The Political Economy of Israeli Neoliberalism

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Abstract and Keywords

Israel's political economy has been transformed since the 1980s from a developmental to a neoliberal model. This chapter describes and explains this transformation, emphasizing the unevenness and incompleteness of liberalization and its impact on socioeconomic inequality. Adopting a historical-institutionalist perspective to explain both the rise of Israeli neoliberalism and its unevenness, the chapter argues that liberalization was led by economic technocrats in state agencies, who were guided by liberal economic ideas and simultaneously pursuing their interest in greater authority and autonomy. The technocrats were empowered by re-engineering economic policy institutions and cooperating with other political actors. However, their ability to fulfill the goal of technocratic management of a competition-driven economy was limited by the continuing power of some sectors of both business and labor and the continuing vibrancy of the state's national and military projects. The conclusion discusses recent challenges to neoliberalism in Israel as a result of public discontent and conflict between state actors.

Keywords: neoliberalism, technocrats, economists, inequality, economic liberalization

Halfway through the seven decades that have passed since Israel's proclamation as a sovereign state in 1948, it embarked on a far-reaching transition from a statist and developmental political economy to a neoliberal one. This transition was accompanied by dramatic shifts from ruinous public indebtedness to zealous fiscal probity and from systems of employment, investment, and trade that were sheltered and heavily subsidized by the state to a paramount role for market forces. Reviewing this evolution, in this chapter we describe and explain the most salient features of change and continuity in Israel's political economy. Accordingly, the chapter is organized around two main questions: What are the main features of Israel's transformation to neoliberal capitalism? What political-economic forces explain this transformation?

Focusing on the first question, the first section of this chapter details the particular characteristics of the unevenness and incompleteness of economic liberalization in Israel. The second and third sections explain these characteristics of contemporary Israeli neoliberalism. Utilizing a historical-institutionalist perspective, we emphasize the interplay between the ideas and interests that have guided the actions of local neoliberal actors and the institutional context—the policy legacies and power structures—within which they have operated. We argue in these sections that the adoption of neoliberal capitalism in Israel has been characterized by substantial compromises that its advocates could not avoid. We conclude with some reflections on the future of neoliberalism in Israel.

Neoliberalism in Israel: Uneven and Unequal

In the 2016 *Economic Survey of Israel* its economy is described as follows:

> The Israeli economy is enjoying its 13th consecutive year of growth, demonstrating remarkable resilience. Increases in output … have exceeded those of most other OECD countries…. [T]he employment rate has continued to rise steadily, the unemployment rate has fallen … and the external balance is in surplus…. The fiscal strategy adopted in 2003 has kept public debt on a downward trend and brought the tax burden well below the OECD average…. The banking system is profitable and well capitalized … [and] Israel also has a vibrant high-tech sector.
>
> (OECD, 2016, p. 14)

With so much good news, what is there not to like? The survey identifies "two important challenges." One is the incomplete reach of the competitively driven growth model. Indeed, a "marked disparity" is observed between "highly dynamic exposed industries and a large, low-productivity sheltered sector." The latter is riven with inefficiency and lack of competition, and it drives the cost of living upward. The other Achilles heel of the Israeli model is that fiscal policy is "not conducive to inclusive growth" (OECD, 2016, p. 10). In 1985 Israel embarked on a dramatic fiscal transition from profligacy to prudence, which was consolidated in the early 2000s, when government spending as a share of gross domestic product (GDP) plummeted from the top to the bottom quartile of Organisation for Economic Co-operation and Development (OECD) countries (2016, p. 25).

The decline in Israel's relative public spending compared to other OECD countries mainly resulted from retrenchment of its welfare state. In line with neoliberal orthodoxy, as the social safety net wore thin, participation in paid work rose. But the combination of commodification into largely low-paid jobs and cutbacks of cash benefits for the poor brought Israel's poverty rate to one of the highest in the OECD. Moreover, during the early 2000s governments adopted regressive shifts in tax policy, exacerbating income inequality. Israel's Gini index for *disposable* income (after taxes and transfers) continues to be internationally exceptional, despite the fact that inequality of *market* incomes has been declining (Dahan, 2017).

To summarize, while in Israel market-enhancing policies may have placed "the economy" on a path of enviably high and stable growth, when viewed from a disaggregated perspective, it is seen to be riven by sectoral dualism, and the fruits of its expansion have been very unevenly distributed. The OECD has called out the Israeli government by (a) spotlighting the economic injustice suffered by its most vulnerable populations, (b) pointing out that increased public spending is desirable and fiscally feasible, (c) urging that proactive measures be taken vis-à-vis Israel's large minority of Palestinian Arab citizens, and (d) exposing the way that large swathes of the economy have in fact been spared the dictates of market discipline. At the same time, it has conspicuously refrained from addressing the state's continued fiscal commitment to cherished national projects, notably military strength and the settlement and continuing occupation of territories conquered by Israel in 1967.

