

"Loyalty Benefits"

Michael Shalev

Department of Sociology & Anthropology and Department of Political Science
The Hebrew University of Jerusalem
michael.shalev@gmail.com

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Prologue: The unanticipated virtues of (neo-)liberalism?

Consider Israel. (Much of this paper will!) Beginning in the mid-1980s, as part of their drive for increased control over the budget, fiscal bureaucrats began to apply criteria of economic efficiency to military matters that had hitherto been regarded as a separate and almost sacred sphere of state activity. Their often critical voices were heard concerning the necessity to cut the military budget, which was choking national finances, and to scale back Israel's enormous, heavily-subsidized and loss-making military-industrial complex. In the wake of the economic burdens of the 1987 Palestinian Intifada, as well as lost opportunities in expanding world markets due to the Arab boycott of Israeli products, leading businessmen began to actively support the peace process that was formalized in the Oslo Accords of 1993. In a startling interpretation of these trends, Gershon Shafir and Yoav Peled (2000b) argued that redefining the Israeli-Palestinian conflict as an economic problem had finally rendered it susceptible to a negotiated solution. As much as they deplored the inegalitarian consequences of the privatizations and diminished social rights that arrived in the wake of neoliberal reforms, these two prominent leftwing intellectuals were convinced that the rise of the liberal discourse in both economics and politics potentially sounded the deathknell of Israeli militarism and colonialism.

Is there room for a similarly ironic interpretation of welfare state retrenchment in Israel? From what Israeli social scientists (other than economists, of course) say, you certainly wouldn't think so. Like social democrats everywhere, those in Israel bemoan the success of a neoliberal coalition of politicians, technocrats, capitalists and economic experts in recommodifying citizens by weakening the social safety-net, with devastating effects on the disadvantaged.¹ The social critique of neo-liberalism is well taken, but critics sometimes ignore the fact that prior to the cuts Israel's welfare state was by no means a model of social citizenship. From the very beginning, social protection reserved exclusively for Jews was an essential component of the praxis of Zionist settlement in Palestine, given an inhospitable economic environment, the magnetism exerted by alternative migration destinations, and the evolving national conflict with the indigenous Arab population. Later, the segmented welfare state established in sovereign Israel offered little support for the Palestinian minority within its borders (about one-sixth of the population), while providing numerous particularistic benefits to Jewish citizens and immigrants

¹ The Israeli reform cycle, which peaked in 2003, included an overhaul of the social assistance system (benefit cuts and the introduction of a welfare-to-work scheme), substantial reductions in universal child allowances, and the partial cancellation of special benefits to solo mothers. For documentation of these and other retrenchment measures, see the websites of the National Insurance Institute (Israel's "Social Security Administration" <http://www.btl.gov.il>) and the Adva Center (www.adva.org). For highly critical commentaries on these developments, see the work of social policy specialist Abraham Doron (e.g. Doron 2003), the contributions to a recent volume entitled *The Rule of Capital* (Filc and Ram 2004), Chapter 11 of *Being Israeli* (Shafir and Peled 2002), and Uri Ram's new book *The Globalization of Israel* (Ram 2007).

(Rosenhek 2003; Shalev 1989). Welfare state entitlements of all kinds—indeed, virtually all citizen rights—have never been extended to the inhabitants of the territories occupied by Israel in 1967. In addition, the transfer payment system has been one of the mechanisms by which the state has simultaneously softened and perpetuated the ethnic hierarchy between European Jews (*Ashkenazim*) and those from Arab countries (*Mizrachim*-literally Orientals).

Not only ethno-national criteria are deeply embedded in Israel's transfer system, but also Republican duty in the form of military service.² The state provides earmarked payments aimed at lightening the burdens of military service and sacrifice, and there are also cases (including child allowances, for many years) in which it has cynically conditioned benefits on military service as a way of practicing favoritism towards Jews (Rosenhek and Shalev 2000). Finally, as a settler society engaged in a struggle for demographic supremacy, Israel offers special benefits to new immigrants that have increasingly fallen within the orbit of the transfer system. When the Soviet Union began to disintegrate, the government went to great lengths to attract and retain a massive immigration wave. In 1991 aid to immigrants peaked at fully 4.2% of GDP, half of it in the form of transfer payments (Ben Bassat and Melnik 1998:Table 7).

These diverse instances of Israel's use of the transfer system as *a means of motivating and rewarding citizens for advancing state interests* exemplify what I call "loyalty benefits". This paper begins the task of meeting the conceptual and methodological prerequisites for researching loyalty benefits, including tools for assessing the intriguing possibility that contemporary processes of liberalization may serve to undermine their prevalence. These analytical and methodological foundations should be relevant to some degree in all countries, but they will be illustrated here with empirical material from Israel, which is an ideal setting for launching the study of this neglected function of welfare states. Loyalty benefits can be expected to flourish under conditions where state consolidation and security are high on the state's agenda. In addition, because loyalty benefits are discretionary, they should be especially attractive to the rulers of multiethnic states in which both the dominant and subordinate groups share formal citizenship. Israel's formally democratic regime³ alongside its nationalistic demographic and territorial aims and persistent military conflicts make it an obvious candidate for the state's use of income maintenance as a tool for motivating and rewarding citizens. Israel is also an interesting case because in recent decades it has experienced two interlocking transformations: far-reaching liberalization of the political economy, and the rise of a liberal discourse of citizenship that values

² For a theoretical elaboration of the distinction between liberal, ethno-national and Republican citizenship discourses, and its application to Israel, see Peled (1992) and Shafir and Peled (2002).

³ Although in all democracies some groups of citizens are more equal than others, Israel's democratic credentials have been heatedly debated because of the anomaly of an occupation that has now lasted for more than 40 of Israel's 60 years of existence, and the diminished citizenship of the Palestinian-Arab minority within Israel proper (e.g. Peled 1992; Yiftachel 2006).

self-interested individualism over collective action through the state (Shafir and Peled 2000a). These far-reaching economic and political changes make Israel a natural laboratory for studying the potential for liberalization trends to undermine the role of loyalty benefits.

The structure of the paper is as follows. Section 1 introduces the significance of loyalty benefits from the perspective of theories of the welfare state, making the point that they represent a quite radical departure from both the standard society-centered approach and the prevailing rather tepid state-centered approach. Section 2 conceptually and then operationally defines what the term loyalty benefits is intended to convey. Section 3 applies this definition to the Israeli case. Section 4 presents data on the cost of loyalty benefits relative to other components of the income maintenance system in order to track the persistence or decline of these benefits, including during the current decade of neoliberal reform. Section 5 concludes, returning to the initial question of whether liberalization has the potential to undermine the use of social protection by states and its stratifying effects.

