

Fighting the Drones: Herzl and Nordau Critique of Financial Capitalism

Adam Raz

The article reviews Herzl and Nordau economic thought/theory – focusing on the “political economy” aspects of their thought. The article has four main parts: first, to briefly review the economic aspects of Herzl and Nordau’s thought and describe the climate of opinion in which they operated in. The second is to place Herzl and Nordau in the context of a specific economic doctrine that was present in public discourse at the end of the 19th century and the beginning of the 20th century. Third, to point to the actuality of their criticism of financial capitalism and to recognize it as an effective theory in the analysis of capitalist economic dynamics today. Fourth, to point out the alternative they presented to financial capitalism.

The Effect of Legislated Tax Changes on Tax Revenues in Israel

Adi Brender and Eran Politzer

We estimate the extent to which tax revenues in Israel are influenced by legislated tax changes, using a database that includes all such changes during the period 1991–2012. We use the tax revenue forecasts, which are presented to the Knesset each year (after verifying that these forecasts are not manipulated). This makes it possible to overcome the endogeneity problem which makes it difficult to identify the effect of legislated tax changes on tax revenue and economic activity. We find that the effect of legislated tax changes on actual tax revenue is about 70 percent of the amount predicted by a static calculation that assumes no change in the tax base. The offset is solely a result of the effect of the tax change on economic activity. The results disprove the claim that the Israeli economy was located during the sample period on the “wrong side” of the Laffer curve where reducing tax rates leads to higher tax revenue.

We find that after a transition period of two years, a change in the corporate income tax rate yields 90 percent of the revenue expected by a static prediction – a greater share than that of revenue collected from a change in the personal income tax (65 percent), or in indirect taxes (58 percent). This order is in contrast with the short term, where changes in corporate income taxes have the lowest actual effect on revenues. We also find that reducing personal income tax rates has a negative effect on the average gross wage in the economy. Thus, net wages increase by about 65 percent of the benefit, and the employers’ labor costs decrease by the rest of the expected revenue loss.

Interest Groups and Rent Seeking in Privatization Model of Public-Private-Partnership (P.P.P.)

Avraham Barel and Gil S. Epstein

This article presents application of the “Rent Seeking” Model for privatization issues and utilizes the Public Private Partnership (PPP) privatization process as a platform for manifesting a competitive two-stage game between interest groups that invest their resources in an attempt to influence legislators in their decision making process regarding matters of privatization.

This article’s main contribution lies in its analyses of two components. The first analysis is that of the two-stage privatization model wherein there exists an opportunity for players of the opposition group to re-enter the competition for rent during the second stage of the model. The second analysis is that of the behavior of politicians required to reach a decision with regards to privatization as a competitive framework while taking into consideration both their own set of preferences (social welfare and personal gain) and the preferences of those groups involved in achieving or failing to achieve privatization.

The article focuses on the effect of the level of compensation in the privatization game, on the intensity of conflict between interest groups, and on the ability of the privatizing authority to ensure the outcome.

The reality in Israel is such that in most large infrastructure projects there exist numerous players (government offices, regulatory bodies, municipal authorities, private corporations etc.) that act as “lone islands” in an attempt to advance their own interests irrespective of the priorities of other groups. This situation may lead to delays, price increases and even threaten the project’s viability altogether.

The model’s outcomes indicate that the compensation (provided by an organization whose role is to examine the myriad of interests and needs of all players) may contribute greatly in shortening time frames, advancing the projects and easing the intensity of conflict – all factors that accompany the privatization process.

Describing a “Rent Seeking” game in a privatization model that enables the return of players from the opposing group to compete in the second-stage and receive compensation from the privatizing authority appears reasonable considering the multitude of situations and processes that take place in industries today. It is in this way that the model contains great potential for implementation in political contexts and public policy-making.

of other food products, it was found that, as expected, the expenditure on those goods is negatively correlated with earning ability, although the correlation is not statistically significant and therefore one cannot conclude that imposing a lower rate of VAT on these goods would be beneficial. On the other hand, the expenditure on home rental was found to be positively correlated with earning ability and the correlation was statistically significant, which implies that a higher tax rate should be imposed on rentals.

ABSTRACTS

Should Differential VAT be Implemented in Israel? A Theoretical and Empirical Examination of its Expected Effects

Chemi Gotlibovski and Nir Yaacobi

Following the social protests in the summer of 2011, there was a call to reduce inequality by expanding the list of products that are subject to a different rate of VAT (differential VAT), as in many EU countries.

This article will attempt to determine whether differential VAT is indeed the preferred method of reducing inequality.

Both the theoretical and empirical economic literature indicate that differential VAT is inferior to other tools for reducing inequality, such as a progressive income tax, transfer payments and subsidies.¹ The same conclusion was reached in a simulation that we ran for the Israeli economy in order to examine the effect of cancelling the zero-rate VAT on fruits and vegetables and replacing it with transfer payments, subsidies or a negative income tax. We found that such a policy would reduce inequality and even increase economic efficiency by eliminating a distortion in relative prices.

The use of differential VAT as a tool to influence the behavior of businesses, which is called for when a factor of production is characterized by an externality, is also not desirable since these businesses are eligible for the full reimbursement of the VAT that they have paid.

The literature has also considered the differential taxation of goods under a broader definition of inequality that takes into account the leisure of households, in addition to the traditional income measure. When only income is being taxed, highly-skilled individuals reduce their tax liability by working fewer hours. Hence, to the extent that labor skills and the consumption of certain goods are correlated, it would be beneficial to impose differential taxation on those goods.

Using a survey of family expenditure in Israel for 2010, we estimated the correlation between hourly salary (which represents individuals' earning ability) and household expenditure on a variety of goods.

The estimation showed that the zero-rate VAT on fruits and vegetables in fact increases inequality since their consumption is positively correlated with earning ability. In the case

¹ See, for example, Gupta (2014)