These uneven and unequal outcomes, we argue, are indicative of the current state of Israel's evolving "neoliberal settlement." This settlement rests on a series of changes in policy and the institutional governance of policymaking over two decades, which dismantled the old economic power structure based on collaboration among the public, quasi-public, and private sectors of Israeli big business, with the peak labor organization (Histadrut) acting as the pivot (Grinberg, 1991; Shalev, 1992). The Histadrut forfeited its ownership of many of the largest enterprises in the country and was obliged to give up its role as the dominant provider of health services and occupational pensions (Grinberg, 2017). In the public sector per se, most government corporations and services underwent either outright privatization or a transition to market-based performance standards (Paz-Fuchs, Mandelkern, & Galnoor, 2018). The following subsections summarize the main changes that have taken place in key aspects of the Israeli economy.

Industry and Finance

Most of the privatized pillars of the old Israeli economy were placed in the hands of corporations controlled by a few wealthy families (Maman, 2017). At the same time, the country's largest banks were required to give up their pervasive role as owners and financiers of nonbank enterprises and were barred from controlling new financial instruments. Consequently, the banks lost a substantial share of the business credit market to a growing sector of institutional investors, although their domination of consumer banking has been preserved (Banking Competition Committee, 2016). While the financial sector has thus become more pluralistic, each of its branches is dominated by a small number of big players.

The industrial and high-end services sectors have experienced broadly similar trends. On the one hand, they were privatized and internationalized, and their range of activities was expanded, notably due to Israel's rise as a technological power. But none of this eroded the past pattern of concentrated ownership and restricted competition (Bahar, 2016). A number of traditionally protected domestic branches were indeed opened up to imports, which lowered consumer prices and eliminated or reformed uncompetitive and subsidized firms (e.g., textile production and air travel). However, in other sectors established monopolies and oligopolies maintained economic concentration—most notably in what the

OECD describes as "the entire food chain," from agricultural production to supermarkets (Broude & Herman, 2014).

The Labor Market

In the labor market, inequality between workers has been rising, and simultaneously labor's share of national income has been declining (Kristal, 2013). As in other countries, along with external and domestic liberalization, structural economic changes and declines in the power of organized labor have played a role. Structural changes have also exacerbated inequality. Deindustrialization at the low end of the economy has been accompanied by an expanding, internationally integrated tech sector and highly profitable financial services at the high end. Productivity gaps between low-skilled and high-skilled workers have been accentuated, while at the same time high-growth sectors have experienced sharp rises in pay and benefits, especially for executives. In addition, privatization and casualization eliminated sheltered segments of the labor market that in Israel had formerly been exceptional in scale. Partly as a result of the previous two factors, sharp declines in unionization and collective bargaining also widened pay gaps. Union membership declined dramatically, from around 80 percent of the workforce in the early 1980s to only 27 percent in 2016 (Cohen 2017). While collec-tive agreements are quite often extended to nonunionized workers, the growing scope of decentralized collective bargaining has contributed to rising wage differentials (Kristal & Cohen, 2007).

The Histadrut's massive loss of membership (and the rise of alternative unions), the state's partial withdrawal from political bargaining with the peak organizations of workers and employers, and the decentralization of collective bargaining have diminished or supplanted Israel's earlier corporatist system of industrial relations (Mundlak, 2007; Preminger, 2018). Concurrently the state as an employer aggressively pursued the goal of shrinking the secure, unionized public employment sector. In state-owned industries and infrastructure monopolies, this was achieved by privatization or by recruiting new workers as "second generation" employees with inferior status and benefits. In the public services many administrative and social service jobs were casualized, either by eliminating their civil service status or outsourcing them to temporary work agencies and subcontrac-tors (Mundlak, 2017; Paz-Fuchs et al., 2018). Nevertheless, powerful segments of the public sector workforce, including civil servants, workers in the electricity monopoly, and career officers in the military and police who are not formally unionized, have successful-ly preserved their privileges.

The Welfare State

A statistical comparison of the programmatic composition of welfare state spending in Israel, the United States, and five Western European nations shows that Israel and the United States cluster together, primarily as a result of their shared commitment to public employee pensions (coupled with low universal retirement allowances) and very low disbursements in both housing and "active" labor market programs. In addition, aggregate social spending has been on a declining trajectory. Data for thirty-five OECD members measuring the GDP share of public social expenditure show that whereas in 1990 Israel was at the median, by 2016 its rank had fallen to 29, trailed by countries like Mexico and Turkey.