1. The Theoretical Significance of Loyalty Benefits

Theories of the welfare state have paid inadequate attention to the explanatory role of state interests. Models of social policy as an expression of class conflict that were developed by Korpi, Castles, Stephens and others in the early 1980s conceptualized the state as an arena in which classes contend for influence and as an instrument for intervening in distributional processes. Under the political control of labor parties, the state was capable of dramatically reducing market inequalities, yet the state itself was seen as essentially an instrument in the hands of the politically dominant class, with no interests of its own. An alternative understanding was suggested by the revival of scholarly interest in the state launched by Skocpol and her collaborators (Evans, Rueschemeyer and Skocpol 1985; see specifically the chapter by Weir and Skocpol 1985). But while the state-centered approach to the welfare state drew attention to the effects of "state capacities, policy legacies and the autonomous initiatives of state managers" (Shalev 2007:266), it has not had much to say about what social policy can do for the state itself.

Skocpol's subsequent research provided a striking example of states using social protection for their own ends, in the case of the pension and survivor benefits to civil war veterans that flourished after the war in the victorious north of the United States (Skocpol 1992). In line with her theoretical predilections, however, while alluding to the interests of the state and the regime in rewarding and motivating military service, Skocpol saw this as a background condition rather than as having determined the content of policy. Comparing the breadth and generosity of civil war pensions to the far more modest and targeted system in Napoleonic France, which also experienced massive citizen mobilization for warfare, she explained that France's political system lacked the "democratic mass mobilization" (p.105) which served to amplify popular demands in America. In addition, the US state had no alternative to using crass material incentives because it

lacked the incomparable capacities for mobilizing soldiers that were furnished by the French state's powerful and highly centralized bureaucratic apparatus.

Skocpol's comparative analysis convinces me that the political and institutional conditions under which states seek to motivate and reward citizen service and loyalty undoubtedly influence the price which they are required to pay in the form of social protection or any other currency. However, this focus on the terms of exchange should not cause us to lose sight of the nature of the exchange itself, in which social protection is used instrumentally to advance direct state interests – in this case, to reward military service. Earlier, the economic historian Gaston Rimlinger (1971) made the point that state interests receive especially naked expression in authoritarian countries like Wilhelmine Germany or totalitarian regimes like the Soviet Union. In interpreting Bismarck's role in German welfare state innovation, Rimlinger pointed out that "Although he was acting in response to pressure from below, the system he created was guided by the interests of the existing political order." (Rimlinger 1971:8) This insight was echoed in Esping-Andersen's (1990) interpretation of the conservative welfare state regime, particularly his description of Bismarck's approach as *étatist paternalism*. In Esping-Andersen's colorful description, the aim of social insurance was "to chain the workers directly to the monarchy", while at the same time using lavish welfare provisions for civil servants "to reward, or perhaps guarantee, proper loyalties and subservience" (p.59).

Esping-Andersen did not take up the theoretical implications of this analysis, but it is clear that conservatism implies a type of social politics in which the state is far more than an instrument by which classes realize their interests. As Skocpol's research showed, however, this type of politics is found not only in the historical instances of authoritarian regimes in late 19th century Europe, but also the "liberal" United States in roughly the same era. In fact, the quotidian requirements of state management everywhere require motivating and rewarding citizens for loyalty and service, and transfer payments may be a convenient means of doing so. The way that pensions were invented in Europe and the United States makes it clear that income maintenance systems may serve quite different purposes from the much-discussed goals of redistribution (Korpi), decommodification (Esping-Andersen), risk management (Baldwin) or some combination of the above (Iversen). Esping-Andersen's interpretation of what Bismarck and von Taaffe were actually up to is invaluable because it identifies two different goals that these reformers pursued. As a sociologist, he was struck not only by the state's use of transfer payments to compensate its employees and buy their loyalty (which I already mentioned), but also its desire to mold the *status order* in ways that would help to defend existing and social arrangements against the forces of working class mobilization and democracy. That is why early German and Austrian social policy erected a robust "status-barrier" not only between citizens and senior state employees, but also between different occupational grades within and between classes (p.60). In

elaborating this idea in his later discussion of the role of the family, Esping-Andersen (1999) showed that income maintenance programs also help engineer the gender order.

2. Conceptualizing and Defining Loyalty Benefits

Picking up on the potential significance of status orders for the functioning of welfare states, I propose that the concept of loyalty benefits encompass not only instances in which the state uses transfer payments to motivate or reward citizens by essentially paying them for services rendered, but also when it uses them to advance a clear state interest in privileging one status group over another. As we shall see, in the Israeli case loyalty benefits are strongly oriented to promoting the state's collective identity project, based on ethnic/religious status distinctions between Jews and non-Jews. But even democratic states that do not openly pursue collective identity projects may rely on transfer payments to achieve symbolic goals, and not merely to motivate those who serve them as conscripts or bureaucrats. An example is the income maintenance benefits that the governments of the United States and other western countries provide to political refugees.

What is common to all of the benefits mentioned so far – whether to war veterans, civil servants, the members of a favored ethnic group, or refugees – is that in each case the political rhetoric which justifies them is Republican in character. Public support is deserved because the recipients have tangibly *contributed to the common good*, some by "civil service", others by participating in the defense of the homeland, still others by opposing regimes that we oppose ("the enemies of our enemies"). While the Republican rhetoric of loyalty benefits usually resonates with widely shared norms and sentiments, they are nevertheless paid in cash. This ambiguity is not accidental. By distributing rewards via the transfer system, states seek to elevate and "launder" the existence of an exchange relationship.

To build a bridge between these general theoretical attributes of loyalty benefits and the operational demands of empirical research, I turn now to the mainstream social policy literature – specifically, the concept of "categorical benefits". In his seminal article on this topic, Gal (1998) explained that other transfer payments are rationalized either as insurance against a specific risk or, in the case of social assistance, pure economic need. In contrast, categorical benefits are paid to members of socially or politically-defined "categories" considered worthy of public support, irrespective of either demonstrated need or an individual record of prior social insurance contributions. Some of these benefits are expressions of prevailing norms of compassion and social justice. Examples are unconditional allowances (without means testing) for the physically disabled, survivors (widows and orphans), and families with children. Other categorical benefits are designed to compensate citizens (usually women) for providing unpaid care to dependents such as infants, the elderly or invalids.

