CHAPTER ONE

The Israeli Polity:
Party, State, and Society

The high partisanship of the Israeli polity left its imprint on the country's interest group system. Within the framework of a formal democracy political parties offered a comprehensive umbrella that covered all aspects of society and introduced a strong elitist flavor into associational life. Accompanying the partisanship of the first two decades of the state's existence was the emergence of a new policy actor, the state's bureaucracy. Called into being by the government's role in fulfilling national functions, the state's involvement in the citizens' affairs introduced a series of new factors into the interest group arena. The centralization trends that were making their presence felt in the economy were counterbalanced, however, by the growing heterogeneity within Israeli society, which produced an environment congenial to pluralism. This chapter will probe the three faces of the Israeli polity, which gave rise to the unique combination of the three configurations of interest politics.

Israel as a Party State: The Source of Elitism

All leading Israeli political scientists (Akzin 1955; Gutmann 1977; Galnoor 1982; Arian 1985) agree that Israel is a "party-state" in which effective political power is heavily concentrated in the hands of political parties. This may not be unique to Israel, since "party-government" is believed by many to be the essence of representative or parliamentary democracy. But in Israel, the term means not only government-by-party but also the presence of nine characteristics that distinguish a party-democracy from other

types of democratic regimes. In a party-democracy political parties play a major role in the provision of social services, they are agents of mobilization, they control nominations to political offices, they establish a highly disciplined organizational structure, their leaders hold responsibility to the party rather than to the people, and they penetrate the bureaucracy. In a party-state politics enjoys a high salience, and the partisan elite is insulated from public pressures. The upshot of these characteristics ends the list: in a party-democracy the parties fulfill a vital role in the policy process; their influence is decisive in determining the course of the nation.

Parties as providers of social services

In Israel the political parties fulfill social functions parallel to those maintained by the state. The origins of their functional role in the socioeconomic domain go back to the prestate era, when the parties carried the major load of building the Jewish homeland. So broad were their activities that they seemed at times to overshadow the purely political activities of formally governing bodies. The political parties sponsored agricultural movements, industrial and construction enterprises, recreational activities, and welfare services. This prominent socioeconomic role carried over into the early days of statehood. The Israeli atmosphere of those days was vividly described by Akzin:

> A person who subscribes to the party's daily newspaper, is given medical care in a party-sponsored clinic, hospital or convalescent home, spends his evening in a party club, plays athletic games in the party's sport league, gets his books from the party's publishing house, lives in a village or in an urban development inhabited solely by other adherents of the party and is accustomed to look to the party for the solution of many of his daily troubles—is naturally enveloped and surrounded by an all-pervasive partisan atmosphere. (1955: 520)

The establishment of the state was expected to narrow considerably the social role of the political parties, since many of their functions were, of course, transferred to the state, although at an uneven pace (Etzioni 1962). The parties, however, have retained some of their past role in providing social services. They no longer do so directly but through extensions that serve their interest, such as women's organizations and economic enterprises. This feature is particularly conspicuous in the health domain, which has re-

tained to date many of its partisan attributes. As will be shown later, the Histadrut (Israel's trade union movement) owned General Sick Fund (*Kupat Holim*) practically monopolizes the provision of medical services in some spheres, especially in primary care. The parties' imprint is seen, too, in the nationally state-controlled media communication network. To a varying degree, they still stand at the apex of an interconnected network of organizations and institutions that they control. The direct social-action role of Israeli political parties has thus acquired the force of habit. It is perpetuated by inertia more than by a preplanned design.

Yet Israel of the 1980s is very different from the state of the 1950s. To recapitulate Akzin's description, many changes have taken place: the number of party-owned newspapers has considerably declined; party-affiliated publishing companies are on the verge of bankruptcy; a large proportion of Israelis take their vacations outside the country; party membership itself is reportedly declining (Arian 1985: 106); by and large, residence is heterogeneous in terms of partisan affiliation; finally "problems" are solved either by psychiatric services or by the state's welfare agencies. Even in the health services, the temple of partisanship, there has been a constantly growing demand for private medical care, and a concomitant increase in private medicine, owing to the failure of the public (mostly partisan) health services to respond adequately to increasing demands. Nonpartisan health funds (such as Maccabi) have also significantly increased their membership. The glass is thus only half full: the parties still fulfill social functions, but the trend is clear. In this respect, Israel today is less of a party-state compared to its past.