Welfare state retrenchment was concentrated on programs that support economically vulnerable sectors: child allowances (especially beneficial to two large and poverty-prone minorities, Arab citizens and ultra-Orthodox Jews), minimum income and other selective benefits to the needy, and housing assistance. Together these types of benefit went from accounting for one-quarter of social spending in the mid-1990s to only one-tenth today. The slack was taken up primarily by public employee pensions and a range of "loyalty benefits" by which the state compensates specific categories of citizens for contributing to highly valued national priorities, most notably in the military sphere but also related to Jewish immigration and memorializing the Holocaust.[1]

The State and the Politics of Neoliberalism

What explains uneven and unequal neoliberalism in Israel? Any analysis of the political economic transformation that took place in Israel cannot ignore exogenous structural factors that influenced most emerging and advanced economies during the 1970s and 1980s. Prominent among these are the rise of financial globalization, the collapse of the Bretton Woods system, and the economic stagflation of the 1970s, which justified the abandonment of Keynesian economics. In Israel these global influences joined chronic problems of inflation, deficit spending, and trade imbalance, sharply exacerbated by oil price rises and an explosion in military spending following the 1973 war. After several years of economic crisis and escalating inflation, in July 1985 the government adopted a long-awaited stabilization plan that inaugurated Israel's transition from developmentalism to neoliberalism.

The impetus for change did not merely reflect a functionalist response to exogenous circumstances. Rather, to borrow from Kingdon (1984), political-economic transformation was enabled by the coincidence of economic problems, political will, and determined political entrepreneurs. The most prominent and persistent of these entrepreneurs were economists and state bureaucrats, especially at the Ministry of Finance and the Bank of Israel, whose interests and beliefs drove their long-standing desire to control economic policymaking and force governments to internalize what they saw as self-evident truths. Already in the 1950s Ministry of Finance and Bank of Israel officials, with the intellectual support of economists in academia, were eager supporters of economic liberalization. They were highly critical of politicized economic management during the developmentalist stage and saw its replacement as necessary even before the 1970s and 1980s economic crisis (Mandelkern, 2016, 2017; Maron & Shalev, 2017).

The Quest of State Agencies for Political Power

The political interests of economic state agencies reflected an aspiration for greater control over economic policymaking (Maman & Rosenhek, 2011; Maron & Shalev, 2017). The power struggles between them and other political actors—politicians, organized interests, and other government ministries—constituted an effort to improve their position on the "board of directors" of the economy, from which they had been marginalized since the formation of the state. The period between 1973 and 1985 had only worsened their subor-dinate status. Their role was essentially reduced to raising revenues and printing money to cover budgets over which they had little control and which effectively subsidized a wide range of economic actors, including exporters (through frequent devaluations), creditors from business lenders to mortgagees (through loans at nominal instead of real rates), and employees (through guaranteed inflation-adjusted wages). While fueling infla-tion and exacerbating budget deficits, these policies served the interests of the big banks and business groups, including the growing "military-industrial complex" under their con-trol, which enjoyed structural power in the economy and strong connections with the po-litical elite (Nitzan & Bichler, 2002). The Ministry of Finance and the Bank of Israel were also powerless to block expansion of the public sector or limit governmental lines of sub-sidized credit, both of which were crucial for preventing unemployment and maintaining political legitimacy. In short, in this period—which Israeli economists dubbed "the lost decade" (of economic growth)—the economic technocrats experienced a precipitous de-cline in their ability to shape policy.

As annual inflation exceeded 400 percent and public debt and deficits spiraled, the technocrats embarked on a determined campaign to achieve autonomy from both the state's operational agencies (e.g., "spending" ministries and local municipalities) and the influence of politicians over economic policy. Their determination was reinforced by the belief that depoliticized management is crucial to effective government, just as the enhancement of market competitiveness and economic openness are essential for social and economic prosperity. Theories of the mainsprings of economic growth and efficient governance interacted with and were fortified by the technocrats' drive for professional and institutional autonomy.

The Growing Power of Economic Bureaucracies after 1985

Key officials from the Ministry of Finance and the Bank of Israel, in collaboration with senior academic economists in Israel and the United States, played a decisive role in winning professional and political acceptance for the comprehensive stabilization plan adopted in 1985 (Mandelkern & Shalev, 2010). In addition to ending inflation by freezing the exchange rate and consumer prices and cutting the budget deficit, the plan included structural reforms that aimed at dismantling mechanisms of inflation compensation, reducing public sector employment, and liberalizing the capital market. The plan was accompanied by legislative amendments that institutionalized the independence of the central bank and its capacity to pursue "responsible" monetary and exchange-rate policies and provided the Ministry of Finance with remarkable powers of control over fiscal policy

(Ben-Bassat & Dahan, 2006; Maman & Rosenhek, 2017). These statutory reforms, with intellectual origins in economic theories of efficient governance, supported and supplemented the fiscal and monetary restraint mandated by the stabilization plan.