I propose that loyalty benefits be regarded as another distinct subset of categorical benefits, one which is distinguished by the fact that the benefits concerned are designed to

motivate or reward citizens to serve state interests of a specific nature, and are legitimized by the recipients' alleged contribution to the common good. This contribution may be either substantive or symbolic. Two examples of *substantive contributions* which I believe are universal are compensation for war veterans and pensions for retirees who previously worked for the state in either a military or civilian capacity.⁴ Two very specific instances of loyalty benefits that are designed to recognize *symbolic contributions* are the transfer payments made by the German government to Holocaust survivors, and those which the Israeli government makes to the officially certified "righteous gentiles" who prevented Jews from being killed in the Holocaust. The next section of the paper will provide information on additional loyalty benefits that are idiosyncratic to the Israeli case. It is my hope that by opening up the topic, this article will stimulate colleagues to come forward with examples from other countries.

As a further way of crystallizing the concept of loyalty benefits, I suggest comparing them to other positive incentives that states may use to motivate citizens. These include several other types of material reward. One is contractual payments, like wages to employees or fees paid to suppliers. The other is in-kind rewards, in the form of free or subsidized public goods or services. When no cash directly changes hands, the reward is by definition symbolic. Military conscripts are a convenient example because they may be eligible for all four types of rewards: a salary while performing their service and, if they survive a war, benefits like a special veteran's pension, free medical care (in the US, provided by the hospitals of the Veterans Administration), and public honors and awards (ceremonies and medals). These possibilities are summarized in Table 1.

⁴ Gal's (1998) definitive study of categorical benefits did not include civil service or military pensions under this rubric. However, both the OECD's social expenditure system (discussed below) and the more venerable ILO "cost of social security" project treat public sector pensions as social benefits, and both clearly conform with the definition of categorical benefits as being neither contributory nor means-tested. The ILO concept of social security established in the series of international investigations launched in 1949 includes any income maintenance scheme that is anchored in legislation (e.g. International Labour Office 1992).

Table 1: Loyalty benefits (transfer payments) and other state rewards to citizens

		Type of reward	
		Market	Non-market
Currency of reward	Cash	Contractual payments	Transfer payments
	Non-cash		Symbolic rewards In-kind benefits

Not only may states motivate citizens by a variety of incentives (including coercion and punishment, which are not part of this discussion), but interactions are possible between different types of reward. As Bourdieu famously pointed out, different forms of capital are potentially inter-convertible, and Table 1 uses arrows to suggest two different forms of convertibility. Citizens may use cultural and social capital (symbolic rewards) granted by the state in order to leverage either their labor market position or the size of the loyalty benefits to which they are entitled.⁵ Thus, there are potentially complex relations of both interchangeability and interdependency between loyalty benefits and other types of state-disbursed rewards. Studies which analyze how a given state goes about motivating a particular sphere of citizen activity must necessarily confront this complexity (an example is the insightful analysis of changing rewards for military service and sacrifice by Levy 2007b). For the purpose of understanding loyalty benefits, however, what needs to be answered is the more delimited question of why in each specific instance the state chooses transfer payments over alternative incentives. A later section of the paper discusses one illustrative case.

As I have repeatedly noted, the concept of loyalty benefits refers to a particular category of transfer payments, and it is therefore necessary to define this containing concept as well. A useful starting point is the work done by the OECD in developing its Social Expenditure database (SocX).⁶ The OECD defines transfer payments as *financial contributions to individuals or households in order to provide support during circumstances which adversely affect their welfare*,

⁵ Examples from Israel: Men who serve as officers or in elite combat units have traditionally used their contacts and prestige to successfully advance their civilian careers (Maman 1997). At the end of the 1990s, parents whose sons were killed in military service successfully parlayed their unmatched public standing into increased monthly allowances (Laron 2003).

⁶ See *Social Expenditure 1980-2003: Interpretative Guide of SOCX* (OECD, 2007), esp. p.7.

on condition that the payment does not constitute a direct payment for a good or service. (Since we are only interested here in state transfers, the qualifying condition should be added that the contributions are *made by public institutions.*) At first sight, the limiting condition that the goal of social benefits is to prevent "adverse effects on welfare" might be seen as ruling out instances in which states use categorical benefits to promote the welfare of citizens in recognition of their service to collective goals, regardless of need. However it is noteworthy that the OECD steers clear of specifying what type of circumstances may be considered "adverse". As indicated in footnote 4, it follows earlier ILO practice in treating veterans' benefits and civil service pensions as transfer payments, even though entitlement to these benefits is not dependent on the economic position of the recipient. It is apparently sufficient that military service or retirement could *potentially* undermine individual welfare, which is true of virtually any contingency.

Consider the benefits that governments offer political refugees, or Israel's generous subsidy of Jewish newcomers. Immigration can be and often is the cause of economic distress, but it is not necessarily so, and the purpose of these benefits is primarily to act as a selective incentive and only secondarily to relieve distress. An even more challenging example is scholarships for college students. I would argue that providing they are paid by the government, these ought to be considered as transfer payments. However the OECD does not treat scholarships as part of social expenditure, even though it is fair to assume that the welfare of students (even affluent ones) takes a hit while they are studying. This question is acutely relevant to Israel, where the government pays monthly stipends to tens and perhaps hundreds of thousands of ultra-orthodox men engaged in full-time study of holy texts while enrolled in a religious academy (*yeshiva*). While full-time study undoubtedly exposes these men and their families to "circumstances which adversely affect their welfare", opponents of these benefits tirelessly point out that the students make their own choice. The OECD wisely does not attempt to limit its definition of social programs to "unavoidable" risks. If it did, integral elements of the social protection system in most countries, including child and parental benefits, would be disqualified. Children may be an avoidable risk but most governments regard them as socially beneficial and therefore worthy of support.

I conclude that no rigorous definition of transfer payments can include a meaningful requirement limiting them to circumstances in which the welfare of the recipient would otherwise be endangered. In practice, categorical benefits of all kinds are considered part and parcel of the transfer system, including loyalty benefits. It is clear, however, that wages or other forms of contractual compensation should not be treated as transfer payments.

