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שמואל נאמן מוסד למחקר מדיניות לאומית בטכניון - 85300					



Middle class under siege

Only coins and tadpoles have just a head and a tail; societies, in contrast, can't survive and thrive without something in the middle

"THE MOST perfect political community is one in which the middle class is in control... where the middle class is large, there are least likely to be factions and dissensions," Greek philosopher Aristotle wrote in his treatise, "Politics," close to 2,500 years ago. Today, however, the middle class in Israel and the West is an endangered species, and the result is a growing threat to both our economies and our democracies – divisive and expanding inequality in wealth and income, and increasingly fractious interest-group politics.

In a report published in January by the Adva Center policy analysis institute, researchers Noga Dagan-Buzaglo and Eti Connor-Atias alarmingly state, "The Israeli middle class is a myth, asserting that the country's middle class today increasingly resembles the working class as defined by German philosopher Karl Mark, i.e., individuals who have no means of production of their own and are reduced to selling their labor power in order to live.

And therein lies the problem. The working classes in most Western nations are currently under siege. Once a job guaranteed middle-class status and a solid, stable income, freedom from poverty. But this is no longer the case. In Israel today, two-thirds of all employees earn between the minimum wage and the average wage. In other words, more and more working people no longer qualify as truly middle class, while many of those who have jobs live in poverty.

On the other hand, many of the remaining upper-class third, and senior managers in particular, earn astronomical sums. This, in turn, gives rise to a society of embattled workers and privileged wealthy. But only coins and tadpoles have just a head and a tail; societies, in contrast, can't survive and thrive without something in the middle.

The middle class in Israel is defined as those with monthly household pre-tax incomes of between NIS 9,700 (\$2,635) and

NIS 16,300 (\$4,429) – a range that is both 25 percent below and 25 percent above the median nationwide household income of 12,600 shekels (\$3,424). In the past 20 years, the proportion of the population that belongs to middle-class households has fallen to almost one in four, while the upper wealthy class has boosted its ranks to include three out of every eight Israelis.

I'M DEEPLY WORRIED THAT ISRAEL'S DWINDLING MIDDLE CLASS WILL ULTIMATELY BE DISAPPOINTED BY THE FAILURE OF THE GOVERNMENT AND KNESSET TO ADDRESS ITS NEEDS

The Organization for Economic Co-operation and Development (OECD), an organization of 34 wealthy countries to which Israel belongs, warned recently that the middle class is becoming "hollowed." Those once securely in the middle are becoming increasingly poorer or richer, resulting in fractious societies with a growing chasm between rich and poor, and stumbling economies that lack the work ethic and saving behavior of the middle class.

Why is this happening?

There are several key reasons – first and foremost, collapsing job security. A survey by the American Pew Research Center found that 86 percent of Americans consider a secure job to be "the most important part of the middle class." I believe this holds for Israel as well. The middle class used to be anchored by high-wage manufacturing jobs; but this is no longer the case. Many of the \$24-per-hour jobs of American auto

workers have migrated to Asia; and Israel, too, has seen large-scale job outsourcing. In other words, the middle class, once dominant and thriving in the West, has not disappeared; it has simply migrated to China and to India.

According to a 2010 OECD study by Homi Kharas, today almost 60 percent of global middle-class consumption is spent by Americans and Europeans. But in 2050, that figure will shrink to a minuscule 10 percent, while the proportion accounted for by middle classes in China and India will exceed 50 percent. According to New York Times columnist Thomas Friedman, India alone has 300 million middle-class individuals and another 300 million strong "virtual" middle class comprising those who will soon qualify.

A second force affecting the middle class is dwindling public employment. According to the Adva Center report, the largest employer of middle-class Israeli families is the public sector – 29 percent. Jobs and pay in the public sector have shrunk in the West as governments struggle to patch the deficit holes in their budget buckets.

As a new coalition government is formed in Israel, a massive deficit of at least NIS 40 billion (\$10.9 billion), and perhaps more, will have to be closed; and no matter how this is accomplished, the middle class will bear the brunt, as taxes rise and services shrink. Declining public services hit the middle class twice – first, by diminishing the jobs and pay they hold, and then by slashing the services the middle class depends on.

The high cost of housing is another nail in the coffin of the middle class. A major part of middle-class membership is home ownership. But, the property bubble and rising home prices have made this increasingly tough. Those who bought homes when prices were reasonable have fared well; but young couples striving to buy apartments are

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The high cost of housing is another nail in the coffin of the middle class; a recent election poster demands 'decent housing for a reasonable price'

struggling. The upper classes who bought homes in the greater Tel Aviv area have seen their value double in the past decade.

