Protesting the high cost of living in 2018. *Moti Milrod*

Eight years after protests, Israeli prices remain high

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Eight years after Israel's high cost of living triggered a summer of mass protests, prices in the country remain much higher than in other developed economies.

New figures from the Organization for Economic Cooperation and Development show that in 2019, prices in Israel were 19% higher than the average for 36 countries surveyed. That was a slight increase from 18% the year before.

However, figures fro the Knesset Research and Information Center show that the gap is even larger when taking into account gross domestic product per capita. That is because the level of prices in a country is usually correlated with income levels.

In Israel's case, per capita GDP was $41,7000 in 2018, without taking into account relative purchasing power. Assuming that the relationship between per capita GDP and prices is linear, Israeli prices should be 6% under the OECD average, but by the Knesset's estimate, they are 26.1% higher. The gap in Israel was smaller in 2017, at about 22.8%, according to the Knesset study.

If you add in Luxembourg – a tiny country whose per capita GDP was $116,5000 in 2018, 40% more than the No. 2 country, Switzerland – then the gap in prices between Israel and the OECD average narrows to about 20%.

Bat Chen Rotenberg, the economist who wrote the Knesset report, noted that two-thirds of OECD countries had prices higher than their per capita GDP would predict. However, the gap for Israel is larger than for any other country. After Israel, the difference was the greatest for New Zealand (23.7%) and Iceland (18.2%). In Turkey, by contrast, prices are 41% lower than per capita GDP would indicate.

For its part, The Taub Center for Social Policy Studies put the price gap between Israel and the OECD at a narrower 17% in 2018. It made its estimate without assuming a linear connection between per capita GDP and prices.

Pricey eggs

The OECD also recently published comparative prices in member states by product category. The comparisons are issued once every three years and the latest figures relate to the year 2017. They show that average prices in Israel are higher in most categories. For eggs and dairy products the price gap is 79%, probably due to import protections for domestic producers in the categories.

In the category of housing expenses, which includes water, electricity and gas for heating and cooking, Israeli prices are 52% above the OECD average. For personal transportation, mainly automobiles, the difference is 61%.

The only areas where Israeli prices are lower than average are communications (25%) and fresh produce (5%).

It should be noted that prices for specific categories are subject to frequent fluctuation. That makes them less reliable than overall price indicators, which show Israeli prices are 18%-19% higher. To mitigate that, the OECD only issues prices for broad categories, not for individual products or narrow categories.

Even as Israel continues to rank poorly in comparative prices, it's hard to point to any rise in the cost of living in recent years. In January, the consumer price index had fallen to its level of August 2013 – in other words, prices haven't risen at all over the past six and a half years.

Nevertheless, the CPI doesn't measure price levels but the change in prices, so that it offers no insight into how they compare with those in other countries. Nor does the CPI include the cost of buying a home, which has soared in the past decades.

In the case of food prices, which were the focus of the 2011 social-justice protests, they did come down by a few percentage points in the following four years. However, they have been rising at a moderate rate since 2018.

The Knesset report examined the components of the CPI for 2015-19 and found a 4.5% decline in prices for tradable goods, those where there is competition from imports. For nontradable goods, such as fresh produces, prices climbed by 4.8%.

The Taub Center's latest State of the Nation Report, edited by Benjamin Bental and Gilad Brand, noted that inflation had declined in much of the world in recent years. But in Israel the drop has been unusually big, taking into consideration the strong labor market and low unemployment and a big rise in the minimum wage.

Still, that doesn't show up in the OECD price estimates, which show Israeli prices were found that Israeli prices were just 1% higher than the average for member countries in 2013, but in recent years have reached as much as 20% higher. Part of the changes have to do with strengthening shekel.

The Knesset study shows that some of the biggest price increases in recent years have come from products and services provided by the public sector. The overall CPI rose 19.9% from 2007 through 2019, but prices for postal services jumped 78.4%, water and sewage rates by 35.2%, elementary education by 28% and municipal taxes by 25.3%.

Some prices fall

On the other hand, the cost of preschool education rose just 19.6% and electricity by just 15.6%. Public transportation prices were almost unchanged over the 12 years.

Moreover, Israel is more reliant than many other countries on indirect taxes, such as the value-added tax, customs and the purchase tax, and all of these add to the prices consumers pay.

A large part of the price problem lies with the effective closure of the local market to many exports through high duties and nontariff barriers, such as unusual local product standards. Efforts to open up the market, for instance through parallel imports, have not been hugely successful, for instance in the case of toiletries and dairy products.

In fact, the Knesset report shows that the share of imports of the Israeli consumer shopping basket has been in decline even though the outgoing government of Prime Minister Benjamin Netanyahu had sought to encourage more import competition. Imports in 2012 accounted for 26% of GDP, but by 2018 they had fallen to 28%. Among OECD countries, the average is 51.3% and has risen in recent years.

Vis-a-vis Israeli household spending, the percentage going to imported products fell from 16.3% in 2008 to 15.1% in 2017. That reflects a wide range of differences between product categories. For instance, imports accounted for 88% of all spending on apparel but only 5% of spending on dairy products.

It should be noted that apparel prices have fallen in recent decades, but that doesn't mean more imports automatically leads to lower prices. For instance, for seafood, the share of imports grew from 17.5% in 2008 to 54% in 2017, but prices remain about the same, rising 2%.