A problem in studying loyalty benefits is that some of them occupy the gray area between unilateral transfers and payment for services rendered. I will handle these ambiguous cases on an ad hoc basis. One criterion that can help resolve some of them is whether the payment in question bears any of the distinctive marks of a transfer payment, such as using the social security system for collection or disbursement, or at least borrowing its characteristic practices (like financing

through earmarked contributions). This approach would justify defining Bismarck-type civil service pensions as loyalty benefits because at least at the time of their establishment, they were institutionally similar to the occupation-specific systems set up for private sector employees. In Israel this is no longer the case, however, and employment-based pensions in the public and private sectors are now becoming much more alike. Accordingly, I exclude both civil service and military pensions from the following quantitative estimates of the scope of loyalty benefits in Israel. On the other hand, I do include compensation for loss of earnings as a result of performing military reserve duty. This benefit is paid out by the NII (National Insurance Institute), which administers nearly all of Israel's social insurance and social assistance programs and many of its categorical benefits. In the past the NII also collected the employer contributions that financed the benefit. A final borderline case are grants received by Israeli conscripts on completion of their compulsory military service to finance specific expenses like housing costs. Since this program has the character more of a unilateral act of state generosity than a condition of employment I treat it as a loyalty benefit, whereas the modest monthly allowance which conscripts receive while actually carrying out compulsory service is not so treated because it is both formally and practically a wage.

To recap, loyalty benefits are transfer payments designed to motivate or reward citizens to serve tangible or symbolic interests of the state, and they are legitimized by a moral economy of contribution to collective wellbeing. Like other transfer payments, loyalty benefits are paid directly by public agencies to individuals, they take the form of cash rather than in-kind or purely symbolic rewards, and at least directly they are not compensation for contractually-supplied services. Like the trademark social insurance schemes invented by conservative welfare states, loyalty benefits may be used not only to motivate the behavior of individuals but also to reinforce status barriers between groups, including ascriptive hierarchies embodied in the collective identity projects of states.

3. Loyalty Benefits in Israel

Before offering an inventory Israel's loyalty benefits, it is important to emphasize once again that they do *not* include many potentially significant state interventions in distribution and stratification. Under the heading of contractual rewards, despite liberalization the state is still by far the largest employer in Israel, and the public sector broadly conceived was once the dominant factor in shaping all forms of stratification (e.g. Farjoun 1983). Under the heading of in-kind benefits, the most dramatic state interventions were the massive redistribution of Arab land and property that occurred after the foundational Arab-Israeli war of 1948-49 (Golan 1995) and, primarily since the 1980s, the immense infrastructural and housing subsidies that Israel has channeled to Jewish settlers in the occupied territories (*Haaretz* newspaper 2003).

The specific allowances that meet the above definition of loyalty benefits can be conveniently divided into two major categories, each of which is also split into two.

1. *The state's Zionist collective identity project*

1.1 Aid to Jewish immigrants

1.2 Jewish identity responsibilities

2. *The state's management of the national conflict*

2.1 Compensation for military service

2.2 Compensation to victims

1.1 Aid to Jewish immigrants. Israel's migration regime is rooted in its Zionist mission of enabling and encouraging Jewish immigration to the revived Promised Land. Practically-speaking, this is expressed in free entry and an automatic right to citizenship for Jewish immigrants and active discouragement of immigration by non-Jews, except in the area of labor migration which is heavily regulated with the intent of preventing permanent residence. Jewish immigrants are automatically entitled to a wide range of benefits. During their first year in the country, immigrants used to be placed in government "absorption centers", but since a 1989 reform they have been offered cash benefits (the so-called *absorption package*) instead (Gal and Leshem 1999). Housing subsidies, income and purchase tax exemptions, free Hebrew language classes and wage subsidies are among the many other benefits to new immigrants that are outside the transfer payment system and therefore irrelevant to the present enquiry. However, an important additional cash benefit is a "*special*" *old-age allowance* that substitutes for the standard benefit when immigrants arrive too late in life to establish the required record of contributions.⁷ In a small number of cases, a benefit is granted in recognition of sacrifice by immigrants designated as former *Prisoners of Zion*, Jewish citizens of the Soviet Union who were imprisoned because of their activism in the movement to emigrate to Israel.

1.2 Jewish identity responsibilities. Two benefits embody the Israeli state's symbolic role as representing *the Jewish people* rather than the *Jewish citizens* of Israel, or simply the *citizens* of Israel (Kimmerling 1989). Both of them concern the Holocaust. The government pays *Victims of the Nazis* (i.e. Holocaust survivors) an allowance which is additional to any cash benefits transferred by the German government. As mentioned earlier, it also adds a cash benefit to the honors bestowed on *Righteous Gentiles* who helped save Jews from Nazi persecution. Somewhat controversially, I also link transfer payments designated for ultra-Orthodox Jews (*Haredim*), which are far more significant fiscally, to the state's commitment to Israel's Jewish identity project. Although *Haredim* receive many different types of state support (Ilan 2000), the ones that

⁷ As a result, a forthcoming study by the present author in collaboration with John Gal and Mimi Ajzenstadt finds that among retirement-age men who immigrated since 1980 and were surveyed in the years 2001-2004, the takeup rate of old-age allowances was over 80%, even among those who were over 60 on arrival.

concern us here are cash benefits granted to men studying full-time in a *Yeshiva*. Two of these are particularly significant. One is an income maintenance program introduced after the Guaranteed Income Law of 1980 established a general legal right to social assistance, conditional on a work test. *Haredi* politicians successfully negotiated the introduction of a parallel program for *Yeshiva* students, who are not eligible for the general benefit because they would be deemed able to take up paid employment. This *income support benefit for Yeshiva students* is paid directly by the Ministry of Finance to more than 10,000 recipients.⁸ There are also special *scholarships for low-income Yeshiva students* that are disbursed by *Yeshiva* administrators using funds supplied by the Ministry of Education (formerly, by the Ministry of Religious Affairs). However, since the benefit is paid by intermediaries it is not included in this study.

The dominant interpretation of the income maintenance programs directed to *Haredim* on the part of the majority of Israeli Jews, who are self-styled secularists, is that they result from the *Haredi* political parties' cynical exploitation of their pivotal position in the formation and maintenance of fragile coalition governments. Nevertheless, the historical record on political "extortion" by the *Haredim* is much less straightforward than the myths which prevail among both scholars and the mass public (Friedman 1995). As Kimmerling (1999) has argued, the Israeli state has a powerful underlying interest in supporting the *Haredi* ideal of a "community of scholars", because the religion-based linkage of Jews to the Land of Israel is essential to the legitimation of Zionist claims. The validity of this interpretation is difficult to establish empirically, however. Since the end of Labour Party dominance following the realigning 1977 elections, the politically-contingent power and the structural-symbolic power of the *Haredim* have converged, making it difficult to disentangle their effects. However, a suggestive counterfactual is offered by the Palestinian-Arab minority, Even though the strategic importance of Israel's Arab voters and parties in Israel's highly competitive party system has sometimes been translated into symbolic or material concessions, in striking contrast to the *Haredim*, the Arabs' a priori exclusion from the hegemonic collective identity project has placed profound limits on their powers of "extortion".⁹

⁸ This estimate of the number of recipients appears on the website of the Ministry of Education's Division of Torah Education Institutions: <http://cms.education.gov.il/EducationCMS/Units/MT/Odot> [Add a comment concerning the source of the cost of this benefit and the likelihood that it is an underestimate.]

