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FROM ILLIBERAL TO LIBERAL: THE OUTCOME OF THE IDEOLOGICAL U-TURN ON THE CASE OF ISRAEL

The phenomena behind the economic development of Israel from Yishuv times to socialism and from socialism to liberalism may illustrate the outcome of ideological U-turn and therefore merits more academic attention and discussion. This paper seeks to examine the outcome drastically shifting the governmental policies: from illiberal laborism and socialism towards more market-friendly atmosphere on the case of Israel. For that purpose, the following research question was formulated: "Under what circumstances did the government of Israel change the philosophy underlying its economic policy-making?". The methodology applied is purely qualitative. In particular, taking into account that the case is truly unique and the results are not transferrable a qualitative "intrinsic case study" was applied. We arrived at a conclusion that the relative economic success of Yishuv and later Israel that took place before 1985 is difficult to ascribe to the leftist policies. On the other hand, the diminishing involvement of the government in economic affairs and the introduction of the pivotal principles of market economy laid the foundation of modern and developed state which, despite its small size and uneasy political relations with its neighbors is among the global leaders in a number of fields, including the high-tech industry.

Keywords: *Yishuv, Israel, ideology, laborism, socialism, hyperinflation, liberalism*
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Introduction. The idea to move back to the historical land was conceived in the minds of the first Zionists, notably the ideological forefather of Zionism Theodor Herzl. Herzl who is considered to be the father of the Zionist movement considered a mass migration either to Palestine or to Argentine or even to Uganda. In particular, he proposed the establishment of the two Jewish organizations – The Jewish Society and The Jewish Company. The former should have been in charge of the ideological and political side of the new state, while the second one – the implementation procedure.[1] According to his plan the area should have primarily been inhabited by the poor Jews who would have built the initial infrastructure of the state, and only afterwards the scholars and intelligent should have been settled. The first Jewish Congress was held in Basel from 29th to 31st of August, 1897. It adopted the idea named "Geulat Haaretz", which means "redemption of the land". They decided to move back to Palestine.

Jews emigrating towards historical motherlands were mesmerized by the idea of socialism and laborism. They were certain that only Labor-Zionism would save the Jews not only from anti-Semitism but also from the exploitation under capitalist system.[2] Hence, it should not be surprising that for almost about three consecutive decades after the establishment of the State of Israel the power of Labor Party (sometimes together with junior coalition allies) remained unchanged and largely unchallenged. At that time the economy of Yishuv (Jewish residents in Palestine before the foundation of the state) initially was flourishing. However, one should not hurry to credit it to socialist/laborist ideology. The government received huge pecuniary aid from Jewish organizations of diaspora as well as reparations from Germany. Astoundingly, due to reparations government budget reached 102% of the GDP in 1977. Such incredibly enormous budget-to-GDP ratio is an economic nonsense. Moreover, the development shall be partly attributed to the huge donations of Baron de Rothschild who was funding the absorption of the new settlements by the emigrants.[3]

The ideology-driven economic policy of the Labor Party was smooth and had not yet led to economic collapse till 1973. As Michael Bruno mentioned 1973 is the end of the "Golden Age" of the Israeli economy and the next decade is a "lost decade".[4] In the next decades the economic successive hyperinflations worsened the overall economic situation of the country. The ideology behind the government policies shifted drastically. Government had to take measures conforming to and stemming from the new economic reality. Liberal policies were gradually gaining an upper-hand making Israel one of the most successful nations of the modern era. The ideological U-turn and its aftermath make Israel a unique case which merits more academic attention and deeper analysis.

Literature Review. The ideological forefather of Zionism Theodor Herzl in his famous pamphlet entitled The Jewish State" designs the roadmap of the

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[1] **Herzl T.**, The Jews' State: A Critical English Translation. Jason Aronson, Incorporated, 1997..

[2] **Rivlin P.**, The Israeli Economy from the Foundation of the State through the 21st Century. Cambridge University Press, 2010..

[3] Ibid.