Parties as agents of mobilization

Political mobilization (also referred to as socialization) is considered a major function of political parties (Almond and Powell 1966). In a party-state, however, the load that parties bear in performing this function is remarkably high. Mobilization can be performed by socializing the individual. It can also be carried out by penetrating wider clusters of citizens—specific age groups, occupational categories, ethnic communities, and social organizations. This latter was precisely the pattern adopted by Israeli political parties. The leading party in the early statehood period, Mapai, carried the major load, but other political parties followed suit by utilizing a variety of techniques for mobilizing different segments of the population.

As has been noted by Medding (1972: 20), three basic strategies are employed to incorporate constituencies into a political party: noncompetitive penetration, in which a social group formally affiliates itself as a body to the party; competitive penetration, which is the case when a number of parties compete for the control and direction of social sectors; and attenuated penetration, or the targeting of efforts at individuals rather than organized or semi-organized groups. All the early Israeli political parties, but especially Mapai, proved extremely successful in fulfilling aggregative and integrative roles. Mapai incorporated diverse social forces, such as professionals and blue-collar workers, that were otherwise opposites in interests and in goals. It brought together different elements: close-knit communities, functional groups, economic interest groups, and primordial groups as well as individuals. By using a rich repertoire of strategies, including ideological appeals, policy promises and not the least the distribution of rewards, the party successfully welded these groups into one large inclusive constituency.

This mobilization process enabled the avoidance of major problems confronting a society in transition, in particular class and ethnic polarization. The bitterness and force of these cleavages were attenuated for a long period of time because of the integrative role played by Mapai, the country's dominant party. Making itself available to most sections of the Israeli society, Mapai fulfilled a major socializing function, as well as enhanced its own control over important junctions of power. Mapai, though, was not the only party that acted as a successful agent of mobilization. Most of the political parties tried to appeal to all groups throughout the country, and most succeeded in incorporating elements from almost all segments of the population. The role of political party as agent of mobilization, like its role as a provider of social services, has also been attenuated. The mass immigration that characterized the first years of statehood has long been absorbed into the body politic. Other targets of mobilization are less susceptible than in the past to party influence. Alternative frameworks for professional associations and other occupational groups are more readily available.

Nominations to political office

One of the characteristics of a party-state is the making of public policy by persons who are elected to governmental positions exclusively on the basis of their political party affiliation

(LaPalombara 1987: 211). In Israel this is precisely the case. The Israeli electoral system, a proportional representation system in the extreme, does not allow much freedom to individual iniatives. Although Israelis enjoy free access to party channels and can try to get themselves elected to the party's institutions, their enunciations invariably reflect the party's voice once they are elected (Galnoor 1982: 36). The major reason is the nomination system to the electoral lists.

The method by which Israel's political parties nominate legislative candidates has been the subject of criticism because of its generally centralized and oligarchical tendencies. Until the 1980s the most usual practice was for the leadership of the party to turn over the preparation of an electoral list to a small nominations committee, which reported to the party's central committee (Sager 1985: 50). Although the nominations committee did take into consideration the party's constituencies in terms of faction, region, ethnic orgin, age, and (to a limited extent) gender, — the process was controlled from above. Despite the acknowledgement of social diversification the centralized system of making up a list concentrated the power of nominations in the hands of a small group of party leaders. Party loyalty was stressed as the main quality of a candidate. This feature of Israeli politics has been one of the major triggers in the drive to change the electoral system.

What seemed an iron-clad nominations system did undergo considerable change in the mid-1980s. The Likud was the first party that transferred the power of deciding the composition of the Knesset list from a small oligarchic committee to a large (though perhaps not less oligarchic) forum—the party's center, composed of more than 2000 members. Other parties were forced to follow suit and grant their wider institutions the authority to compose the party list. Yet no popular control over the selection of parliamentary representatives has been introduced. The rank-and-file party membership—let alone the constituency at large—is not a partner to the nominations process, which is still controlled by party headquarters.

Internal party organization

In a party-democracy the party has a centralized and cohesive organizational structure, it has authority over its members, and it can effectively compel its representatives to behave according to its prescriptions. Israeli parties have indeed maintained a centralized and hierarchical organizational structure. Centralization has had the following manifestations:

- centralized modes of financing, including acquisition of party club houses, supply of campaign funds and current expenses;
- central recruitment of candidates for local party offices;
- increasing receptivity to central guidance by maintaining an ongoing "rapport" with local activists (Yanai 1981: 206).