⁹ For an analysis of the potential for Arab political bargaining power and a current illustration, see respectively Lustick (Lustick 1989) and a *Daily Telegraph* report on the pivotal position of Arab voters in the forthcoming internal election of a successor to Ehud Olmert as head of the *Kadima* party (<http://www.telegraph.co.uk/news/worldnews/middleeast/israel/2518302/Israeli-politicians-chase-the-Arab-vote.html>). Poignant illustrations of the structural limits to Arab political power were the limits experienced by Arab parties in making good on their political capital in the elections of the 1990s (Kaufman and Israeli 1999), and the internal contradictions of the official commission of enquiry (the Or Commission) that submitted its report in 2003 (Peled 2005).

2.1 Military service. This heading refers to programs that offer material compensation to citizens for their role in fulfilling the requirements of Israel's "citizen army". The standard sequence of military involvement has varied over time, but the basic model is an extended period of formally universal compulsory service immediately after high school graduation (2 years for women and 3 for men was typical for a long time), followed by annual reserve duty almost exclusively for men (about 1 month per year). These requirements have fluctuated for a variety of reasons, and it now appears that the citizen-soldier model is gradually being eclipsed by a process of transition into a smaller, more technology-based professional army (Levy 2007b). Nevertheless, the majority of Jewish men (Arab citizens are not inducted, except the members several ethno-religious minorities) and a sizable minority of women continue to serve in the army and to be eligible for related transfer programs. First, *grants to demobilized soldiers*, a fairly recent innovation, are paid on completion of compulsory service and at differential rates (highest for those in combat roles). As noted earlier, these payments are designed to finance specific expenses like apartment rental or college fees. They also include a retroactive grant paid to young people who work for at least 6 months after completing compulsory service in a broad range of "high-priority" manual occupations. Second, *earnings replacement for reserve duty* has for long been part of the National Insurance system although it is now funded entirely from general revenues. Thirdly, completion of military service is either an essential or enabling condition for a variety of economic opportunities, such as government housing assistance or eligibility for employment in many public sector jobs, but for legal and diplomatic reasons it has rarely been utilized as a condition for receiving cash benefits unless they are directly related to army service.¹⁰ A prominent exception were the special *child allowances for veterans families* that were an integral and financially significant component of the income maintenance system from 1970 until they were phased out in the mid-1990s.

2.2 Compensation to victims of the national conflict. This heading refers to both soldiers and civilians. These benefits are administered, respectively, by the Ministry of Defense (*allowances for disabled veterans and bereaved families*) and the NII (*allowance for terror victims*). The latter is a relatively modest program (about 5,000 recipients in 2006) for civilians killed or wounded as a result of "hostile actions", or their dependent survivors.¹¹ By way of comparison, in 2006 the cost of the military disability benefits paid to 54,000 recipients and the allowances to 20,000 family members due to either disability or bereavement together amounted to a remarkable

¹⁰ A comprehensive summary of these and other forms of state discrimination appears in the first chapter of the report of the Commission of Inquiry headed by Justice Or, available online (Hebrew only) at http://elyon1.court.gov.il/heb/veadot/or/inside_index.htm

¹¹ National Insurance Institute, *Annual Survey 2006*, Appendix Table 8. Note that the "hostile actions benefit" is additional to compensation for loss or damage of property. For details on the development of the program, see Rimmerman et al. (2007).

of 0.6% of Israel's GDP (Kop 2007:213). This high cost reflects not only the substantial number of beneficiaries, but also the fact that disability benefits are much more generous for victims of the conflict than they are for the "civilian" disabled (Gal 1999). This is true even for the benefits administered by the NII.¹²

4. Magnitude and Trends of Loyalty Benefits

In order to assess the scope of loyalty benefits and their evolution over time, I have collected data on the cost of loyalty benefits and all other transfer payments in Israel since the mid-1950s. Since the intention here is only to offer preliminary results, full details of definitions and sources will not be presented in this paper.¹³ This procedure builds on earlier work by Gal (1998; 1999) on categorical benefits, including reworking his original data. Specifically, the findings presented below are based on independent data collection for 1995, the last year of Gal's investigation, and the addition of new data for the years 2000, 2005 and 2007. The fairly small differences found in the two sets of results for the overlapping year of 1995 have a variety of causes.¹⁴ In my judgment, the data are sufficiently reliable to justify the over-time comparisons performed below.

Ideally, quantitative estimates of the significance of loyalty benefits would be based on the number of recipients and size of the allowances, as well as their cost (which of course is the product of the other two elements). My decision to measure expenditure was a practical necessity. First, additional information on several important military-related benefits is not publicly available. Second, as anyone who has investigated cash benefits is well aware, computing benefit levels can be an extremely complex undertaking since entitlements usually vary according to beneficiary characteristics. On a more positive note, for the purpose of characterizing the relative size of different programs and how these trend over time, expenditure is clearly the single most appropriate indicator (Castles 2007). However, in using financial indicators it is of course necessary to standardize data in order to provide a reasonable basis for comparison. This is more