[4] **Bruno M.,** Crisis, Stabilization and Economic Reform: Therapy by Consensus: Therapy by Consensus. Clarendon Press, 1993.

settlement of the Jewish state building. The most notable part that fits with the present research is the following:

> We must not imagine the departure of the Jews to be a sudden one. It will be gradual, continuous, and will cover many decades. The poorest will go first to cultivate the soil. In accordance with a preconceived plan, they will construct roads, bridges, railways and telegraph installations; regulate rivers; and build their own dwellings; their **labor** (my emphasis- A.H.) will create trade, trade will create markets and markets will attract new settlers, for every man will go voluntarily, at his own expense and his own risk. The labor expended on the land will enhance its value, and the Jews will soon perceive that a new and permanent sphere of operation is opening here for that spirit of enterprise which has heretofore met only with hatred and obloquy.[5]

He further notes:

> Our unskilled **laborer** (my emphasis - A.H.), who will come at first from the great reservoirs of Russia and Rumania, must, of course, render each other assistance, in the construction of houses. They will be obliged to build with wood in the beginning, because iron will not be immediately available. Later on, the original, inadequate, makeshift buildings will be replaced by superior dwellings.[6]

It is clear that he puts labor in the center of the state building.

Jews emigrated to Yeretz Yisrael (A Biblical term for the territory of Jews the exact limits of which is undefined) were mesmerized with the laborist ideology. They were certain that this ideology will save them from the exploitation of the capitalist system.[7] The laborist contributed to the development of the Jewish economy of Palestine under British mandate. Notably, before the establishment of the statehood, from 1922 to 1947 the Jewish economy increased by 15 times, while the Arab one only by 2.5 times.[8] The dominance of the laborist ideology continued even after the establishment of the statehood. Aharoni,[9] Rivlin,[10] Nadav et al[11] argue that following the establishment of the state along the Histadrut were controlling the bulk of the Israeli economy. Especially, Aharoni posits that the socioeconomic system of Israel was shaped in the pre-state period and future leaders endeavoring to eliminate of the Diaspora mentality of the Jews were imbuing them with the virtues of the labor. They were trying to harmonize the goal of having an egalitarian society with traditional Jewish values.[12] Such political destinations of the first pioneers were preponderate over any kind of pure economic calculations.[13][14] And it is not contingent that the first **voluntary** absolutely egalitarian agriculture-based community, Kibbutz, is an endemic Jewish (Israeli) phenomenon. Mahler[15], Rivlin[16], Aharoni[17] aver that among the

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[5] **Herzl T.,** *The Jews' State: A Critical English Translation.* Jason Aronson, Incorporated, 1997, p. 14.
[6] Ibid, 19.
[7] Ibid.
[8] **Meşer Y., Metzer J.,** The divided economy of Mandatory Palestine (No. 11). Cambridge University Press, 1998.
[9] **Aharoni Y.,** The changing political economy of Israel. *The Annals of the American Academy of Political and Social Science* 555, no. 1, 1998, pp. 127-146.
[10] Rivlin, pp. 35-40.
[11] **Halevi, Nadav,** and **Ruth Klinov-Malul,** Economic development of Israel. (1968).
[12] Aharoni, 128.
[13] Ibid.
[14] **Shimshoui D.,** *Israeli democracy: the middle of the journey.* Free Press, 1982.
[15] **Mahler Gregory S.,** *Politics and government in Israel: the maturation of a modern state.* Rowman & Littlefield Publishers, 2010.
[16] Rivlin, p. 45.

major factors behind successful implementation of laborist economic policy was the fact that resources under the government disposal were not merely confined to the sizes of the national economy. The government was receiving huge pecuniary aid from Jewish Diaspora and organizations as well as reparations from Germany. Astoundingly, government budget reached 102% of the GDP in 1977.[18]

The laborist politics was seeking to reach the full employment for the integration of the immigrants in the Israeli society.[19]The massive employment of 1965-66 made Israeli government to further reinforce the policy of full employment paying even less attention to the deflationary issues.[2021] The laborists were vindicating their policies on a ground that the existence of the country is at stake. It was considered that under foreign threat all the resources of the tiny country are to be centralized.[22] The laborists were seeking for economic self-reliance, thus encouraging, first and foremost, agricultural activities. Primarily, service sector and even industry were considered as parasitic sectors.[23]

The ideology-driven economic policy of the Labor Party proved to be effective till 1973. As David Bruno mentioned 1973 is the end of the "Golden Age" of the Israeli economy and the next decade is a "lost decade".[24] Government had to take measures conforming to and stemming from the new economic reality, including policies transcending the laborist ideology.