These centripetal devices granted the party a whip over its branches. authority was practiced, too, through disciplinary measures meted out to the parliamentary faction. Party discipline is an ever present reality in the Knesset, with each party, through one of its offices, seeing to the attendance and voting of its members. Party discipline is reinforced by the delegates' dependence on party leaders for reelection. The unchallenged right of the party over committee assignments and Knesset regulations also spurs party command. A member of Knesset's right to participate in important legislative debates is strictly controlled by the party's offices. A member at variance with his or her party's position is not likely to be chosen to speak. Another important aspect of group discipline is manifested in submitting motions. Knesset regulations permit a member to submit any number of motions or bills. Their chances of being considered, however, depend very much on the party. Every party requires clearance of its representatives' initiatives. The practice also applies to questions, which are assigned to different members after being formulated by the party's leadership. The most conspicuous manifestation of discipline, however, is in regard to legislative voting. For instance a Member of Knesset may ask the party's permission to abstain from a Knesset vote, but this will not likely be granted in a close contest or on a matter of great principle (Sager 1985: 141). Furthermore, absence from the chamber during a vote may earn the MK the censure of the party, much as would an abstention. One common practice employed by recalcitrant members is to speak out freely on the issue but to vote for the party's position. There have been (rare) instances in which the problem was declared to be one of "conscience"; in such cases, party discipline was lifted and voting became a matter of individual choice. For example, in a debate on a measure restricting women's right to an abortion, MK Sarah Doron (Likud) was granted permission to abstain on the grounds of conscience.[2]

Maverick behavior in the Knesset was in the past a rare occurrence. There were only a few cases in which an MK dared to defy the party. The ardent dove Lova Eliav (Labor Alignment) once

voted against a supplementary budget and also abstained in a no-confidence motion in 1971.[3] He later withdrew from his party and formed his own list. By the 1980s, however, breach of discipline was somewhat more common. Ezer Weizman, then Likud, voted against the government owing to policy differences regarding the peace process; a group of thirteen alignment MKs voted against the 1981 bill to apply Israeli law in the Golan (Yishai 1985a). They were reprimanded by their party's leadership. Although the chains that bind party discipline may be weakening, they are sufficiently strong to compel members to act in accordance with the party's preferences. Parliamentary discipline is not a unique Israeli phenomenon; it is typical of all parliamentary systems of government. Knesset members, however, also vote as their respective party dictates for good reason: their political future is practically at the mercy of the central party institutions.

Responsibility of partisan office holders

Important office holders are individuals elected by their party's institutions. They are responsible to the voters not as individuals but as representatives of the parties under whose label they were elected. "Responsibility" is given a critical test when the party leader quits office. Is resignation instigated by public pressure or, alternatively, are the party and its institutions the cause of forfeiting office?

Withdrawing from political office is not a common practice in Israeli politics. There were, however, seven major incidents in which a prime minister or a foreign minister resigned during an incumbency. David Ben-Gurion, Mapai's leader and prime minister, was the first to resign (in December 1953), on personal grounds.[4] Next was Moshe Sharett whose resignation (in August 1956) as foreign minister was prompted by Ben-Gurion, who wanted to clear the scene before the planned Sinai Campaign by removing the dovish Sharett. In the Knesset debate which followed Sharett's resignation, the prime minister conceded that he had had policy differences with Sharett and that he had reached the conclusion that because of the tense security situation there had to be maximum coordination between the defense ministry and the foreign ministry (Ben-Gurion 1971: 489–496). Ben-Gurion himself quit office again (in July 1961). His reason was also tied to party politics: Mapai's refusal to yield to his demands regarding the investigation of the "event," the so-called Lavon Affair (Yanai 1969).[5]

The most famous resignation of a political celebrity in Israel was that of Prime Minister Golda Meir (in April 1974), following

the Yom Kippur war. Her act provides an illuminating example of the party's impact on leadership positions. In her memoirs Meir wrote:

> The more I spoke with my friends on the ongoing party dispute and the more I analyzed this dispute the more I realized that I cannot go on like this. I have reached a point where it was apparent that without the support of the whole party (the majority was on my side all the time) I could not have acted as its leader. The time came when I told myself: "This is it. I shall resign and others will have to try and form a coalition. There is a limit to what I can swallow, and I have certainly reached this limit." (1975: 331)

The importance of "the support of the *whole party* (emphasis mine) in Meir's decision to quit office was indicative of her source of power as well as the target of her responsibility. Meir did not resign because of the public protest that was staged after the 1973 war; nor did she seem perturbed by the marked decline in her party's support in the 1973 elections.[6] Meir's major concern was the partial support of her party membership for her course of policy (see also Dayan 1982: 735) even though, by her own testimony, the preponderant majority did remain faithful to her leadership.

