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SUBJECT= THE ECONOMY: AN IMPORTANT BUT OVERSHADOWED ISSUE IN THE ISRAELI
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E.O. 12356: DECL: OADR
TAGS: PGOV, ECON, IS
SUBJECT: THE ECONOMY: AN IMPORTANT BUT OVERSHADOWED
ISSUE IN THE ISRAELI ELECTION CAMPAIGN

REF: A) TEL AVIV 14547, B) TEL AVIV 14672,
C) TEL AVIV 11779, D) TEL AVIV 14992

1. [REDACTED]

SUMMARY

2. THE ISRAELI ECONOMY CURRENTLY IS EXPERIENCING A
MARKED ECONOMIC SLOWDOWN. INDUSTRIAL PRODUCTION
HAS DECLINED. UNEMPLOYMENT HAS JUMPED SHARPLY.

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ISRAEL'S LARGEST INDUSTRIAL CONCERN IS UNDER LEGAL
THREAT OF LIQUIDATION. THE AGRICULTURAL,
EDUCATION, AND HEALTH SECTORS ALL HAVE EXPERIENCED
AN EXTREMELY DIFFICULT YEAR. UNIVERSITY
ADMINISTRATIONS HAVE REFUSED TO BEGIN THE ACADEMIC

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YEAR, CLAIMING INSUFFICIENT GOVERNMENT FUNDING. PUBLIC HOSPITAL STAFFS ARE THREATENING TO STRIKE. THE LOCAL STOCK MARKET IS DEPRESSED. WE EXPECT THE ISRAELI ECONOMY TO EXPERIENCE ONLY MINIMAL GROWTH THIS YEAR.

3. ALTHOUGH THE STATE OF THE ECONOMY HAS EMERGED AS A KEY ISSUE IN THE CAMPAIGN, IT HAS BEEN OVERSHADOWED BY THE PEACE AND SECURITY DEBATE. THIS IS PARTLY DUE TO A DELAY IN THE SCOPE OF THE CURRENT SLOWDOWN BEING PERCEIVED BY THE GENERAL PUBLIC. ALSO, THE EXISTENCE OF THE NATIONAL UNITY GOVERNMENT HAS DAMPENED DEBATE ON PAST ECONOMIC POLICY SINCE BOTH LIKUD AND LABOR SHARED IN ITS FORMULATION. IN ADDITION, THERE IS GENERAL AGREEMENT BETWEEN LIKUD AND LABOR ON FUTURE ECONOMIC POLICY IN THAT BOTH PARTIES ARE EMPHASIZING THE NEED FOR BUDGETARY RESTRAINT, REDUCED GOVERNMENT INTERVENTION IN THE ECONOMY, AND THE OPENING OF THE ISRAELI ECONOMY TO INCREASED COMPETITION.

4. GIVEN THIS GENERAL CONSENSUS, THE DEBATE BETWEEN LIKUD AND LABOR HAS FOCUSED NOT ON ECONOMIC ISSUES, BUT ON THE COMPETENCE OF THE ECONOMIC LEADERSHIP THE PARTIES WOULD PROVIDE. LIKUD ALSO HAS TRIED TO PIN THE PROBLEMS OF THE HISTADRUT'S FALTERING INDUSTRIAL ENTERPRISES ON THE (LABOR)

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"PARTY ECONOMY," IN CONTRAST TO THE LIKUD'S ADVOCACY OF A "FREE ECONOMY." ON THESE ISSUES, LIKUD HAS THE ADVANTAGE OVER LABOR. END SUMMARY.

5. THE ISRAELI ECONOMY CURRENTLY IS IN THE MIDST OF A MARKED ECONOMIC SLOWDOWN. INDUSTRIAL PRODUCTION DROPPED 3.5 PERCENT IN THE FIRST QUARTER OF THE YEAR, STABILIZED IN THE SECOND QUARTER, AND PROBABLY DROPPED AGAIN IN THE THIRD. UNEMPLOYMENT JUMPED SHARPLY OVER THE SUMMER AND IS NOW PROBABLY RUNNING AROUND 6.5 TO 7.0 PERCENT. THE LARGEST INDUSTRIAL CONCERN IN ISRAEL, WHICH ACCOUNTS FOR ALMOST TEN PERCENT OF GDP, IS UNDER LEGAL THREAT OF LIQUIDATION (REFTEL A). THE BOARD OF DIRECTORS OF THE LARGEST BANK IN ISRAEL RECENTLY WERE FORCED TO RESIGN EN MASSE OVER THEIR HANDLING OF A BANKING SCANDAL WHICH HAS SPANNED SEVERAL YEARS (REFTEL B). THE AGRICULTURAL, EDUCATION, AND HEALTH



