significant portion of Brenner's business involves dealing with a state institution that he and Alper believe gratuitously makes it harder on Israeli importers: the Standards Institution of Israel. Alper alleged there's also a conflict of interest: chiefs at the Standards Institution are sometimes local manufacturers themselves.

"Israel does not recognize standards of other countries," Brenner said.

For example, the outdoor decks he imports have passed worldwide certifications for anti-slippage and fire-proofing. "And here comes the State of Israel with eight million people and says: I'm not ready to accept the fire or slipping certification of the US and the EU; we have to check it. To make matters worse, Israel has its own electric plug shared by no other country on earth. This was historically imposed to help local manufacturers and stop imports. Now it's just another hindrance that causes prices to rise when negotiating with foreign manufacturers."

Some items cannot enter the country without the institution's authorization, often forcing Brenner to leave his merchandise, at a hefty price, at the port until it is checked and released.

Brenner would also like to import spices that come with a barbecue grill he imports. While they're certified kosher and approved by the FDA, they must also be approved by the Health and Agriculture ministries, making this enterprise too unprofitable for him to bother with.

Once products reach the store, the retail price must be fixed at over 30% more than the worldwide average for the owner to make a profit.

"The storeowner has to pay *arnona* [property tax] and expensive real estate," Brenner said. "I'm paying for my warehouse more than what most people pay for fancy offices in office buildings in the Western world, and it's

not in a posh area. Our storage costs more than most places, definitely in the States. Again, you have to start paying higher salaries – otherwise workers can't rent or by their homes. Domestic shipping in Israel is insanely expensive. I pay less than half to ship from Tennessee to Minnesota than from Haifa to Jerusalem."

The reason for the high cost of local shipping? Taxes on fuel, vehicles and automotive spare parts. Duties on automobiles stand at 85% the cost of the vehicle.

"Many times I feel like they do things like that because they know you're a Zionist and can get away with it," Brenner said, citing another "vicious" tax, the value added tax, which stands at 17%.

As he and Alper pointed out, some factors that contribute to the financial burden of life in Israel are unrelated to government control. Israel is a small, isolated country. A supplier must spend more out of pocket to travel outside of Israel in search of new merchandise. Countries with large markets have more leverage negotiating low prices with exporters abroad.

"When we come and start negotiating with a Chinese company to sell us fridges, we'll pay more than the US because who cares about Israel's tiny market?" Brenner said.

But the widespread argument (made by one Shufersal shopper) that Israel requires more taxes to maintain its defense is dubious, said Alper. According to Israeli budget statistics, the defense budget has not increased significantly over the last decade when taking into account inflation and population growth. "Besides, there's no connection between the defense budget and the very heavy regulation that exists in Israel."

On the bright and less expensive side, some products in Israel have gone down in price in previous decades.

"Some markets opened up to competition and cheap imports, while others remained closed to imports because of political power," Alper explained. "In areas like consumer electronics, apparel, footwear, furniture, you could see prices coming down significantly in the past two decades. In other parts, especially food of all types, fruits, vegetables, meat, dairy products and the like, you haven't seen prices come down at all."

In the hi-tech sector of "Start-Up Nation" fame, productivity and income outshine other Israeli industries.

"The only way to actually increase salaries in a privately owned market is to make sure your employees generate a lot of stuff so you could pay them," Alper said. "Hi-tech pays such great salaries because the productivity of employees is so high and a major reason why it is so high is because the tech industry is unregulated."



'We have over 100 monopolies, and this is the largest number of monopolies in the Western world, and the government, instead of fighting the monopolies, is helping them'

DEMONSTRATORS HOLD a tent as they march on a main road in Tel Aviv during a rally against rising property prices in 2011. (Amir Cohen/Reuters)

He fears that will change soon. "The damage the government will inflict on the Israeli economy if it starts meddling in the tech industry will be absolutely massive."

Back at the Shufersal, blaming it on nostalgia for the US, I buy a pack of Synder's Hanover pretzels, mostly because they're on "imaginary" sale from NIS 17.90 to NIS 13.

When we get to the chaotic, dusty counter and fill up the old-fashioned plastic bags, the discount doesn't go through. The grumpy cashier doesn't believe our claim that the product is on sale, and it takes about seven minutes for the shift manager to check and process the discount, begrudgingly, without remorse. (The sale sign was thereafter removed.) The receipt comes out to NIS 200 for juice, Pringles, pretzels, Doritos, yogurt, mousse, salad dressing, Oreos, cookies, Turkish coffee and tuna.

In Lidl, permanent and disposable bags are stacked neatly under impeccable counters. The cashier scanned the items so quickly, I could hardly fill my bag by the time I must pay. The receipt for milk, soymilk, muesli, a chocolate bar, lox, and an array of fruits and salad vegetables came out to €16.

"Unbelievable! That's like NIS 65," Alper said as we left the market.

SO WHAT can Israelis do to launch real change?

For Alper, Israelis must first identify the source of the problem, requiring a re-education in economics that will likely have to happen outside the realm of state schools which toe the government line and the socialist principles underpinning the founding of the state. During the 2011 protests, disgruntled Israelis, he believes, erroneously called on the government to provide a solution instead of calling out the government as the problem. Israelis often confuse a free market economy with the "crony capitalism" dominating the Israeli economy, in which politicians and corporations trade favors.

"Politicians in Israel want to get reelected," Alper said. "That's all. It's not the good of the people that motivates them. If giving away freebies to your friends and big donors, to small interest groups with political power - if that's what's going to get you elected, that's what you're going to do."

But Alper ended our Berlin shopping excursion with that famous Zionist quality enshrined in the Israeli anthem: hope.

"Because if we can do what we can do now, in an essentially oppressive economic regime, imagine what we could do if we were under the Swiss model?" Switzerland, one of the wealthiest countries in the world, is among the more authentically capitalistic countries in its protection of property rights, low taxes and light regulatory burden.

"If Israel were Israel but we had the economic model of Switzerland, Israel would by far be the richest country on the face of the planet."

Orit Arfa is an American-Israeli journalist and author based in Berlin. Her latest novel, Underskin, is a steamy Israeli-German romance exploring the growing Berlin-Tel Aviv attraction.

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