Four other resignations of top national leaders occurred after Meir's withdrawal from office. Yitzhak Rabin resigned from premiership (in March 1976) after the exposure of a foreign-currency bank account; Ezer Waizman, defense minister under Menachem Begin's premiership, quit office (on May 1980) on account of disagreements over the peace process (Weizman 1981). Moshe Dayan quit his (foreign) ministerial position (on December 1981) for the same reason: opposition to the political course adopted by the Likud government. Lastly, Menachem Begin's resignation as prime minister (in 1983) remains a mystery to date. In any case, it is unlikely that it was instigated primarily by public pressure or discontent. Partisan leaders are thus induced to quit their national posts not because of public demand, but because of intra-party disagreements and rivalries.

Parties' penetration of the bureaucracy

A crucial aspect of the politicization of public policy is the partisan impact on a country's civil service. No direct data exist on the political affiliation of Israeli state bureaucrats, but those familiar with the situation seem to have agreed that there was a

considerable over-representation within ministries of the party in charge, which increased the longer this party was in control and the higher the level of managerial rank (Etzioni 1962). In the late 1950s steps wee taken toward the universalization of the civil service, the examination system being expanded as a basis for recruitment and promotion. The state explicitly prohibited senior officials from being members of parties' central bodies, taking part in a demonstration aimed at political objectives, or participating in the campaign activity of any political party competing for Knesset representation. Despite the various measures, much partisanship still informed the state bureaucracy. As one moved up the ladder of power in the administrative hierarchy, the prevalence of nonprofessional considerations grew, the political affiliation of a candidate being one of the determining factors for acceptance. Indeed, the top echelons of the bureaucracy were also regarded as a jumping board for political posts. When Israel was founded, many politicians became senior officials overnight. Subsequently joining the ranks of the bureaucracy proved to be an effective channel for a political career. Increasingly more political positions were occupied by former senior civil service officials and high-ranking military officers (Peri 1986). A majority of ministers in the Rabin cabinet of 1974, for example, had previously held executive military or civilian administrative positions (Galnoor 1982: 212).

The crumbling of the Labor party's dominance did not affect the spector of administrative politicization. When the Likud rose to power, it did commit itself to eradicating party penetration of the civil service. Indeed, many officials remained in office although the party in government had changed. It soon became evident, however, that the Likud was following in the footsteps of its predecessor. At present the picture remains ambiguous. It is not easy to identify with certainty which appointments were—and are—motivated by political considerations and which by professional standards. Indicators used to measure the incidence of each pattern reveal that only 28 percent of the newly created 3,500 civil service positions filled during 1984 were done so as a result of tenders; 41 percent were filled neither by tenders nor through the government employment office; 23 percent were formally exempt from tendering; and 7 percent were filled by temporary workers (Sharkansy 1988: 11). These data, equivocal as they are, demonstrate a measure of politicization of the civil service. Nevertheless efforts are being made to curb such politicization. A committee appointed by the Israel state commissionaire recommended that civil servants be banned from membership in party centers

and other bodies responsible for the nomination of candidates to the Knesset. If a law to this end is adopted, only a handful of administrators could be nominated without tenders, based on the minister's discretion.

Allegations of "political appointments" were made in 1989. Although providing no direct evidence for the political motivations behind the appointments, the state comptroller did have a "sound ground to suspect" that party affiliation was the reason for many nominations. Numerous examples show that the practice is widespread among government ministries, regardless of political camp. Members of parties' central committees, ministers' personal aides, and even their former chauffeurs have been appointed to positions within a ministry or on boards of government companies. The state comptroller (1989: 629–642) found that between 1986 and 1988, 61 percent of all directors appointed to government companies as representatives of the public were members of a particular party's central committee. There were numerous government companies in which every director appointed to represent the public was a partisan activist. The circumstantial evidence thus describes a pattern that departs markedly from the standards of Western democracies.

The salience of politics

Israel is a highly politicized society. Its voting percentage is among the highest in the democratic world. Party membership, although declining, is also impressive. The major feature of politicization of this society, however, is its high political "temperature." As far back as 1955, Akzin referred to the "more than usual intensity with which ideological differences are regarded by the politically active segments of Israel's population." He wrote:

> In Israel politics is not looked upon as a sport or a game in which adherence to the rules of the game is often deemed more important than the stake itself. In Israel it is the stake that matters, and the stake, of course, is power—power not only for the sake of the privileges and prestige which it carries in its wake . . . but also for the sake of the political doctrine which the respective party seeks to advance. Because of this approach, politics in Israel is taken extremely seriously and a militant adherent of a party considers himself a warrior in the war of righteousness against evil. (1955: 510)

In the early years of the state, political debate was characterized by mutual recrimination and personal assaults.