To some extent, the reforms of 1985 built on previous steps. During the 1960s two governments had attempted to deal with severe macroeconomic and fiscal problems by redefining state obligations and imposing greater market discipline on both labor and capital (Mandelkern, 2016; Shalev, 1984). The first initiative was a failure from the outset, and the second was abandoned following Israel’s victory in the 1967 war. In the following decade, after the Labor Party lost the 1977 elections, the Likud-led government entered office with promises of radical liberalization. While this ambition was abandoned, two key reforms were initiated. One liberalized foreign currency transactions, and the other cancelled a long-standing arrangement granting the large Histadrut-owned sector of the economy guaranteed access to government-subsidized investment finance (Ben-Porath, 1983; Grinberg, 1991).

The stabilization plan did not and could not turn Israel overnight into a neoliberal political economy. Instead, it represented the opening shot in a long-running battle for institutional re-engineering of economic policymaking (Shafir & Peled, 2002, ch. 9). This battle was fought to a significant extent by engineering institutional changes that altered the rules of the political-economic game and thereby the power relations among political-economic actors. By regularizing the emergency powers it first received in 1985, the Ministry of Finance gained the ability to promote its own policies directly in an annual “Arrangements Law.” The Ministry of Finance also replaced the financial controllers of all operational state agencies with its own functionaries and formulated and promoted “fiscal rules”: a legislative framework for limiting the short-term discretion of politicians regarding the overall state budget. Likewise, in the 1990s the Bank of Israel’s control over monetary policy—and thereby its influence over macroeconomic policy in general—was reinforced by the adoption of “inflation targeting,” namely inflexible price stability goals. The bank’s independence reached its formal culmination with the 2010 amendment of the Bank of Israel Law, which prohibits the government from dismissing its governor in the event of a policy disagreement. In parallel, regulators in different economic domains—most prominently antitrust and finance—were also granted greater autonomy from the influence and potential pressures of elected politicians.

This array of institutional changes reflects a drive to neutralize veto players both inside and outside of the state and direct attention to an underappreciated dimension of neoliberalism: its attempt to limit the impact of societal pressures on economic regulation by the state. Politicized decision-making is susceptible to unwanted pressures from either the “masses,” through democratic representation, or “special interests” and “rent-seekers.” In this sense, economic technocrats are not so much blind believers in market fundamentalism as they are committed to rationalization—through depoliticization—of economic decision-making (cf. Fourcade-Gourinchas & Babb, 2002). This, of course, resonates with their interest in gaining the institutional capacity to implement economic policies as they see fit.

Building Coalitions for Change

One of the most important components of Israel’s political-economic transformation has been radical redefinition of the roles and powers of the Histadrut. Prior to 1948 the Histadrut was both a critical instrument of Jewish settlement and the backbone of the dominant Labor Party. After statehood was achieved, Labor governments acted to reinforce and expand the Histadrut’s functions and capacities as an employer; a provider of social protection through collective bargaining, pension funds, and healthcare; and a confederation of labor unions (Shalev, 1992). The state took various steps to provide the Histadrut with associational monopoly powers and to consolidate and subsidize its economic and social service functions. Conveniently, the state delegated responsibilities to and engaged in corporatist bargaining with an organization that was under the political control of the governing party. Under this system the Histadrut provided the party with finance, infrastructure, and access to masses of voters, while its multifunctional roles allowed the state, which was controlled by the party, to avoid new and costly obligations.

In the 1970s and early 1980s the Histadrut’s subsidized, quasi-state functions became increasingly costly to the state, yet its continuing political importance for the Labor Party rendered the status quo compelling to the party’s senior politicians. But by the 1990s the Histadrut had become more of a political burden than a benefit to rising aspirants to power within the party, leading their interests to converge with those of the economic bureaucrats. Their combined efforts succeeded in bringing about the demise of the “system of 1948,” first by withholding state aid to the Histadrut’s ailing business empire, then by separating it from the healthcare function on which mass membership depended, and finally by a series of state initiatives that ended the Histadrut’s monopoly over private sector occupational pensions (Grinberg, 2017). With the Histadrut transformed into a labor union and the Labor Party in decline and disarray, the historically strong ties between the two have essentially unraveled (Mandelkern & Rahat, 2017).

The de facto collaboration between economic bureaucrats and Labor politicians in dismantling the old Histadrut is an example of a coalition for change that was effective but not always harmonious. In the 1994 health services reform, universal health insurance was the price that the Ministry of Finance was forced by Labor politicians to pay in order to implement their shared goal of removing health services from Histadrut control (Asiskovitch, 2017). Unable to prevent the legislation, the technocrats responded by promoting classically neoliberal practices of damage control, including the creation of a quasi-market of competing providers and stimulating the growth of complementary private insurance schemes (Filc, 2018).