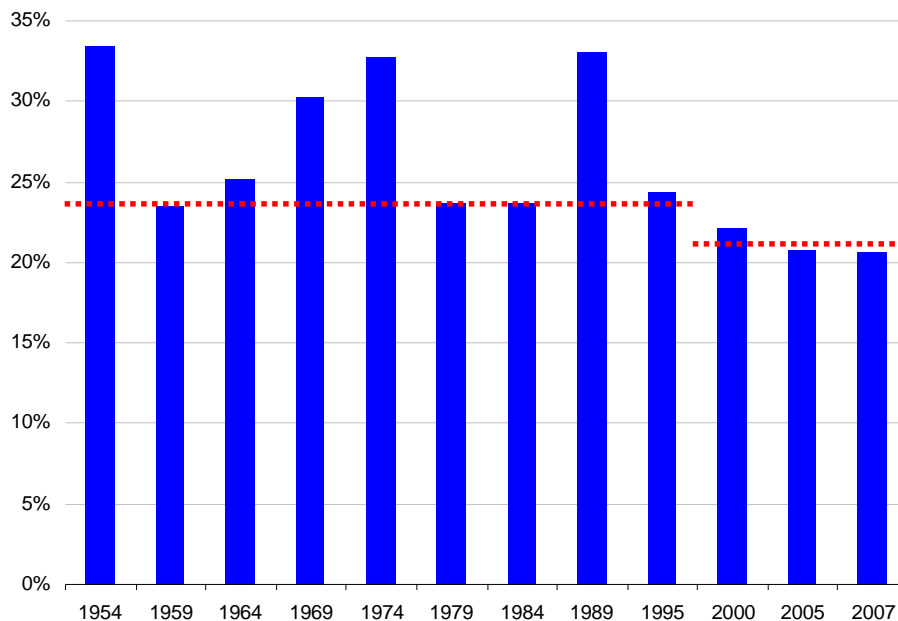
¹² According to benefit tables published in the *Statistical Quarterly* of the NII, in 2005 the value of the general disability benefit ranged between 43% and 82% of the benefit for terror victims, depending on disability level and family status. In addition, the minimum qualifying disability level was significantly higher for the former than the latter (40% vs. 10%).

¹³ Briefly, for benefits administered by the NII, the relevant information was culled from its *Annual Survey* or *Statistical Quarterly*. Information on benefits administered by the Ministries of Finance or Defense required some detective work and triangulation of sources.

¹⁴ My calculations indicate that the cost of loyalty benefits as a share of all transfer payments in 1995 was 25.2%, whereas using Gal's data and my classifications the parallel figure would be 23.3%. Gal's research did not include Income Security for Yeshiva students or grants to demobilized soldiers (the latter had just been introduced in 1995). Two fiscally insignificant NII programs (Prisoners of Zion and Righteous Gentiles) could not be identified in his dataset. Two general income maintenance programs (not loyalty benefits) that were of very recent vintage in 1995 (education grants to solo parents and the general accident benefit) were not included in Gal's research. Finally, there are some differences between my research and Gal's in data sources and a number of specific operational decisions.

difficult than it may seem. In the late 1970s Israel entered an inflationary spiral that at its peak in 1984-5 rendered national accounting very difficult. As a result, standardizing by GDP or a price index would be problematic, even more so because until the present decade most of the underlying data were collected on a financial-year basis. Consequently, the most reasonable standardization is to assess the magnitude of loyalty benefits in relation to other transfer payments.

Chart 1
Loyalty benefits as a proportion of all transfer payments



The first step in the data analysis, presented in Chart 1, is to evaluate the overall significance of loyalty benefits by this criterion. For most of Israel's history, total expenditure on these benefits was about one-quarter of all government spending on transfer payments. In four years the weight of loyalty benefits was significantly higher, and it is suggestive that three of the four followed major flashpoints in the evolution of the Israeli-Palestinian/Arab conflict (the wars of 1967 and 1973, and the first Intifada). The trend-lines in red suggest that in the new millennium, the typical weight of loyalty benefits fell by a few percentage points. Since this was a period of retrenchment for most other income maintenance schemes, the diminished significance of loyalty benefits since the year 2000 suggests that they may have been cut even more than other programs. As we shall now see, however, the picture is actually more complicated than this because different programs have experienced diverse trends.

The top panel of Table 1 categorizes loyalty benefits using the scheme presented earlier, showing data for representative years spanning the last 5 decades. Notably, each one of the four categories exhibits a different trend. The trend in aid to immigrants reflects the massive but now

receding wave of immigration from the FSU, prior to which the only cash benefit was the substitute old-age allowance for newcomers introduced in the late 1960s. The second category, spending on the state's responsibilities in support of its Jewish identity project, is dominated by benefits to Holocaust survivors, which in the 1950s cost about the same as payments to army reservists, the other sizeable loyalty benefit of the period. This and other forms of compensation for military service peaked in the 1980s and have since declined. The final category of benefits, designed to compensate either military or civilian victims of the national conflict, exhibits no particular trend.

Table 1: **The composition of loyalty benefits and other transfer payments (percentages)**

	1959	1979	1994	2007
1.1 Aid to Jewish immigrants	0	3	10	8
1.2 Jewish identity responsibilities	9	3	3	4
2.1 Compensation for military service	9	14	7	4
2.2 Compensation to victims of the conflict	6	4	4	5
Subtotal: Loyalty benefits	24	24	24	21
Old age & survivors	38	35	29	32
Child allowance	8	21	18	10
Social assistance	8	1	5	5
General disability	0	9	9	17
All other income maintenance	22	11	14	15
Subtotal: Other transfer payments	76	77	74	80
Total transfer payments	100	100	100	100

