

A Different Dialogue Between Europeans and Israelis
Democracy, the Welfare State and the Global Economic Crisis

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Martin Schulz, President of the European Parliament,
Patrick Diamond, senior research fellow at the Policy Network,
Ralf Hexel, Director of the Friedrich-Ebert foundation in Tel Aviv,
Distinguished members of the European parliament
Ladies and gentlemen.

It' is a great pleasure to be here in Brussels.

Thank you so much for taking time out of your busy schedules to be here.

Before I begin, I would like to thank my friends at the Friedrich-Ebert foundation in Tel Aviv and in Brussels, for the hard work you have put in organizing this event, within the Israel European Policy Network.

If you do not know yet I would like to tell you that yesterday a decision has been taken to move up the elections in Israel. And so I find myself here at the beginning of an election campaign. So this speech might give you a flavor of the nature of the debate which I hope will lie at the heart of the elections.

In the past three and a half years, the dialogue between Europeans and Israelis has been strained, to say the least.

The stalemate in the peace process has increased tensions with our friends here.

Today's event is an important opportunity for me to suggest to you a slightly different way to think about Israel.

I believe in peace, I believe in a two-state solution, but my vision begins with an agenda for a comprehensive reform of our economic policy. It may come as a surprise but this agenda can also help us restart the peace process.

Why begin with the economy?

Because any country—not just Israel—with an economic policy that leads to rising poverty and widening inequality, is a society that is not strong enough to take risks for peace.

And economic reform can also help—indirectly—rebuild the dialogue between Europe and Israel on solid grounds of trust, cooperation, and promoting our mutual interests.

You may ask yourselves: Why does Israel need economic reform?

After all, Israel is doing relatively well.

We have a thriving high-tech sector.

The economy is growing about 3.2% a year.

And just two weeks ago, S&P reaffirmed Israel's A+ credit rating.

But beneath the surface, Israel's economy has many serious structural problems, which also influence voting patterns.

For example: we have a small group of wealthy families who control a huge piece of our economy.

According to the OECD, nearly 40% of Israelis find it hard to live on their current income.

And income inequality—a problem that we are all facing—is also among the worst in the OECD.

This is a new problem for us. Until a decade ago, we had much more equality.

Today, an Israeli CEO, can earn three hundred thousand Euro's a month, while his office cleaner takes home 4.5 Euro's an hour. And this situation is not unique to us.

You may not be aware, but over the past decade, the economic policies of Israel's governments have been based on neo-liberal and capitalist ideology.

And here comes the political debate between Prime Minister Benjamin Netanyahu and myself which is not only around foreign affairs but also over economic policies.

As a neo-liberal he believes in shrinking the role of governments in markets.

He endorses deregulation.

And he believes in a lean public sector, which he describes now as "fat"—although by any reasonable scale, this is far from the truth.

We have all seen recently how an unbalanced, blind approach to free markets, and unchecked capitalism, have led to disaster, and the US subprime mortgage crisis is only one example.

Yet, believe it or not, many Israelis (mostly politicians, by the way) are only now beginning to discover what you already know:

that Adam Smith's invisible hand may not work unless governments are also there to govern.

In Israel, the weakness of government regulation allowed a few powerful families to use excessive financial leverage to fuel their businesses.

Over the last year, some of these families have faced bankruptcy, And could not pay back their debt to bondholders. Those bondholders are mainly ordinary people, who invested their pension, and retirement savings, in public companies.

In other words, ordinary people are now paying the price for the policies that allowed a few rich families to use their money—and to abuse their trust.

Now, at a time when Europe, and the US, are engaged in a deep economic soul searching, In Israel, the economic debate is very low key.

In part, this is because naturally, our politicians feel more comfortable and familiar talking about security and regional affairs.

It's understandable, considering our huge security problems.

What my colleagues and I have been trying to do, is to change the public debate.

And it starts, with reviewing some basic tenets about the role of governments in the economy.

After all, what is a state?

The state is first and foremost a moral organization.