Tolerance of opposition was very low, and the inter-party clash very bitter. There was not much inclination to compromise. The heated political climate of Israel in its formative years may have cooled off, but politics still enjoys a high salience, compared to other Western democracies. The importance of politics in Israeli life bears empirical manifestations, as well. Czudnowski (1970; see also 1968: 883–886) has defined the index of salience as the ratio between the rank order of goals sought through political action and that of goals sought through economic, social or other non-political action, measured by a scale on which goals are rated according to the subjective preferences of individuals or groups. The higher the value attached by individuals or groups to the goals they seek through political action, the greater is the salience of politics. In Israel the salience of politics ranks extremely high because both the demand for and supply of resources in large sectors of the country's social and economic life were dominated by political motivations and handled by political organizations. The absorption of immigrants, national security, and settling the land became personal and collective goals of first priority. These goals, though, were mostly achieved through public investment and services supplied by party-controlled organizations—the Histadrut, the Zionist Federation, or even the state bureaucracy.

The insulation of the political elite

The prolonged control of parties generated paternalistic attitudes on the part of the elite. This added another layer to the structure of party control. Paternalism, although imbued with concern for the masses, also incoporated an element of disdain for those who were outside the inner circles of power. Paternalism was embedded in the political history of Israel. It was an outcome of the heroic process of nation building. Amos Elon has described the moral corruption resulting from this exaggerated "parental care":

> The paternalism of the veterans grew naturally from their role as a self-proclaimed pioneer elite. Like many former revolutionaries who have grown old in office they came to believe not only in their own irreplaceability, but in the infallibility of their judgment as well. Veteran Israeli leaders still habitually display an aristocratic contempt for what they disdainfully call the "masses" or the "man in the street". The socialists among them are often more disdainful of "the street" than the non-socialist, for the early idealism of the former has been corroded by their many years in office. Their political experience has taught them that only organized power matters. They are notoriously insen-

sitive to public opinion that is not formalized as an ideology, as
a political party . . . . (1971: 311)

The paternalistic attitude, coupled with a conspicuous insen-
sitivity to nonpolitical inputs, was both a cause and an outcome of
the traits of the party-state. In recent years, with the physical ex-
haustion of the founders' generation, this attitude has considerably
diminished. Yet traces of the old-fashioned paternalism are still in
evidence, stimulated by the enduring partisan influence on
political life.

Parties as policy makers

The foregoing implies that political parties were major actors
on the policy arena. Analyses of public policy rarely deal with the
direct role that parties play in the policy process. When a party
assumes office, its platform influences the national agenda (Rose
1984 57–60). The various planks, however, account for only a
small proportion of the government's agenda. In a party-state, the
role of the party in the actual process of authoritative decision
making is much more substantial. Party institutions elaborate
policy alternatives. Their decisions bind party representatives in
the government and in the legislature. In a party-state, decisions
about which policy alternatives will be made official are made not
independently by office holders, but within the forums of the
political parties of which they are members (LaPalombara 1987:
211).

   In Israel reality is more complicated than the picture posited
in the theory. Investigation of internal party processes has re-
vealed that many important decisions were formulated by the for-
mal governing institutions and never reached party bodies. (Med-
ding 1972; Arian 1985) Foreign policy as a whole was put on the
party's agenda only post factum, after a decision was made by the
government or, in most cases, after a decision had already been
implemented. The decision to launch a preemptive attack on Egyp-
tian forces in Sinai (1956) or to go along with Sadat's peace in-
itiative (1977), at least in its inceptive stages, were thus decided on
with little party involvement. In contrast, economic policy deci-
sions were often made within the ruling party's executive bodies.
The process often constituted an elaborate bargaining procedure,
involving the party's top leaders in the government, in the
Histadrut (while the Labor parties were in office), and in other par-
tisan sectors.

The role of parties in formulating national policy is, overall, also in decline. Factional strifes, which in the past resulted from ideological dissension over principles of politics, tend now to focus on personal rivalries. The parties' agenda consists mainly of organizational affairs rather than of policy issues. An event that occurred in the late 1980s provides a good example. The Peace Plan put forth by Israel's unity government in 1989, which proposed holding of elections in the occupied territories, was debated in partisan forums only after it was formally endorsed by the government. The purpose of the debate in the Likud was to place "constraints" on the cabinet ministers and to terminate the peace initiative. The government, however, overruled these constraints by taking another vote which reaffirmed its previous position. The Likud's decision (made on July 5, 1989) to halt the peace initiative remained only on paper. The government's policy remained unchanged despite blatant party opposition. In the Labor party, evasion of decisions taken by elected party institutions is in most cases unnecessary, since such resolutions are largely manipulated by the party's leadership (Aronoff 1977). In contemporary Israel political parties may ritually debate policy issues but the real power lies elsewhere.