Today, young couples with low job security agonize over taking enormous mortgages to buy apartments whose values could well decline, leaving them stuck with hard-to-pay debts. Outgoing Bank of Israel Governor Stanley Fisher's efforts to restrain the housing bubble were only partly successful. A Housing Ministry estimate shows it takes 129 average monthly salaries (more than a decade) to buy an average apartment, far longer than in other Western nations.

Globalization, too, has hit the middle class in Israel and the West hard. As manufacturing migrated to Asia, Western economies focused increasingly on services. On the one hand, Israel has done well by globalizing; its \$60 billion annual exports, driven by its high-tech industry, spurred economic growth. On the other hand, however, globalization has been a major cause of growing inequality. Most of Israel's GDP (and a third of all exports, or some \$20 billion) are services. But services are bipolar. Either you earn fortunes as, say, a software engineer, or you earn a minimum wage as a store attendant or waiter; the middle, once held together by manufacturing, has emptied. Only a thin sliver of Israeli workers have directly benefited from high-tech industry and exports.

Finally, the hardships of small businesses also play a part in the demise of the middle class. Many in the middle class are self-employed, and they are finding it harder and harder to sustain their businesses. Last year, according to business data company BDI, 41,500 businesses in Israel went broke and closed – an increase of 6 percent over 2011. Lack of credit is a major cause. Banks love to lend to big players. Small fry are often turned down. It's a shame, because the tycoons are the ones who have caused the

banks and our pension funds huge losses, not the small businesses.

A middle-class myth is the one emerging from the January 22 national election. "We won!" Yesh Atid leader Yair Lapid declared 23 times at his party's post-election victory celebration. Since his campaign slogan was "Help the middle class," and because his 19 Knesset seats give Lapid great leverage, his supporters exult that the middle class won. The problem is Lapid won a large part of his support from the upper class and there is almost no way he will be able to help the embattled middle class when the 2013/14 budget is enacted.

SOME 35 percent of voters in the wealthy community of Savion voted for Lapid, and he also won 29-32 percent of the votes from the similarly upscale areas of Ramat Hasharon, Kfar Shmaryahu and Caesarea – compared with his party's national average of 14 percent of the ballots. And why did the upper classes vote for Lapid? Because he is one of them; he drives a luxury car – and they appear to believe the 48-year-old former media star will fight for their interests.

If the new state budget successfully trims an alarming deficit, the middle class will pay the price. Taxes in every country are paid mainly by the middle class. The poor, for the most part, don't pay income tax – and nor should they; and the rich can avoid income tax. Thus, the burden will always fall on the middle class.

The problem is that when the middle class empties, when more and more people become either poor or rich, the burden becomes unbearably heavy on those who remain. Even if all of the 19 new Knesset Members from Yesh Atid seriously want to help the middle class, they themselves may quickly forget what middle-class families face. Today, a Knesset Member makes NIS 38,250 (\$10,394) a month, three times the

average household income, with generous expense accounts. By definition, none of the 120 Knesset members is truly middle class from the moment he or she takes the oath of office and occupies a Knesset seat.

A recent report on Global Risk by the World Economic Forum, the body that organizes the splashy Davos conference of movers and shakers, listed growing global inequality in the distribution of wealth and income as a top threat in the coming five years. Just as Aristotle foresaw, "Where some possess much and others nothing... a tyranny may grow."

But the endangered-species status of the middle class is not inevitable. In the Nordic countries, for example, high taxes on the wealthy, a solid social safety net providing comprehensive services for all, strong educational systems and job retraining programs have maintained the middle classes and achieved a high rate of social mobility. Denmark, for instance, has a per capita GDP 60 percent higher than Israel.

I'm deeply worried that Israel's dwindling middle class will ultimately be disappointed by the failure of the government and Knesset to address its needs, even if Lapid and Yesh Atid are truly well-meaning. It may be necessary to revive the social protest movement.

The core issue is not creating a more equal burden on the existing middle class, because there is simply nowhere to shift that burden, but increasing the numbers of the middle class so the burden on each middle class family becomes lighter. It is time to dump the old middle class myths and face reality.

Both economics and politics desperately require a strong middle class. It's time we heeded Aristotle's wise words. ■

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