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SECTORS ALL HAVE EXPERIENCED AN EXTREMELY DIFFICULT YEAR CAUSED IN PART BY THE GOVERNMENT'S TIGHT BUDGETARY POLICIES. REAL INTEREST RATES ARE RUNNING AT ABOUT 35 PERCENT. THE LOCAL STOCK MARKET IS DEPRESSED. WE EXPECT THE ISRAELI ECONOMY TO EXPERIENCE ONLY MINIMAL GROWTH THIS YEAR. (REFTEL C).

6. ECONOMIC ISSUES HAVE BEEN EMPHASIZED IN THE ELECTION CAMPAIGN BY LIKUD AND LABOR, AS WELL AS BY THE SMALL CENTER-SHINUI PARTY. BUT THE GENERAL STATE OF THE ECONOMY TRAILS FAR BEHIND QUESTIONS OF PEACE AND SECURITY AS AN ELECTORAL ISSUE.

7. IN PART, THIS IS THE RESULT OF A DELAY IN THE FULL SCOPE OF THE CURRENT SLOWDOWN BEING PERCEIVED BY THE GENERAL PUBLIC. THE RISE IN UNEMPLOYMENT



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E.O. 12356: DECL: OADR
TAGS: PGOV, ECON, IS
SUBJECT: THE ECONOMY: AN IMPORTANT BUT OVERSHADOWED

STILL HAS AFFECTED ONLY A SMALL PORTION OF THE
POPULACE; OFFICIALS AT THE TREASURY TELL US THEY
EXPECT REALLY SIGNIFICANT NUMBERS OF JOB LAYOFFS
WILL OCCUR ONLY AFTER THE ELECTIONS. ALSO, THE

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AVERAGE ISRAELI STILL TENDS TO JUDGE THE SUCCESS OF ECONOMIC POLICY IN TERMS OF ITS ABILITY TO RESTRAIN INFLATION AND THE CURRENT ECONOMIC SLOWDOWN HAS ACTED OVER RECENT MONTHS TO SUPPRESS THE RISE IN THE GENERAL PRICE LEVEL.

8. THE EXISTENCE OF THE NATIONAL UNITY GOVERNMENT

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HAS TENDED TO DAMPEN DEBATE BETWEEN THE TWO MAJOR PARTIES ON PAST ECONOMIC POLICY SINCE BOTH LIKUD AND LABOR SHARED IN THE FORMULATION OF THE ECONOMIC STABILIZATION PROGRAM WHICH CONTINUES TO GUIDE GOVERNMENT ACTION ON THE ECONOMY. LABOR HAS BEEN POINTING OUT THAT THE STABILIZATION PROGRAM WAS INITIATED UNDER PERES' PREMIERSHIP AND WAS PUSHED THROUGH THE CABINET BY LABOR OVER THE OPPOSITION OF A NUMBER OF LIKUD MINISTERS. LIKUD, MEANWHILE, HAS ATTEMPTED TO CLAIM CREDIT FOR ITSELF FOR THE SUCCESS OF THE STABILIZATION PROGRAM IN BRINGING INFLATION DOWN FROM OVER 440 PERCENT TO AN ANNUAL RATE OF LESS THAN 20 PERCENT.

9. THERE IS ALSO GENERAL AGREEMENT BETWEEN LIKUD AND LABOR ON FUTURE ECONOMIC POLICY. THE PLATFORMS OF BOTH PARTIES STRESS BUDGETARY RESTRAINT, REDUCED GOVERNMENT INTERVENTION IN THE ECONOMY AND ESPECIALLY IN THE CAPITAL MARKET, AND THE OPENING OF THE ISRAELI ECONOMY TO INCREASED COMPETITION. (THE ECONOMIC PLATFORMS OF THE MAJOR PARTIES WILL BE DISCUSSED IN SEPTTEL.) GIVEN THIS CONSENSUS, THE DEBATE BETWEEN LIKUD AND LABOR HAS FOCUSED NOT ON ECONOMIC ISSUES, BUT ON THE QUALITY OF ECONOMIC LEADERSHIP THE PARTIES WOULD PROVIDE.