The new economic reality was primarily about liberalization, privatization and alienation from the laborist idea of full employment. The state, the Histadrut and the banks were no longer the main players in the Israeli economy. They ceded their place to the private market. The reviewed literature especially highlights the new role of the central bank (CB) and its contribution of the overall economic liberalization. In particular, Carruthers[25], Polillo and Guillen[26], Siklos[27] emphasize the global trend behind the governments' decision to grant the CBs independence. The reason behind the wave is that the governments change their priorities resulting from adherence to other economic philosophy. The role of the CBs is subjugated when the governments set full employment and economic growth a top priority in accordance with the Keynesian economic ideology.[28] Meyer et al[29] claim that that policy changes in one state entail similar

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[17] Aharoni, 135.
[18] Ibid., p.132.
[19] Ibid., p. 130.
[20] **Ben-Porath Y.,**. *The Israeli economy: Maturing through crises*. Harvard University Press, 1986.
[21] Aharoni,130.
[22] Rivlin, pp. 35-36.
[23] Ibid, 24.
[24] **Bruno M.,** *Crisis, Stabilization, and Economic Reform: Therapy by Consensus: Therapy by Consensus*. Clarendon Press, 1993.
[25] **Carruthers Bruce G.,** *Institutionalizing markets, or the market for institutions? central banks, bankruptcy law, and the globalization of financial markets*. 2001.
[26] **Polillo S.** and **Mauro F. G.,** Globalization Pressures and the State: The Worldwide Spread of Central Bank Independence1. *American journal of sociology* 110, no. 6, 2005, pp. 1764-1802.
[27] **Siklos Pierre L.,** *The changing face of central banking: Evolutionary trends since World War II*. Cambridge University Press, 2002.
[28] Ibid.

actions other states, hence creating a "domino effect", since the states are normally imitating the policies of one another.

However, other scholars simply view the independence of the CB simply as one part of the Jigsaw puzzle. Stieglitz, for example, claims that the World Bank (WB), the International Monetary Fund (IMF) and the US government are promoting neo-liberal economic policies, which includes granting independence to the CB.[30] Marcussen[31], Babb[32] arrived at a conclusion that the economists trained in the American universities promote neo-liberal economic theories once returning to their countries. Maman and Rozenhek singled out the role of the academic experts stressing their "monopoly over the academic knowledge" and the resonance of their reputation among the decision-makers.[33]

Methodology. Israel is a state created after and as a result of the UN Security Council resolution with prima facie endless wars with the neighboring Arabs. Founding a state from the scratch in the middle of a desert on the base of different generations of ideologically motivated migrants came from different parts of the world is unarguably an unprecedented phenomenon in the modern history of humanity. The unexperienced founders had at least two strong pillars to rely upon – the shared identity and the ideologically-driven motivation to have the first Jewish state in the modern history. Hence, it is expected that the dominant ideology behind the political and economic decision making will be revolved around and stress the collective ''we'' rather than individualistic ''I'' and ''freedom''. However, from a certain time point the opposite ideology gained the upper hand. Both the process of the state-building in Israel and the ideological U-turn in the course of the latter are truly unique cases to study.

Taking into account the uniqueness of the studied case, a need arose to choose a method focusing on the merits of the case per se rather than the generalization thereof i.e. theory building. Therefore, a method called "intrinsic case study" was applied. An intrinsic case study is the study of a case (e.g., person, specific group, occupation, department, organization) where the case itself is of primary interest in the exploration. It is normally used for deeper understanding of the case and not for the theory building. The intrinsic case is often exploratory in nature, and the researcher is guided by her interest in the case itself rather than in extending theory or generalizing across cases unlike the instrumental case study where the case itself is secondary to understanding a particular phenomenon. For intrinsic case study, case is dominant; the case is of highest importance. For instrumental case study, issue is dominant; we start and end with issues dominant.[34]

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[29] **Meyer John W., John Boli, George M. Thomas,** and **Francisco O. Ramirez,** World society and the nation-state. *American Journal of sociology* 103, no. 1 (1997), pp. 144-181.