In cases where neoliberal reforms might have gained the attention of political parties or organized interests or were sure to be opposed by powerful state agencies, the Ministry of Finance was required to build coalitions, move gradually and circumspectly, and take preemptive action to neutralize other bureaucracies. One example that combines all of these elements was a radical reform that relieved employers of their obligation to contribute to social insurance funds while it expanded the Treasury's responsibility for funding. Implemented in a series of pointedly low-key steps during the 1980s and 1990s, this maneuver succeeded in undermining the autonomy of the bureaucracy responsible for social insurance administration, thereby opening the way to the benefit cuts of the early 2000s (Koreh & Shalev, 2017). In another well-known case, a welfare-to-work program (the "Wisconsin Plan"), Ministry of Finance officials succeeded in bypassing the nominally responsible agency (the government Employment Service) and establishing a parallel structure directly under their control. However public hostility to the reform, fanned by opponents in advocacy organizations, the mass media, and the state itself, eventually emboldened politicians to cancel the program (Mandelkern & Koreh, 2017).

These examples illustrate that while the political power of the state agencies leading the neoliberal reforms was substantially enhanced and institutionalized, they did not become omnipotent. They were obliged to make compromises in order to win certain battles, and in some cases they lost. Their capacity to generate substantial changes was also not uniform across different policy domains. The influence of the Bank of Israel has been more significant when it utilized its control over monetary policy to force budgetary restraint on the government, as it did early in 2001 (Mandelkern, 2011). The influence of the Ministry of Finance is especially significant in the context of intrastate bureaucratic politics, where it demands policy reforms by utilizing its powers over the budgetary process (Cohen, 2014; see also the chapter by Gilad & Cohen in this volume). On the other hand, as discussed later, in areas attached to national projects and/or of cardinal importance to governing politicians, attempts to impose neoliberal discipline are often frustrated.

The State as a Neoliberal Agent

The crucial role played by state bodies in promoting political-economic transformation in Israel, and the outcomes generated, pose questions for a number of influential perspectives on neoliberalism. One popular view sees neoliberalism as a blind belief in the superiority of unfettered markets. As David Harvey (2005) argued, in practice no such impeccable ideational logic can be found. Harvey interpreted neoliberalism as a strategic re-equilibration of class relations in response to increases in the political-economic power of labor at the expense of capital. The Israeli experience shows that the state has its own agenda and is far more proactive than a purely class-based perspective allows.

Another approach interprets neoliberalism as the "withering away" of the state, a full-scale retreat from its social and economic responsibilities. Nevertheless, as many scholars have pointed out, neoliberal capitalism is characterized by the *renewed* and *reformed* engagement of the state and the government in economic affairs (e.g., Ban, 2016; Vogel, 1996); on Israel see Maman & Rosenhek, 2012). The state plays an active role in build-ing and constructing markets and in regulating them to enhance their openness and competitiveness and minimize its own vulnerabilities. State agencies often behave as if they deeply mistrust free markets, relying instead on a panoply of regulatory instruments to shape markets in ways that ameliorate the state's structural dependence on capital.

While the state remains an active and potent force under neoliberal capitalism, its actions reflect a *market-conforming* logic instead of the *market-correcting* logic that underpinned Keynesianism and developmentalism. In attempting to enforce market-conforming policies, government bodies in Israel remain highly involved in the macroeconomic management of the economy and in regulating financial, labor, and commodities markets. Regulation for enhancing competitiveness is most prominent in the financial markets. One prominent example is a series of still-ongoing reforms aimed at dismantling bank-controlled financial conglomerates by forcing them to sell off important chunks of their operations (e.g., in the domains of long-term savings and credit card services).

Neoliberal policies may also follow a *market-exploiting* logic, that is, the unleashing of market forces to hamper the ability of societal interests (and their political representatives) to impose binding and inflexible spending commitments or undermine the policymaking autonomy of state bodies. Prominent examples include the imposition of market discipline on citizens by the Wisconsin Plan; attempts to discipline capitalists by enhancing market competition between them; and using privatization to weaken centers of societal power that encroach on state autonomy (e.g., the pension funds of the Histadrut). From this perspective, neoliberalism in Israel should be understood as a state project that seeks simultaneously to overcome the limits and contradictions of earlier models of economic performance and to restructure the politics and governance of economic policymaking.

Past Legacies and Power Structures

The previous section highlighted the essential role played by state agencies in the political-economic transformation described in the first section. These agencies, and the technocrats who administer them, have expanded their political power and authority over economic policymaking and substantially diminished the influence of powerful interests on government policy. Yet as the first section emphasized, neoliberalism in Israel is also characterized by compromises and limited reach. The unevenness of neoliberalism in Israel, we contend, reflects the encounter of neoliberal policies and programs with historical legacies and social structures that became deeply embedded in Israel's political economy.