The increase in the number of ministers following the establishment of the National Unity government further diminished the impact of Israeli political parties on policy making. In fact major decisions were debated and endorsed not even in the government as a whole, but in a "kitchen" or "inner" cabinet consisting of the prime minister and a few other senior ministers. The ruling parties' position may have been anticipated in the process of formulating policy, but by no means were they a major catalyst. In fact, the number of relevant public and private agents taking part in policy formation is constantly growing.

The Powerful State: Incentive to Corporatism

The state of Israel is among the more pervasive political organizations in the democratic world. It was founded by people who were brought up in countries where a "statist" political culture prevailed and where statehood ranked prime. As Elazar put it: "Their expectations were that a proper state must be a reified one, that is, one standing outside of and above its citizens and existing independently of them. Such a state . . . was viewed as a major instrument for social change and, accordingly, was ex-

pected to be comprehensive in its approach to its citizens, prepared to intervene in every aspect of life in order to bring about the necessary changes" (1986: 186). Although some politicization of the bureaucracy has been evident, it is not totally captured by political parties; it is a separate political entity whose influence is amply felt in all walks of life. Intervention in citizens' affairs has had clear economic and legal manifestations.

The economic dimension

Although the economy grows more sophisticated and has also been somewhat liberalized in recent years, it is still very much under state direction and control. The economic sector is theoretically free, but in actuality it is largely influenced by the government through a tight network of restrictions, permits, orders, monetary measures and the like. The state's involvement in the country's economic activity is manifested in the following indicators

Public expenditure. It is common to assess a government's involvement in the economy by means of the proportion of national resources represented by government spending. Israel scores very high on this measure. There is more than one version of the volume of national resources spent by the government. According to the International Monetary Fund (IMF) Israel was in first place among Western democracies in 1980, with governmental expenditure amounting to 76 percent of gross domestic product (GDP). Ireland and Iceland were a distant second and third with 51 and 41 percent, respectively. Israeli sources show figures substantially above those of the IMF report. Budget outlays by the government ranked between 80 and 85 percent of GDP for fiscal years 1978 to 1982. the Israel Central Bureau of Statistics reported that when a wider criterion was applied—i.e., spending by "government, local authorities and national institutions"—the expenditure amounted to between 95 and 105 percent of the GNP during fiscal years 1977 to 1981 (Sharkansky 1988: 4). Spending more than the nation's product is possible because governmental bodies receive substantial resources that do not figure into the calculations of the official GNP. The funds available through these means are subject to wide political manipulation, including the financing of political parties.[7]

Defense expenditure. Apart from repayment loans (which constitutes some 40 percent of the budget), defense expenditure is the largest single item in the state's budget. Israel, surrounded as it is

by hostile enemies, has had to devote a large and increasing share of its resources to defense. Its economic activities are thus conducted under the shadow of preparedness for overt or covert war. Before the Six Day War, in June 1967, the share of defense expenditures in the GNP was 8 to 10 percent; in 1968 to 1972 it rose to approximately 22 percent; and following the October 1973 war, it jumped to 28 to 29 percent of national product. After the Lebanon war (1982 through 1984) the budget devoted to defense stabilized at around 20 percent of the GNP. Defense expenditure has been noted to be the most important deviation by Israel from the "normal" pattern of resource utilization present in other democracies. the comparative data are indeed striking. Israel's 20 percent annual military expenditure contrasts markedly to the 1 to 6 percent that is typical of most Western countries (Doron and Tamir 1983). The danger that the economy may someday not be large enough to support higher levels of defense expenditure has been an ever-present Israeli dilemma (Ben-Porath 1986: 61). The enormous share of defense expenditure in the national income is another—and perhaps a major—source of the state's strength. It is also, however, one of the reasons for its excessive involvement in the country's economic life.

Patterns of employment. A disproportionally high share of the employment in Israel is devoted to public services (Ofer 1967). Comparative data indicate that in 1984 Israel ranked second among European countries in the proportion of the labor force employed in public services (*Budget Proposal* 1987: 34). The Israeli cabinet has declared numerous hiring "freezes" for the public sector. During those freezes, though, ministers have used special contracts or temporary employment to evade the formal restraint requirement. The public sector always managed to continue its uninterrupted growth. The state has decisive influence on those employed by other sectors, as well. It determines welfare payments, salaries, and the degree to which wages and other items are linked to the cost-of-living index. Furthermore, employment policy is virtually controlled by the state. The Employment Service Law (1959) nationalized the labor exchanges and placed them under the supervision of the ministry of labor. Employers are obliged to hire workers through the national agencies. The creation of a virtual monopoly in supplying manpower to the economy enabled the state to apply socioeconomic criteria in determining priorities for employment and relief for unemployment (Halevi and Klinov-Malul 1968: 69). The government has also deliberately influenced

the volume of employment by granting various privileges to firms that enagage a specific number of workers. This incentive has had an indirect impact on the economy by singling out large enterprises for preference over small ones and labor-intensive firms over capital-intensive ones.