[30] **Stiglitz Joseph E.,** Globalization and its Discontents. *London: Allen Lane* (2002).

[31] **Marcussen M.,** The power of EMU-ideas: Reforming central banks in Great Britain, France, and Sweden. (1999), p. 49.

[32] **Babb S.,** Managing Mexico. *Economists from Nationalism to Neoliberalism* (2001), p. 181.

[33] Maman and Rosenhek, 256-257.

[34] **Yazan B.,** Three approaches to case study methods in education: Yin, Merriam, and Stake. The qualitative report, 20(2), 2015, pp. 141.

Analysis

Yishuv times

In Yishuv times, despite the absence of the statehood there were strong institutions that were partly fulfilling the obligations of state institutions. The most notable of such institutions were Histadrut and Kibitz (plural – kibbutzim).

Founded in 1920 the Histadrut became the representative of the workers and traders. However, in fact it was a state within a state. Its activities spread on a tremendous domain, inter alia, including agriculture, industry, banking, insurance, housing, construction, transportation, cultural activities, social services, etc. In other words, it was one of the largest subjects in the economy, second to government only and a major employer. Its primary aim was in conformity with laborist ideology, i.e. to create jobs for the Israelis. To further promote the interests of the workers and ensuring high living standards for them Histadrut founded Bank Hapoalim in 1921 which later became the largest financial institution in the country. After two years the Histadrut established Hevrat Ovdim (worker's company) which was in charge of the management of all the enterprises of the Histadrut.[35]

Kibbutz is an absolutely egalitarian collective. It is an agricultural community, which is immanent only to Israel. The socioeconomic system of Israel was shaped in the pre-state period and, therefore the future leaders were striving to get rid of the diaspora-based identity mentality of the Jews by imbuing them with the virtues of the labor. They were trying to harmonize the goal of having an egalitarian society based on the traditional Jewish values. Such political destinations of the first pioneers were prevalent over any kind of pure economic calculations.[36] Therefore, it is not surprising that Israel is the home of the first voluntary absolutely egalitarian community.

Jews were landless and devoid of rights in Russia and Eastern Europe. However, only small number of Jewish emigrants from Russia and from Eastern Europe preferred to move to Palestine (approximately 25.000). The vast majority preferred to live in the United States.[37] In 1909 two historical events occurred in Yishuv (the Jewish settlements in Palestine before the foundation of the state of Israel). The first was the foundation of the first ever Jewish city in the World – Tel Aviv. The second was the foundation of the first Kibbutz community – Degania Alef.[38]

The emigration and the structural change of the economy

There were four major waves of emigration to Palestine. The first wave or allya (emigration) dates back to 1890s when the pogroms started in the Imperial Russia. The continued anti-Semitism in Europe resulted the second aliya in 1904-1914. About 40.000 Jews emigrated to Yishuv. Most of its members were young and were influenced by socialist ideas.[39] The October revolution exacerbated the

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[35] **Rivlin P.,** The Israeli Economy from the Foundation of the State through the 21st Century. Cambridge University Press; 2010, p. 25.

[36] **Aharoni**, 1998.

[37] Ibid.

[38] **Plaut S.,** The Israeli Economy from the Foundation of the State through the 21st Century. Middle East Quarterly, 18(3), 2011, 94 p.

[39] **Rivlin P.**, p. 16.

anti-Semitism in Russia which triggered the third aliya after 1917. The emigration was further encouraged by the British government after its conquest of Palestine in 1917. By 1923 the population of Jews in Yishuv increased up to 90.000 people. The new immigrants reinforced the infrastructure of the country, built a lot of roads and drained the marshes. The fourth and the last alya occurred in 1924-29 as a result of pervading economic crisis, anti-Jewish policies in Poland and the restricted emigration to United States.