It provides public services that the private sector cannot. In order to ensure that its citizens enjoy human rights and can live in dignity.

The state is a regulator of our social and economic interactions, to allocate resources fairly.

A free market economy is vital. But when the government doesn't do its job, the free-market becomes a jungle.

I oppose the approach that the state is the problem, and that unregulated free markets are the solution.

I believe that governments are the cure.

And a social democratic approach offers a balanced response to the challenges of the 21st century.

In a social democracy, we welcome a free market economy, we encourage investment, and risk taking, that creates jobs and prosperity—in the *real* economy.

But we say no to the fake economy.

By that, I mean, we must not allow excessive leveraged finance, to be used to build empires on castles in the sand.

Austerity is rarely the answer to crisis.

There are plenty of good reasons for governments to adopt an expansionary fiscal policy. Sometimes, it is the only way to stimulate growth and to rescue economies from recession and unemployment.

In contrast to what we've all been taught over a number of decades, responsible fiscal expansion is not a crime. It is, in fact, one of the key elements in the revival of the role of the state.

Of course, a social democratic approach is not only a moral economic framework.

It is an ideology that goes hand in hand with human rights and peacemaking.

The ultimate goal is to foster more equality.

In Israel, that means equality

Between rich and poor;

Between men and women;

Between Arabs and Jews;

Between people of all religions.

I would like to tell you about my father, Moshe.

He was a Holocaust survivor who lost his entire family during the war along with any chance of acquiring high education and all his life he was employed as an unskilled construction worker.

He loved his work, he was proud of it and he supported our family with dignity. He even managed to save enough money to send me to university.

Today, I have a very modest dream:

That people like my late father, workers of all types, no matter where they may be, will be able to provide for their families with dignity, like my father did.

Nobody deserves to be thrown to the margins of society, while a small group of people gets rich. Like we are seeing in so many places today.

In Israel, advancing this modest dream is a huge political challenge.

Not only because security and regional issues dominate the agenda, but because in Israel, the definitions of "Left" and "Right" are very confused.

Some people, like me, seek peace as well as social change. But you will also find people on the left who support peace but share a totally neo-liberal approach to the economy.

Meanwhile, there are people on the right who support Netanyahu's foreign policy, but who are also lower income earners.

Many of them increasingly realize how badly they have been hurt by these neoliberal economic policies.

I am trying to redefine the political debate.

This means, adding a serious discussion on the economy (which for you seems very natural) —to the public agenda.

It has the potential to change the traditional two-bloc political landscape in Israel.

Since I became head of the Labor party a year ago, I have focused on this agenda.

And it is no coincidence, that over the past year, we have enjoyed a dramatic increase in popularity in public opinion polls.

I believe that in any society poverty and social injustice foster racism and intolerance.

So in a society with huge economic gaps and deep poverty, the flowers of peace will never bloom.

When you watch what is happening in the Arab and Muslim world today, it is impossible to disconnect the political transformation from underlying social and economic forces.

For example. In the last few days, the protests that we have seen in the streets of Iran, are a direct result of economic pressure from sanctions.

This has the potential to change Iran's nuclear ambitions.

Your role is crucial. Putting more pressure, economic and diplomatic on Iran, is the only way to avoid war, which nobody wants.

When you think about elections in Europe or in the US, the economy always dominates the political debate.

Of course, we have a whole set of unique challenges in Israel. But ordinary Israelis are no different than people anywhere else.

They go to work, send their kids to school, pay their bills and struggle to make a living.

They crave economic security as much as they crave security from war and terrorism.

To get the peace process started again, we need good will from the Palestinians and other key Arab countries.

During the years, Israeli governments made efforts to try and achieve peace.

One of the leaders of the party I am heading today had to pay with his life because he was a true fighter for peace.

From my perspective, as head of the Israeli Labor party, I believe, that when Israelis regain faith that their government is really committed to making their lives better,

they will also gain the confidence needed to take risks for peace.

And when these changes begin to happen, it will help us have a more meaningful dialogue across the region, with Europe, and with the rest of the world, too.

Thank you.