COMPARATIVE EVALUATION OF TAX POLICY-MAKING IN ISRAEL: EXPLORING THE TRAJECTORIES – WHERE ARE WE COMING FROM AND WHAT LIES AHEAD

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ABSTRACT

Over the past hundred years citizens across the world begun to more closely scrutinize the level and quality of public goods and services they receive from their governments than they previously did. During this time, the share of public spending, especially with respect to security, health, pension and education significantly grew. There are many reasons for this evolution, including the expansion of democracy after WWI and a greater emphasis on economic growth and development, generating increased demands for public infrastructures coupled with market failure with respect to public goods provision.

The expansion of national responsibility for public goods and services has not skipped the young state of Israel. In fact, until the mid-1980s the Israeli government implemented a range of methods to ensure high level of market activity, economic development and employment. The government also controlled the distribution of key economic resources, including land and other natural reserves, and it steered efforts to raise and distribute capital, cultivate foreign trade and the like. During the first twenty-five years of the young nation, Israel experienced fast growth rates of its GDP and economy.

In 1967, Israel's security expenditures gradually expanded until they reached a new pick after the Yom Kippur War of 1985-1973, when total public spending reached 75 percent of Israel's GDP. At this level, revenue collected was unable to meet the spending bar, leading to a massive increase in national debt and a sharp rise in inflation that soared over 400 percent. Faced with a massive economic crisis, these conditions generated a drastic shift in Israel's public finance when the government undertook a series of steps designed to cutback on public spending and limit the tax burden levied on the Israeli public.

Today, the Israeli government practices a considerably different economic and fiscal policy than it did in its early days and until the mid-1980s. For example, while the tax burden in Israel stood at 43 percent GDP in 1986, it reached only 31.6 percent GDP in 2012. Furthermore, according to the Bank of Israel, even though the Israeli economy kept growing, public spending decreased from more than 50 percent GDP in the 1990s to 39 percent GDP in 2012. Correspondingly, over the years the Israeli government drastically scaled back its involvement in the Israeli economy, substituting its reliance on the public sector with an emphasis on private industry as the means to cultivate national growth, resilience and prosperity.

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This project explores the transformation of Israel's tax policy over the years while placing it within Israel's broader economic and social context and unique characteristics. To better evaluate the merit and trajectory of this transformation, the project positions the Israeli tax experience under a comparative lens. In other words, the project evaluates whether this transformation and the outcomes it produces situate Israel closer to, or further from, its counterparts in the developed world.