Between 1922 and 1947 the Yishuv economy was growing very fast. Initially the Jews were involved mainly in the agricultural activities. The Zionist ideologists were hostile towards the service sector considering it unproductive and parasitic. The growth is a derivative from the continuously expanding labor force. Furthermore, during the WWII British authorities ordered Jewish plants located in the Palestine to produce armaments and ammunition.[40] The huge profit generated from the agricultural production enabled the Jewish entrepreneurs to diversify the economy of the Yishuv. That was concomitant with the British protectionist policies of the Yishuv economy which protected the local producers. The conditions were excellent to develop other sectors of the Jewish economy, primarily the industry. This entire boom was guided by the Ashkenazi Jews, the migrants from Western Europe, who brought and invested not only their capital but also their highly qualified skills and faculties. Thus, the Jews emigrated from the western countries were much skillful vis-à-vis the ones emigrated from Russia and Eastern Europe, since until 1933 there was no restriction on their matriculation to European universities.[41] Furthermore, the living standards in Western Europe were traditionally higher than that in Eastern Europe and Jews were exposed to less discrimination relatively.

Table 1

The Palestinian economy: Shares in the net national product, 1922[42]

Field	Arab Economy (%)	Jewish economy (%)
Agriculture	12.9	39.4
Manufacturing	19.7	5.2
Construction	12.5	1.8
Services	54.9	53.6

The vehement growth of the Jewish economy in Yishuv overshadowed that of the Arab economy. In 1922-1947 time period the Jewish economy rose 15-fold, while the Arab economy merely 2.5-fold.[43] It is noteworthy to emphasize that parallel to growth in digits the structure of Jewish economy was also altered. If in 1922 Jews were mostly engaged in agricultural activities (39.4%), in 1947, however, the pattern was changed, and only 12.9% of aggregate Jewish output in Yishuv was generated due to agriculture. The table below best illustrates the share of the Jewish and Arab economies in Palestine in 1922.[44]

[40] **Rivlin P.,** The Israeli Economy from the Foundation of the State through the 21st Century. Cambridge University Press; 2010

[41] Ibid., p. 17.

[42] Ibid.

[43] Ibid., p. 21.

[44] Ibid., p. 19.

As it is obvious from the table above as of 1922 Jews were involved in agriculture more than 3 times compared with the Arabs. Moreover, the Arabs were surpassing Jews in their involvement in manufacturing about four times. At the same time, in construction sector the contribution of Jews was negligible in comparison with the input of the Arabs. The only sector where the Jewish and Arab output was commensurable was service, however here also the Arabs had a slight advantage over the Jews. Nevertheless, as it was already noted afore the overall pattern dramatically changed over the following decades and if one investigates the overall pattern of the Palestinian economy in 1947, a year before the declaration of independence of Israel, they will notice that Jews and Arabs swapped their places. The table below illustrates the Arabs' and Jews' shares in the Palestinian economy in 1947.

Table 2

The Palestinian economy: Shares in the net national product, 1947[45]

Field	*Jewish Economy (%)*	*Arab economy (%)*
Agriculture	10.7	38.9
manufacturing	33.1	2.3
construction	6.0	2.4
services	50.2	56.7

The Jewish economy in Palestine was thriving under the British mandate. Notably, before the establishment of the statehood, from 1922 to 1947 the Jewish economy increased by 15 times, while the Arab one only by 2.5 times.[46] Unlike 1922, in 1947 the Jewish industrial output exceeded that of the Arab by more than 14 times. Jews also significantly improved their positions in the construction sector under British Mandate throughout the 25 years.

Bernstein and Swirski argue that the economic gains of the Jews and the structural change of the economy had no impact on certain groups of the Jews evenly.[47] They claim that most of the managerial positions were occupied by the European Jews who came to Israel just two generations before the ones coming right after the declaration of Independence of Israeli state. The main gist of their article is that the oriental Jews (Sephardic Jews) were significantly dependent upon the Ashkenazim.[48]

Despite their adamant claims regarding unequal wealth and income distribution, they totally admit that emigration contributed to the significant development of Israel. They aver that it was chiefly the product of the hard work of the Jews with the oriental origin.[49] According to them the main reason behind the internal inequalities among the Jews was not the difference of educational backgrounds and skills, but the fact that before the emigration of the Sephardic Jews the social strata of the Israeli society was already shaped and for the freshmen the only stratum available was the lowest one. To substantiate their

[45] Ibid.