The Shadow of a Stratified Past

Israel's corporatist and developmentalist past, characterized by intensive involvement of the government in the economy and extensive political influence of organized interests on economic policies, is often confused with social-democratic values and practices. But as various authors have shown (e.g., Rosenhek, 2011; Shalev, 1992), Israel's political economy in the past was characterized by stratification between different social groups, largely according to their proximity to the political center and the veteran European-born

(Ashkenazi) settlers (see the chapter by Smooha in this volume). Consequently, although economic inequality has been rising since the 1980s, even prior to this Israel was a deeply stratified society in which social policy and a panoply of other instruments of government intervention played a cardinal role in the creation and perpetuation of unequal life chances based on nationality, ethnicity, and gender (Shafir & Peled, 2002).

The unleashing of market forces and undermining of social protection ushered in by neoliberalism have a well-documented tendency to reinforce prevailing social and economic gaps (see Kristal, 2013 for evidence on the Israeli case). At the same time, neoliberalism's insistence on universal inclusion in the market and its promotion of education and initiative as instruments of individual advancement potentially open up new avenues of upward mobility for subordinate segments of society—notably, in the Israeli context, Arab citizens and Jews who originated in Arab countries (Mizrachim). Moreover, neoliberalism's glorification of individualism and its drive to level the playing field on which competition takes place could theoretically challenge the twin underpinnings of the marginalization of Israel's Arab citizens: the state's Jewish self-definition and its commitment to rewarding citizens for contributing to national projects from which most non-Jews are excluded (see also the chapter by Galnoor in this volume).

In practice, while intensifying disadvantage and precarity for many Mizrachim and Arabs, neoliberalism has had beneficial effects for others, contributing to expansion of their middle-class component (Arlosoroff, 2017; Cohen & Leon, 2008; Dahan, 2016). Privatization of public and Histadrut enterprises and the unleashing of market and quasi-market forces in the domain of public and former Histadrut services transformed state-subsidized, Jewish-only workplaces into profit- and efficiency-driven businesses, leading to downgrading for some and new opportunities for others. In the private sector, globally themed shopping malls are an example of "neoliberal spaces" created by economic liberalization (Shtern, 2016), specifically providing new employment opportunities for Arab women in retail (Marantz, Kalev, & Lewin-Epstein, 2014).

A profound innovation of the neoliberal era is a reform of higher education, which ended the oligopoly of research universities and created a network of colleges in proximity to peripheral populations, with generally less selective admission and performance standards. Another notable development is that traditionally empty promises to equalize state spending on the Arab and Jewish sectors have been overlaid by neoliberal policies aimed at integration through the market, such as empowerment programs to raise labor force aspirations and participation of Arab women, and encouragement of Arab entrepreneurs to invest in the Arab enclave economy (Sa'ar, 2016). At the same time, for the large segment of Arabs and Mizrachim without a professional qualification, the secondary segment of the labor market offers precarious and partial employment, deepening their structural economic inferiority. In promoting flexible labor markets and focusing single-mindedly on moving the poor into employment, rather than on enhancing worker skills, the state has expanded the ranks of the working poor (Stier, 2011).

The Legacy of Economic Concentration

One of the most prominent features of unevenness in Israel’s contemporary political economy is the concentration of economic power among a small number of actors, behind which stand in many cases a specific family or “tycoon” (Maman, 2017). While this feature contrasts conspicuously with the neoliberal ideal of market competition, it may be explained as the result of the limited ability of neoliberal agents to implement their goals in the context of concentrated economic power and the compromises that they had to make.

The similarity of the present level of economic concentration to that of the past reflects how the privatization of Histadrut and government corporations was carried out. In contrast to the paradigmatic case of Thatcher’s privatization in the United Kingdom, in which shares were offered to employees and the mass public, public corporations in Israel were sold to big local and foreign investors. In the United Kingdom the implementation of privatization was shaped by the Conservatives’ interest in legitimizing privatization and winning voters away from Labor (Garrett, 1993). In Israel privatization was primarily led by the Ministry of Finance, whose main political aims were to swiftly relieve the state from the obligations and debts of public and semipublic corporations and to insulate the government from future demands for subsidy by their privatized successors. In part, this approach was justified by the belief, used at the time to legitimate the privatization of Russian assets to would-be oligarchs, that competition would follow privatization. In practice, the outcome was the creation of a new social class of super-rich capitalists.