10. LIKUD HAS BEEN ABLE TO SCORE POLITICAL POINTS AMONG THE POPULACE BY EMPHASISING THE LONG-RUNNING PROBLEMS OF THE HISTADRUT'S "WORKERS ECONOMY". IT HAS ARGUED THAT MISMANAGEMENT RESULTED IN THE CLOSURES AND RESTRUCTURING OF MAJOR HISTADRUT ENTERPRISES AND THAT THIS IS A SAMPLE OF THE TYPE OF ECONOMIC LEADERSHIP A LABOR GOVERNMENT WOULD

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PROVIDE ISRAEL. THE LIKUD ALSO HAS ASSERTED THAT A NEW LABOR GOVERNMENT WOULD RAID THE PUBLIC TREASURY TO BAIL OUT FAILING HISTADRUT ENTERPRISES. LABOR HAS TRIED TO PARRY THESE THRUSTS, BUT THEY HAVE HAD THEIR EFFECT. DURING THE SUMMER, LABOR TRIED TO DEEMPHASIZE ITS RELATIONSHIP TO THE HISTRADUT LABOR FEDERATION, BUT LABOR'S RELIANCE ON HISTADRUT'S ELECTORAL CAMPAIGN MACHINERY PRECLUDED LABOR FROM CONTINUING TO KEEP HISTADRUT'S ACTIVISTS IN THE BACKGROUND (REFTEL D).

11. THE FINANCIAL PROBLEMS OF THE HISTADRUT HAVE MADE IT EXTREMELY DIFFICULT FOR LABOR TO CRITICIZE THE ECONOMIC POLICIES OF MOSHE NISSIM, THE LIKUD MINISTER OF FINANCE. OVER THE PAST YEAR, NISSIM HAS CONSISTENTLY BEEN ONE OF THE MOST POPULAR MINISTERS IN THE GOVERNMENT. HIS WILLINGNESS TO BATTLE POWERFUL INTEREST GROUPS IN DEFENSE OF THE INTEGRITY OF THE BUDGET HAS MADE HIM A SYMBOL IN ISRAEL OF RESPONSIBLE ECONOMIC LEADERSHIP.

12. NISSIM ALSO HAS BENEFITED FROM A CHANGE IN THE PUBLIC'S EXPECTATIONS REGARDING PROPER GOVERNMENT ECONOMIC ACTIONS; THE REDUCTIONS HE ORDERED THIS MONTH IN SUBSIDIES FOR BASIC COMMODITIES JUST A MONTH BEFORE ELECTIONS WAS ACCEPTED WITH LITTLE COMPLAINT BY A PUBLIC WHICH IN PRIOR YEARS HAD BECOME ACCUSTOMED TO GOVERNMENT FINANCIAL LARGESS IN THE MONTHS LEADING UP TO ELECTIONS. LIKUD HAS MADE LIMITED USE OF NISSIM IN ITS TELEVISION ELECTION BROADCASTS; LABOR HAS COUNTERED WITH GAD YACOBI, THE MINISTER OF ECONOMICS AND PLANNING. YACOBI SUFFERS, HOWEVER, FROM THE QUITE CORRECT PUBLIC PERCEPTION THAT THE ECONOMICS MINISTRY IS A MARGINAL CABINET PORTFOLIO WITH LITTLE INPUT INTO

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ECONOMIC POLICY ISSUES. LIKUD HAS IN NISSIM A REAL
POLITICAL ADVANTAGE ON THE ISSUE OF COMPETENCE OF
ECONOMIC LEADERSHIP. STILL, LIKUD HAS SPENT MORE
OF ITS TELEVISION TIME AND PRESS ADVERTISEMENTS IN
ATTACKING THE LABOR-HISTADRUT DUO THAN IN
PRESENTING ITS OWN POLICIES. PICKERING

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