[46] **Meşer Y.,** & **Metzer J.,** The divided economy of Mandatory Palestine (No. 11). Cambridge University Press, 1998.

[47] Bernstein and Swirski 1982, pp. 64-65.

[48] Ibid. pp. 81-82.

[49] Ibid., pp. 62-65.

arguments, they rely upon the statistical data on the inclusiveness of different groups of Jews in different sectors. Without any attempt or intention to challenge their dogmas and convictions a mention must be made that the Sephardic Jews, were the main beneficiaries of the rigorous social security policies. It is just enough to mention that the land purchased by the Jewish National Fund was envisaged not for the Jews already living in Palestine but for the ones living outside of it.[50] Moreover, after the foundation of Israel the government spent enormous amounts of money for the naturalization of Jewish emigrants (all emigrants regardless of the origin).

The economy of Israel in 1948-1985: from the foundation of the state, from hyperinflation to succeeding recovery

As it was mentioned afore the foundation of the state of Israel was followed by the UN GA 181 Resolution with its plan to halve Palestine into two states (UN General Assembly, Res. N. 181). This invoked the aggressive reaction of the neighboring Arab countries which attacked Israel just after the latter declared about its independence with an explicit aim to annihilate it. The overall economic state was blurry: about 700.000 Arab fled or were expelled and about 300.000 Jews repatriated because of the hostile treatment towards them in Arab countries.[51] In 1948-1952 time period the state-led economic policies were austere in Israel and at the same time very egalitarian. The austerity was conditioned by the harsh economic conditions and warfare that the newly established state was encountering; the egalitarianism stemmed from the ideology of the then ruling Labor party. Basic goods were rationed and the government was monitoring the economy to avoid the production of unnecessary goods. To finance the economy the government had to borrow money from both residents and non-residents. Despite the hardships the government managed to ameliorate the infrastructure significantly.[52]

By 1952 the major concern of the government was the rising unemployment and shortage of foreign exchange and foreign products. To grapple with those issues the government devaluated the Israeli pound. Presumably, they also had an aim to boost the export. However, the economy was relatively stabilized due to the German reparations and the sale of Israeli bonds overseas mainly in the USA.[53]

One of the major problems was the shortage of oil and water in 1950s. The National Water Carrier was constructed in 1964, a pipeline that was siphoning the water from Kinneret (Lake of Galilee) to the Northern Nagev.[54] The idea behind the construction of water pipeline was to ensure the sustainable agricultural development of the country, however starting from 1990s it was supplying more than 50% of country's fresh water combing four major water sources.[55]

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[50] **Rivlin**, p. 31.
[51] Ibid, pp. 34-35.
[52] **Rivlin**, p. 35.
[53] Ibid, p. 37.
[54] **Halevi** and **Klinov-Malul,** 1968, p. 74.
[55] Ibid.

The 1950-60 decade is famous in Israeli history as a decade of rapid economic growth. Almost full employment was achieved and Israel was almost qualified to be a welfare state with its all-encompassing social protection policies. Among the contributing factors the most influential were the German reparations, the continuously expanding labor and the capital flows from the Jews living abroad.

However, the overgrowing internal demand was distorting the export volumes and worsened current account balance. The new finance minister Levi Eshkol announced its plan to stabilize economy. The vertex of the economic hardships was 1973, a fateful year of Yom Kippur War that cost 75% of countries GDP. Besides, it grabbed the lives of 2.600 Israeli soldiers and left over 7.000 wounded (Rvlin 2010, 41). The privations of 1970s were accompanied with the price hike in the international oil market further worsening the competitiveness of Israeli producers and lessening the volumes of exports. Those events entailed the defeat of Labor party in 1977 elections and the Likud party, the amalgamation of the nationalist Herut party and the Liberal Party won the Knesset elections. Menachem Begin, the head of the Likud party formed the new government. A number of liberalization policies were initiated, in particular, travel tax was abolished, a control over foreign currency was released.[56] But the main problem was the continuous devaluation of Israeli currency. It is expedient to mention that throughout its history Israel managed to relinquish the national currency and introduce the new one four times. And in every case the reason was the devaluation and an attempt to stabilize the prices.