Subsidies and transfer payments. As a welfare state Israel expends large sums on subsidies and transfer payments, whose share in the 1987 national budget was approximately 19 percent. This is a huge sum by any international standard. Even Sweden, which ranks high in the Western world in its scope of public expenditure, expends (proportionally) half the Israeli figure (*Free Economy* 1988). Subsidies and transfer payments are targeted at both consumption and production. Essential goods and services, such as dairy products, bread, poultry, and public transportation were heavily subsidized by the state. Subsidies were designed to lower the prices that affect the consumer price index and, through it, wages. Another type of subsidy, however, was aimed at maintaining income and increasing output. In recent years, serious efforts have been made to cut or at least to minimize government spending on subsidies for food and public transportation.

Subsidy of production is earmarked for industry and services. Direct financial inducements were used as a basic means of encouraging exports. The primary method involved the rate of the currency exchange, but there were also other forms of subsidy, such as participation in costs and investments. In the early years of statehood, the foreign exchange policy was highly discriminatory: there were multiple exchange rates based, inter alia, on the influence of the group demanding special privileges. Although an outright discriminatory policy is no longer in force, transfer payments continue to form a major source of state influence over economic affairs.

Taxation. Taxation is a principal instrument of economic policy (Wildavsky 1975). The high rate of the Israeli state's involvement in economic affairs has produced a heavy tax burden, which is both direct and indirect. In the early 1950s, taxes accounted for three-quarters or more of total internal receipts (Halevi and Klinov-Malul 1968: 187). Israeli economists have noted that the share of indirect taxes is much greater in Israel than in other developed countries, and this is strange in view of the state's past strong socialist orientation. In fact, the low share of property taxes has been an irritant to the more leftist parties.

Export/import policy. Export is regarded as a major means of economic independence, essential for political reasons. Since the

state's inception, attention has been focused on expanding exports. The government's attempt to encourage export has many repercussions on the extent of its economic involvement. To begin with, export industries were given high priority in national development programs and in the development budget. In 1980, some 98 percent of the credits adminstered by the central bank (outside the framework of the government's budget) subsidized export-related activities. Direct and indirect financial aid were granted to export-oriented industries. In addition, severe bureaucratic restrictions were put on imports. Strict control of the quantity and composition of imports was maintained, primarily through a highly complicated licensing system. Although the government's control of imports has been relaxed, there are still areas in which the freedom to import is severely limited. These restrictions take the following forms:

- a high level of taxation in the form of customs duties, purchase taxes, and special levies designed to limit the volume of imported commodities;

- administrative restrictions on import through licensing;[8]

- cumbersome procedures for releasing imported goods for marketing, causing importers both inconvenience and superfluous expense;

- a growing resort to standardization as a means to limit import (*Free Economy* 1988)

The government itself is also involved in the direct import of goods and services, amounting to about a third of the country's total imports.

Investments. Investment policy provides one of the paradoxes of the Israeli economy. On the one hand, encouraging private investment has been an important policy goal for many years. A law for the encouragement of investment has been in force since 1950. "Approved" investments enjoy far-reaching tax concessions, subsidies, and capital grants. But private investments are largely controlled by the state through a complicated network of bureaucratic procedures. Reportedly, for example, investors in a hotel enterprise are required to obtain approvals from no fewer than fourteen different government ministries.[9] Government infrastructure investment in transport, communications, and public utilities also interfere with private investment.

Credit market. The state controls the supply of money through the Bank of Israel (established in 1954), which is responsible for the

country's monetary policy. The government subsidizes credit and controls the rate of interest. It can also increase the money supply by borrowing abroad, borrowing from the banking system or from the public, or selling government bonds. Of the total investment in bonds (in Israeli currency), 73 percent is in government bonds, a high percentage demonstrating the government's control of the capital market. When the government makes capital available, it sets conditions that determine the economic fate of the enterprise: interest rates, tax deductions, bank costs, competition from imports. Firms located in the highest priority "development zones" can obtain 38 percent of their investment as a loan from the government on very convenient terms.

The flow of restitution payments from Germany in the 1950s made the government a central actor in the money market. Foreign exchange control, which save for a short period has been practiced with greater or lesser stringency, also gave the government a whip with which it could control the supply of money. Since October 1983, moreover, almost the whole banking system has been under state control. The state's redemption of banks' shares following their catastrophic drop that month, in effect (though unofficially) brought about the nationalization of the banking system in Israel.