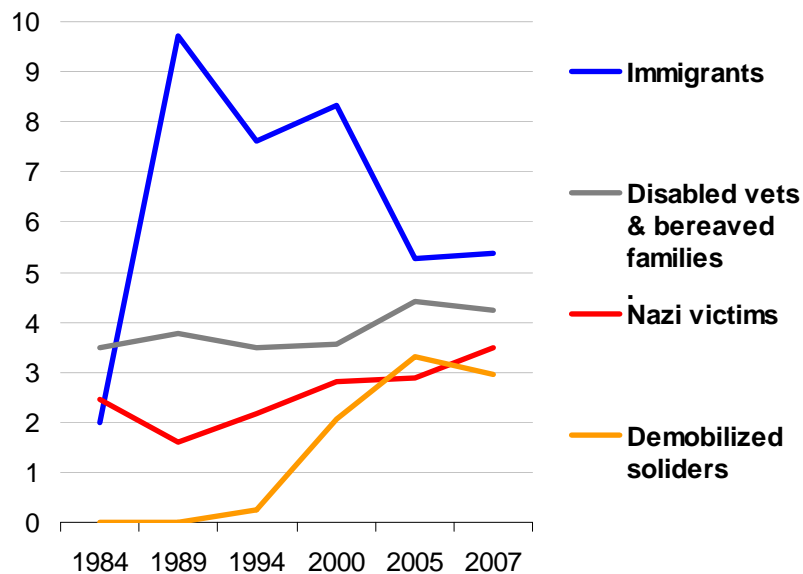
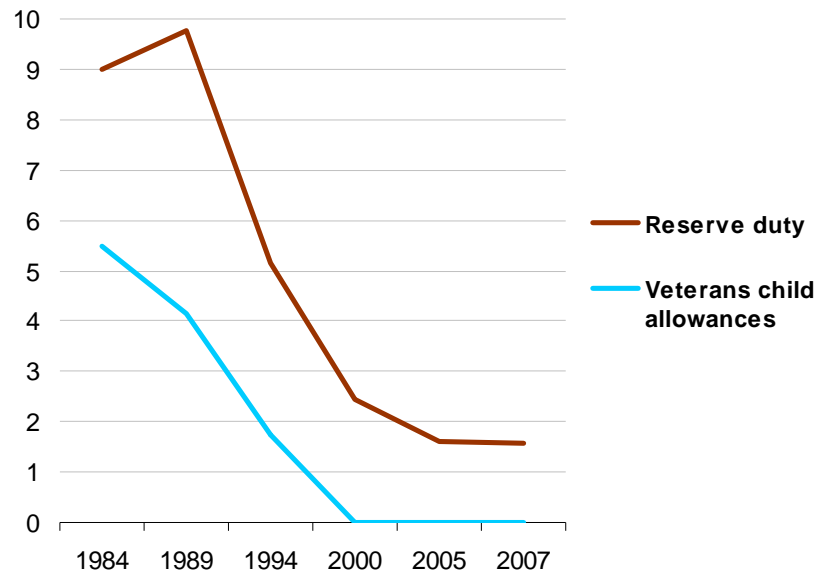
The lower panel of Table 1 is designed to facilitate comparison of the magnitude of loyalty benefits to key components of Israel's "conventional" income maintenance system. Public support for the elderly and survivors (which includes an income-tested supplement) is the largest component of the transfer payment system, typically accounting for about one third of all spending on cash benefits, exceeding the roughly one quarter accounted for by loyalty benefits. Interestingly, in all of the four representative years, the share of transfers devoted to loyalty benefits exceeded the combined share of the country's two most important antipoverty programs – child allowances¹⁵ and means-tested social assistance.

The third and final set of findings from the quantitative analysis of loyalty benefits in Israel concerns the six largest programs, documenting trends since the taming of hyperinflation and the beginning of the current era of economic liberalization in the mid-1980s (Ben-Basat 2002;

¹⁵ Calculations for child allowances exclude the benefit reserved for veteran's families, which I classify as compensation for military service.

Shalev 2000). Between them these 6 programs account for at least 94% of all spending on loyalty benefits. They testify to both the persistence and the dynamism of the overall phenomenon in the Israeli context.

Chart 2: Trends in loyalty benefits programs as a proportion of all transfer payments



For ease of interpretation the series are split between two different graphs. The upper one refers to two programs that have experienced unambiguous and dramatic declines. Both fall under the heading of compensation for military service. As noted in the text, in the 1990s special child allowances for veterans' families were gradually replaced by an enlarged universal benefit. Concurrently, for different reasons the army drastically cut back its reliance on reserve forces,

with the result that the cost of paying benefits to reservists dwindled. Both of these dramatic developments invite discussion of the role played by the forces of liberalization, a subject to which I return in the concluding section of the paper.

The four series shown in the lower graph on the previous page show no sign that loyalty benefits are fading away. The introduction and rapid growth of cash benefits for young people on completion of compulsory military service is especially notable. Two other benefits – allowances for victims of the Nazis and benefits contingent on death or disability due to military service – have been steadily increasing. Benefits to Jewish immigrants have experienced rises and falls, but as mentioned earlier, this primarily reflects the waxing and waning of immigration itself rather than changes in benefit levels.

Briefly, then, loyalty benefits are alive and well in contemporary Israel, even though several large programs offering compensation for military service have been either terminated or drastically reduced. While the overall financial significance of loyalty benefits is lower in the current decade than at any previous time, I nevertheless estimate that the purpose of about one-fifth of all government transfer payments is to encourage or reward citizen participation in the collective identity project of the Israeli state or to compensate citizens for the private costs of the national conflict. It bears re-emphasizing that none of the calculations made so far in this research includes the "bread and butter" of loyalty benefits, pensions to the state's civilian and military employees. According to the 2006 *Annual Survey* of the NII, which for the first time includes estimates of Israel's public social expenditure using OECD rules, civil service pensions alone account for one-fifth of all cash benefits and their cost is approaching 2% of GDP.¹⁶

5. Epilogue: The truth about liberalization and loyalty benefits

Perhaps nowhere else in the developed North, except the Soviet Union and its former satellite states, has liberalization been more radical in its effects on both culture and the economy than in Israel. The ascendant political culture has seemingly turned its back on collectivism and embraced liberal individualism, privileging formal equality and civil rights, while the ascendant economic culture of market individualism seeks to privatize public functions and apply principles of business efficiency to a stunted public economy.¹⁷ To what extent have these trends challenged the role of loyalty benefits in "the new Israel"? Some brief vignettes of test cases for this thesis follow.

- The 1992 decision to cease denying enlarged child benefits to Arab families was a victory for political liberalism over undemocratic nationalism, but that does not explain why the decision

¹⁶ See Tables 1 and 2 on pages E14-E15.

¹⁷ For somewhat divergent views on these issues, compare for example Shafir and Peled (2002) with Shalev (1999; 2007).

was taken. The so-called veterans' benefit introduced in 1970 was explicitly designed by a secret interministerial committee to prevent Arab citizens from receiving a benefit that had not been intended to advance their welfare. The impetus for introducing the benefit was political unrest among slum-dwelling Jewish immigrants from Arab countries, who tended to have large families.¹⁸ In practice the benefit was extended to nearly all Jewish households, irrespective of whether they satisfied the requirement of having even a distant relative who had performed military service.¹⁹ The reason for the decision two decades later to incorporate the veterans' "bonus" into the standard child allowance was the dependence of the recently-formed minority government headed by Yitzhak Rabin on legislators from Arab parties not represented in the coalition, who made the reform a condition of their readiness not to side with the opposition in critical parliamentary votes (King 2001:316-7). The reform was not the product of advocacy by civil rights or other politically liberal activists, and it was no doubt highly unpopular with neoliberal economic reformers, who hardly had an interest in enlarging an entitlement program.