Leaving the Strongest until Last

By their nature, economic liberalization policies were opposed by those who had benefited from past policies. One explanation for the unevenness of Israeli neoliberalism is the wide variation in power resources among different losers from liberalization. The differential impact of neoliberal policies on employees is perhaps the clearest instance. The structural economic power of unionized blue-collar workers in public utilities and the strategic positions (or high levels of social and cultural capital) of upper white-collar workers like senior civil servants and university professors allowed them to preserve their privileged positions. In contrast, the seemingly secure male blue-collar workforce in the Histadrut enterprises and state-owned military industries, as well as low-level clerical, administrative, and service workers (primarily Mizrachi women), either lost their jobs or were forced to accept radical downgrading of their conditions of employment (Benjamin, 2011).

Other dualizing practices were explicitly invoked by the state (cf. Emmenegger et al., 2012). For example, in many of the public bodies in which unionized workers did retain their rights, the state led the way in casualizing new employment, redefining formerly secure jobs and occupations (including some professionals in the social services) as temporary positions or utilizing market-exploiting practices like temp agencies and outsourcing (Mundlak, 2017). Relatedly, liberalizing reforms were unevenly applied to different “generations" of workers. The consent of powerful unions to privatization and changes in employment conditions was obtained, in many cases, by shielding veteran workers from their consequences.

A prominent site of preferential treatment during the neoliberal era has been Israel's successful hi-tech industry. Marking it as an economic champion, the state—the Ministry of Finance included—continued to nurture this industry even after the adoption of the neoliberal agenda. Yet so far state support has allowed the Israeli hi-tech sector to focus almost exclusively on research and development and the sale of successful start-ups, leaving it vulnerable and dependent on the US economy. This also explains why the benefits of the "start-up nation" have been distributed so unevenly, as it provides job opportunities and occasional windfall fortunes mainly to highly educated professional workers (Zehavi & Breznitz, 2017).

Israel's Distinctive State Projects

The creation of the State of Israel realized the aspiration of the Zionist movement for an independent state for the Jewish people. The proclamation of statehood in 1948 prompted both resistance from the indigenous Arab population and external invasion, and although in the ensuing conflict the Jewish side succeeded in expanding its territory and initiating or facilitating the permanent departure of most of the former Arab inhabitants, the prestate period bequeathed three interconnected legacies that have become institutionalized as state projects. The first is militarism, which both responds to and reinforces the conflict between Israel and its neighbors and the Palestinian national movement. The second is the occupation, which maintains Israeli control over the territories it conquered in 1967. The third is Zionism, which grafts onto Israel's "procedural" liberal democracy a persistent drive for Jewish demographic, territorial, and political dominance (Smooha, 2016). All three of these projects contribute to the unevenness of Israeli neoliberalism. They entail substantial state expenditures yet are protected against market-exploiting discipline by multiple forms of power.

The official share of Israel's GDP accounted for by military spending has declined precipitously since the 1970s, recently stabilizing at under 6 percent—still significantly more than the other OECD leader, the United States.[2] The military establishment is the only major state sector that has succeeded in retaining a substantial degree of autonomy vis-à-vis the Ministry of Finance. This is explained by the dependence of both political elites and ordinary citizens on the military to deal with security threats, the centrality of military service in the lives of Jewish Israelis, the cultural depth of militarism, and the influence of an informal "security network" of current and former military personnel (Kimmerling, 1993; Sheffer & Barak, 2013; see also the chapter by Peri in this volume).

Military service is mandatory in Israel for most Jewish men and women and for a small minority of Arab citizens. An extremely generous and institutionally separate welfare state for soldiers and their families makes a substantial contribution to the economic burden of military conflict and militarism on the state. It is the prime example of a broader class of "loyalty benefits," which reward citizens (almost exclusively Jews) for contributing to state projects. Other examples are incentives and exemptions for Jewish immigrants and cash benefits for groups such as Holocaust Survivors whom the state wishes to honor (Friedman & Shalev, 2010). Noncash benefits, including generous land and housing subsidies, development grants, infrastructure projects, and tax breaks, are targeted to zones of Jewish settlement within Israel proper and in the occupied territories (Allegra, Handel, & Maggor, 2017). Along with the state's generally lower funding of social services and infrastructure for Israel's Palestinian citizens (currently one-fifth of the total), loyalty benefits contribute to unequal treatment of Arabs and Jews (Gharrah, 2016).

The previously mentioned burdens also generate some economic benefits. The occupation provides Israel with land for settlement, a market for consumer products and services, and at times a major source of cheap labor. The state's heavy investment in the development and production of armaments and intelligence-related technologies has contributed notably to the growth of arms production and information and communication technology industries, which contribute 12 percent and 19 percent, respectively, to total export revenues.[3] At the same time, Israel's fiscal bureaucrats have great difficulty imposing depoliticization and institutional subordination on the politicians, bureaucrats, and lobbies that set policy in relation to national projects. They have, however, enjoyed some limited successes in integrating neoliberal logic into programs linked to militarism (funding of benefits for reservists), Zionism (immigrant absorption through vouchers), and the occupation (market incentives to developers and homeowners).