Government corporations. One of the major holds of the state on the economy is activated through the government corporations, which operate in such areas as natural resources and development. A government company is defined by law as one with at least 50 percent government ownership or participation in its direction. In 1988 there were 169 such corporations under the responsibility of sixteen government ministries.[10] The share of government corporations in the economy is considerable. Their revenue in 1986 was $1.9 billion, approximately 19 percent of the national income. Moreover, the number and volume of these corporations are growing. Since 1973, 90 such enterprises have been added to the list (Gronau 1988).

The government in the late 1980s committed itself to privatization of these companies, not because of an ideological change of mood, but owing to economic imperatives. The fact is, too, that government corporations have been an economic burden more than a source of profit. Ineffective boards of directors (staffed mainly by political functionaries), lack of clear criteria for performance, and managerial inexperience (Shimshoni 1982: 259–260) account for most of the incompetence displayed.[11] Privatization, however, advanced at a slow pace. Paz, a giant oil

corporation, was sold (in 1988) to an Australian tycoon. The Society for the Development of Jerusalem was sold a year later. One of the reasons that privatization was stalled, despite the government's commitment to the concept, is the political power that these companies breed. By law, the appointment of a director to a government corporation must be approved by the minster in charge, following consultations with representtives of the government Corporations Authority. As already noted, ministers, in many instances, have bypassed the authority and made appointments without any prior recommendations. Despite the fact that some government companies are detrimental from a purely economic perspective, they afford very useful means of accumulating power and exerting influence. In addition to the government corporations, in which the state shares the administration of economic activities with private entrepreneurs, there are activities which the state controls by itself. These include, inter alia, Lands Administration, and the arms industry.

Centralization and Monopolization. Finally, the Israeli economy is largely centralized owing to the tacit agreement, and in some cases outright encouragement, of the government. Some 35 percent of private consumption is estimated to be controlled by monopolies, whose products constitute one-quarter of the total industrial output of the country. A state-appointed committee reported in July 1988 that the Israeli economy, compared with other developed economies, is characterized by a high level of concentration regarding the provision of goods and services. The centralization of domestic industrial product is twice as high as that in European countries.[12] The monopolies are subject to price controls, but the process is constrained by the restrictions put on free import described above. Centralization is evident, also, from the operation of nineteen cartels, whose authorization limits free competition. Because the high centralization of the economy facilitates more government control, it is little wonder that the state does not take the steps necessary to end the monopolies and open the market to less restricted competition.

The legal dimension

The incentives to corporatism are manifested not only in the economic sphere. The powers of the state to intervene in the life of the citizen emanates, too, from the legal procedure of the emergency powers. On May 19, 1948, four days after the declaration of independence, the provisional government of Israel declared a state

of emergency, which has been in force ever since. There are three separate mechanisms for exercising emergency powers in Israel:

1. The Defense Emergency Regulations of 1945, promulgated by the British Mandatory government; these comprise the most drastic and most controversial method.

2. Emergency Regulations issued by government ministers under Section 9 of the Law and Administration Ordinance of 1948, based on a grant of authority from the legislature; these regulations are valid only for three months unless extended by the Knesset.

3. Regular legislation, whose period of validity depends on the existence of a state of emergency or whose functioning is in some way affected by the emergency; such legislation enables the government to exercise "emergency-type" measures subject to judicial review. The most widely used law is the Emergency Powers (Detention) Law, 1979 (Shetreet 1984; Bracha 1980).

The reasons for the declaration of emergency were quite obvious. Israel was and continued to be engaged in a war with the neighboring Arab states and the Palestinians of the West Bank and the Gaza Strip, with most of the state's population residing until 1967 within artillery range of hostile military forces. State authority in exercising the emergency legislation has been almost unlimited. Although in practice the use of emergency powers has fallen far short of what could be done legally, some of the broad powers available have been utilized. A leading legal scholar (Rubinstein 1980: 224) cited an example whereby the state is authorized to engage in a host of activities incompatible with civil rights, such as opening mail when necessary "for reasons of security and defense."

Emergency authority has apparently been used to enforce economic and financial laws; it has not been restricted to combating security dangers. In 1985, for instance, the National Unity government invoked Section 9 of the Emergency Regulations to enact a broad-ranging economic recovery program. The regulations established strict controls on prices, wages, taxes, and other economic indicators.[13] The unusual use of emergency powers was justified on the grounds that inflation and the continued economic crisis constituted a threat to national survival. Another example of the non-security use of emergency powers is the proliferation of return-to-work orders in labor disputes, especially in "vital public services" (Mironi 1983: 26–27). In 1960, striking El Al pilots were