- In 2003, at the urging of the anti-religious *Shinui* party which was a critical component of the governing coalition, the severe income maintenance cuts that had already been introduced by Finance Minister Benjamin Netanyahu were extended to the two cash benefit programs earmarked for *Haredim*. Although the *Shinui* party was ideologically committed to both economic and political liberalism, its insistence that retrenchment include the *Haredim* was based primarily on nationalist Republicanism and secondarily on the liberal creed of individual responsibility for economic welfare. The argument was that since most ultra-orthodox Jews were not Zionists and did not serve in the army, they should fend for themselves rather than parasitically depend on public subsidy.
- In the field of military-related disability and bereavement, in the late 1990s bereaved parents waged a successful public campaign for more generous cash allowances from the Ministry of Defense (Laron 2003). In response to pressure from the Ministry of Finance to rein in the rising cost of military disability and bereavement benefits, a former Director-General of the Ministry was appointed to head a committee to re-evaluate these benefits. The committee recommended reintroducing means-testing, cutting benefits and adopting various efficiency measures. Although the government approved its report, the Taub Center (an independent social policy research institute) suggested that "The likelihood of implementing the Brodet

¹⁸ For the political background to the reform, see Hoffnung (1982) and for details on the decision to exclude Arabs, Rosenhek and Shalev (2000).

¹⁹ King (2001:315) writes that the scheme "was expanded in 1971 to include all recent immigrants regardless of military service; this program was financed mainly by the Jewish Agency". Incidentally, this is an example—perhaps not the only one—of a loyalty benefit that could not be identified in this research due to having the character of an unofficial and unpublicized arrangement.

Committee's recommendations in the foreseeable future is low and, in fact, changes in the opposite direction have been adopted in this field." (Kop 2007:214)

Each of these three cases suggests that political forces – in particular, the constraints of coalition formation in a highly competitive party system, and the power of either "poor people's movements" or determined pressure groups with abundant social and cultural capital – are stronger than either the neoliberal designs of the economic-policy organs of the state, or the growing significance of formal equality and individual rights in Israel's political discourse. Clearly, there is some truth to this reading, yet it would be mistake to focus only on these and other instances in which loyalty benefits have been rendered more rather than less generous in recent years.²⁰ A recent flowering of neo-institutionalist literature has spotlighted dynamics that over time can turn small changes into big ones (e.g. Streeck and Thelen 2005). Payments to military reservists in Israel, which we saw earlier have fallen dramatically, provide a case in point.

The principle of reservists receiving compensation for lost wages as a result of their military duties dates back to legislation passed in 1951 and revised several times thereafter. Seeking to protect those workers whose employers were unwilling to voluntarily make up their wages, but without paying for it from scarce general revenues, the government set up a complicated system of tripartite responsibility for shouldering the economic burden. The heart of the scheme was an insurance fund financed by an earmarked payroll tax, which reimbursed employers for paying the bulk of workers' wages while they were absent from the workplace due to reserve service. In the course of time both the collection and disbursement functions were assigned to the NII, and full replacement (subject to both a minimum and maximum level) was introduced. Still later, the payroll tax was cancelled and the Ministry of Finance took responsibility for fully funding NII disbursements as part of a wider government effort to eliminate the burden of payroll taxes on employers. On the face of it, the obligation taken on by the Treasury has been aggravated by political decisions to increase the generosity of benefits for reservists, most recently in a reform package introduced in April 2008.

The missing element in this account is a highly strategic pattern of intervention on the part of the MOF which dates back to its successful struggle to leverage the emergency stabilization plan introduced in 1985 in order to increase its control over the budgets of other departments of state. As Levy (2007a) recounts, "As part of the deep cut in the defense budget in 1985, it was decided to gradually transfer budgetary responsibility for reserve duty from the National Insurance Institute to the Army... Beyond the budgetary implications [of this change], the administration of the military reserve system was subjugated to the principles of the market economy, in that for the first time an economic 'price tag' was affixed to the service performed by

²⁰ In addition to the cases just discussed, most of the other programs detailed in the earlier section describing loyalty benefits in Israel have experienced politically-driven benefit enhancements over roughly the last 5 years.

reservists." The result was that by 2001 the number of reserve-duty days planned by the army was less than 40% of what it had been in 1985. It is this dramatic alteration in the extent of reserve duty, rather than retrenchment of benefit levels, which explains the sharp decline in this component of loyalty benefits.²¹

The pattern that emerges here could be characterized as a mix of strategic victories and tactical losses by neo-liberal fiscal bureaucrats. This pattern could potentially accumulate into a serious challenge to continuation of the substantial role of loyalty benefits in processes of distribution and redistribution in Israel. It is reminiscent of what can be observed along a different axis of state contraction, that which concerns the role of the state as a civilian employer. Alongside the tactical struggles waged by the same fiscal bureaucrats, sometimes successful and sometimes not, against the element of privilege built into civil service pensions, is a different and much more strategic form of resistance: casualization of employment relationships in the public sector by reliance on subcontractors, temporary employment agencies, fixed-term employment contracts and the like. What I earlier termed states' quotidian needs for rewarding and motivating service-providers – the source of some of the very earliest loyalty benefits – may be met in ways that rule out the need for the generous state-provided fringe benefits that have traditionally been seen as part and parcel of the transfer system. Needless to say, the newer "flexible" employment system which eliminates this particular functional need for loyalty benefits need not be any more cost-efficient than the old one, just as the transition from a labor-intensive "citizen" army to a capital-intensive "professional" one may cost the state more in wages and benefits than it will save by eliminating transfer payments to masses of reservists. For students of welfare states, however, the change in form is important in itself.

Finally, a word of caution. Before proclaiming the imminent demise of loyalty benefits, we ought not to forget that at least in Israel, the mainspring of many of them is a collective identity project which commits the state to maintain a hierarchical status order along national and other lines, while others derive from the state's need for legitimation under conditions of an interminable and repeatedly violent conflict between nationalisms and territorial aspirations. Israeli-Jewish society's reverence for sacrifice is not cost-free, and loyalty benefits are likely to continue to play a role because of their unique ability to synthesize both sacred and profane incentives. Whether these features are idiosyncratic to the Israeli scene is a question which I hope will encourage social policy researchers from other countries to embrace the concept of loyalty benefits as a topic worthy of sustained empirical investigation.

²¹ As Levy explains, the changing economic incentives imposed by the MOF converged with other forces also pushing in the direction of reduced reliance on reserve forces, namely changes in military technology and managerial doctrine, and the "political costs" (criticism and occasional insurgency) that reservists have imposed on the army, in sharp contrast to the "obedience" of conscripts.

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