What's Next? The Future of Neoliberalism in Israel

In Israel and elsewhere neoliberalism has been challenged in recent years, and not just by the "usual losers." In Israel the challenge took the form of six weeks of mass protests in the summer of 2011, led by young and educated members of the middle class, the supposed beneficiaries of neoliberalism. The immediate grievances concerned rising living costs, most prominently housing prices. But the protests reflected wider and deeper discontent with the realities of uneven neoliberalism, including the declining relative income of the younger generation of the Jewish middle class. Rising inequality and growing withdrawal of the state from what Israelis perceive as its moral responsibility for citizens' collective well-being contributed to the popularity of the protest. The question with which we conclude concerns the consequences of this discontent for the future of neoliberalism in Israel.

For the state agencies that championed neoliberalism, the 2011 protest appears to have triggered a partial recalibration of their agenda and policies (Alon-Barkat & Gilad, 2016). In recent years the Bank of Israel has consistently advocated expansion of public and social spending and has opposed tax cuts. The Ministry of Finance, which was responsible for privatization of the Histadrut pension funds, recognized the need for at least minimal coverage for low-earning and nonunionized workers. More broadly, it became open to limited expansion of public expenditures (within a fiscal rules framework). These and other examples suggest that the same bodies that previously saw their main task as dismantling past political-economic structures are now interested in “fine-tuning” neoliberal policies, not least as a bid to legitimate these policies.

This has placed the economic technocrats in the position of criticizing political elites not only from the socioeconomic Left but occasionally also from the Right. The Bank of Israel’s commitment to expanding the Israeli welfare state does not sit well with the neoconservative ideology of Prime Minister Benjamin Netanyahu. For its part, the Ministry of Finance has backed substantial increases in public spending in Arab localities, an expression of liberalism that is at odds with the ethnonationalist orientation of recent Israeli governments. Against this background, it would be naive to read the OECD’s report with which we began, and its criticism of Israeli policies, as an impartial and objective assessment. Rather, these positions match those of the Bank of Israel and the Ministry of Finance, which provide the OECD with the information it requires to assemble reports.

The 2011 social protests facilitated the rise of new political parties that claim to represent the economic interests of the Israeli middle class, Yesh Atid and Kulanu. The heads of both parties managed to secure the position of the Minister of Finance with the express purpose of tackling the grievances of young middle-class families. While embracing neoliberal meritocratic and consumer-based solutions to frustrated economic aspirations, their political need to “deliver the goods” to constituents has generated inevitable conflicts with technocratic elites, who regard some of their policies as futile and irresponsible. It is fair to assume that this opposition also reflected the risks of politicians’ policy activism for the status and power accumulated by these elites.

Beyond palace wars between politicians and technocrats who are both committed to the neoliberal agenda, it is unclear whether these indications of recalibration of neoliberalism will suffice to abate the societal discontent that provoked Israel’s 2011 protest and similar electoral and extra-parliamentary populist movements elsewhere (Gerbaudo, 2017). Like the adoption of classic liberalism in the nineteenth century, neoliberalism seems to provoke the “countermovement” of social groups demanding that their governments protect them from market forces (Polanyi, 2001). While neoliberalism has liberated the state from forms of state-society coordination and intermediation that were essential to developmentalism and Keynesianism, in the process it has forfeited mechanisms of policy legitimation. Citizens who have been led to expect labor markets to reward them for investing in their own human capital, and competitive product markets to translate those rewards into a rising standard of living, may come to question a moral economy based on depoliticization, marketization, and the imperative of individual self-reliance. Yet the political implications of such discontent are highly contingent. This is especially true in Israel, where a deeply uneven and unequal neoliberal order coincides with an entrenched political tradition of both subordinating and incorporating material interests into identity cleavages (see the chapter by Ram in this volume) and state projects that are capable of mobilizing intense loyalty in the face of real or perceived threats.

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Notes:

([1]) Sources for this paragraph are Shalev, Gal, and Azary-Viesel (2012), updated by the authors using data through 2015 from OECD.stat; and Friedman and Shalev (2010).

([2]) *World Development Indicators* (SIPRI data) https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS; and OECD (2016). Over one-third of Israel's actual defense spending is not included in the budget (Wolfson, 2010).

([3]) The information on arms is from Coren and Cohen (2017); the information on ICT is from *Statistical Abstract of Israel* (2017, diag. 18.4) http://www.cbs.gov.il/reader/shnaton/shnatone_new.htm?CYear=2017&Vol=68&CSubject=30.

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