



Israel Investment Advisors, LLC
1670 Broadway, Suite 3000
Denver, Colorado 80202
(303) 861-3798

National Elections in January Address the Role of the Ultra-Orthodox in Israeli Society
Brian J. Friedman, CFA

Israel's political system is based on proportional representation, allowing any party with at least 2% of the vote to gain representation in the Knesset (the 120 seat unicameral parliament). For many years Israeli governments revolved around either the Center-Right Likud party or the Center-Left Labor party. Neither of these major parties, however, has ever won an outright majority of Knesset seats. As a consequence, the Ultra-Orthodox (known in Hebrew as Haredim or Haredi) parties typically played the role of coalition makers or spoilers. Haredi politicians were usually willing to work with any major party that agreed to maintain exemptions from military conscription, subsidies for religious students and schools, and rabbinical control over aspects of the legal system related to personal status such as marriage or divorce.

The election in January was remarkable, because for the first time in many years the peace process with the Palestinians (or lack thereof) did not dominate the debate or the outcome. Perhaps the biggest surprise was the strong showing by Yesh Atid, a new party headed by Yair Lapid, a secular centrist and popular TV journalist. Yesh Atid wants to end draft exemptions for Haredim and reduce Haredi dependence on state subsidies. Yesh Atid won 19 seats and entered Prime Minister Benjamin Netanyahu's governing coalition along with The Jewish Home and HaTnuah parties (**Table 1**).

Table 1 – Election Results for the 19th Knesset

Political Party	Political Orientation	Seats
Likud Yisrael Beiteinu	Center Right	31
Yesh Atid	Secular Agenda	19
Labor	Center Left	15
The Jewish Home	Religious Zionist	12
Shas	Sephardi Ultra-Orthodox	11
United Torah Judaism	Ashkenazi Ultra-Orthodox	7
HaTnuah	Center Left	6
Meretz	Left	6
United Arab List - Ta'al	Arab Party	4
Hadash	Arab Socialist	4
Balad	Arab Party	3
Kadima	Center Right	2
		120

Although approaching the issue from a dichotomous point of view, The Jewish Home also wants to end draft exemptions and reduce subsidies for the Haredim. This once moribund party was reinvigorated by the dynamic leadership of Naftali Bennet, a Modern-Orthodox high technology entrepreneur. While Yesh Atid supports a two-state solution with the Palestinians and The Jewish Home does not, they agreed to make common cause to keep the Haredi political parties out of the governing coalition. Their common goal is to reduce the dependence of the Haredim on state handouts and to integrate them into the workforce and the military.

Haredi Workers will be a Boon to the Israeli Economy

From an economic point of view, this political shift should accelerate the trend toward higher levels of Haredi employment. Although the Haredim only number around 750,000, or about 10% of the Israeli population, their birth rates are nearly double the secular Jewish population. At current growth rates the percentage of Haredim in Israeli society could triple in the coming generation. Since most Haredi men engage in full-time religious studies supported by state subsidies, both the fiscal cost as well as the opportunity cost of lost economic activity are unsustainable. At present, only 45.6% of adult Haredi men (vs. 81.4% of other Jewish men) and 61.2% of women (vs. 75.3% of other Jewish women) work in paid occupations.

Of course, Haredi leaders argue that Torah scholarship adds value to Israeli and Jewish society that cannot be quantified on the Gross Domestic Product (GDP) report. While this may be true, the election results occurred within a context of fiscal discipline in a variety of areas. As we discussed in last quarter's letter, Israel maintains aggressive targets for government deficits and debt that are enacted in law.

Reduced subsidies to the Haredi community are merely one more area subject to the budget knife, albeit charged with more intense emotional debate.

In our view, integrating the Haredi communities into the workforce will bring benefits for Israeli society as well as for the Haredim themselves. In the aftermath of the Holocaust surviving Torah scholars in the State of Israel perhaps numbered 600 people. State financial support to rekindle this devastated aspect of Jewish life was important. Today tens of thousands of Haredi men study in Kollels and Yeshivas, and their numbers are growing rapidly. As the purchasing power of state subsidies declined more than half of all Haredi families have been pushed below the official poverty line. Beyond economics, employment will bring the Haredi population into greater daily contact with other segments of Israeli society perhaps encouraging tolerance for all concerned.

The Haredim are Highly Literate with Potentially Transferable Skills

Although not trained for secular occupations, the Haredim spend years studying complex religious texts. Unlike other communities struggling with poverty, the Haredim value education, effort and delayed gratification. They are poised to make a significant economic contribution to society. In the coming years, greater Haredi employment could boost Israel's labor force participation rate by as much as 5%, allowing continued economic growth with modest inflation. If a similar policy shift created incentives for the Arab population – particularly Arab women – to move into the paid work force, Israel could reap a very significant economic dividend in the coming years.

The new political landscape reinforces an existing trend toward Haredi integration into the labor force. This election brought the issue to the top of the political agenda for the first time, but Israel's low unemployment rate and rising Haredi poverty are the real drivers behind this long-term shift. It seems that the new governing coalition will now be committed to a rational reconfiguration of policy to facilitate this trend.