As Rivlin truly mentioned in his book:

> In 1948, Israel's currency was the Palestine Pound that had been in circulation since 1927 under the British Mandate and was equal in value to one-pound sterling. In 1954, it was renamed the Israeli Lira and the link to sterling was cancelled. In 1980, the Lira was replaced by the Shekel at a rate of ten Lira to one Shekel. In 1985, the Shekel was replaced by the New Israeli Shekel (NIS) at a rate of 1.000 Shekels to one New Shekel.[57]

The Israeli government was seeking to receive assistance from the USA. The latter consented to do it provided that the economy would be significantly liberalized. The aid from the USA improved the current account balance.[58] The most important achievement of the government was the curbing of the inflation rate. This was possible mainly as a result of abolishing indexing the prices, wages and the exchange rate. Another policy shift was the significant reduction of welfare payments which were a real burden on state budget. So, there was no more need to print money or to attract expensive loans to fund the budget deficit. In addition, Israel annulled all kind of protectionist policies, opening it market for the foreign goods and services hence enhancing the efficiency and fostering competition.

Before 1985, the Labor-led government did not dare to take away the pension funds from the control of the Histadrut. The Histadrut was controlling over 60% of the overall pension funds before 1985 (Aharoni 1998, 135). After

[56] **Halevi** and **Klinov-Malul**, p. 77.
[57] Ibid., p. 36.
[58] **Rivlin,** 2010, p. 60.

1985 the state spurred the creation of private pension funds and privatized the Histadrut-owned pension funds. The new owners became the insurance companies which later controlled the lion's share of pension funds.[59] Overall, 1985 was the recovery year in the Israeli economy. Hyperinflation made politicians to revise their economic strategies. The capital market which was previously managed by the government received a significant level of independence.

The new economic policy and capital market reform

In 1985, the government taking into account the dire economic situation of the country introduced the stabilization plan. The short-run goal of the plan was to drastically reduce the fiscal deficit, to improve the balance of payment and to curb the vehement inflationary dynamics.[60]These goals were achieved due to the significant budgetary cuts and pegging the national currency to the US dollar. The government suspended all the agreements stipulating the indexation linked with the cost-of-living index.[61] The new approach of the government to the economic affairs was articulated in a document called New Economic Policy which was also known as a Stabilization Plan. It was a produce of a national consensus. The core idea was to curtail the private and public consumption in order to halt the price hike. The export subsidies and the import duties were markedly reduced. The result was the decay of the inflation from three digits to 10% in 1985 (Aharoni 1998, 138).

The New Economic Policy was designed and implemented by the best local and US economists. The Israeli government resorted to its counter partners in the USA asking for the bailout. The aid from the USA redressed the balance of payment and current account balance. The mentioned measures were coupled with the adoption of the "Non-Printing" law which prohibited the government to fund its deficit at the expense of the money printing. The Bank of Israel, within the framework of the stabilization plan, became free in its implementation of the monetary policy targeting inflation. Another major event was the introduction of the new currency in 1985 – the New Israeli Shekel, at a rate of one per one thousand shekels[62].

The lesson learned from the hyperinflation was the acquiescence with the liberalization of the capital market. A number of structural changes transpired. Between 1987-1989 time span the credit directed by the government declined from 85 to 15 per cent of the overall credit. The government also abolished the license requirement for issuing the bonds (Aharoni 1998, 138). Until 1980s the Israeli financial system was highly centralized. It was dominated mainly by the state, the Histodrut and the banks. The post-1985 period is characterized in the transaction of capital accumulation from public owners to private. The banks

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[59] **Maman D.** & **Rosenhek Z.,** The institutional dynamics of a developmental state: Change and continuity in state–economy relations in Israel. Studies in Comparative International Development, 47(3), 2012, p. 354.

[60] Ibid., p. 351.

[61] **Rivlin**, 2010, p. 58.

[62] **Rivlin**, p. 59.

were forced to be kicked out of traditional non-banking activities (Aharoni, 1998).

Despite the commitment of the government towards the economic liberalization it retained its involvement in the economic affairs. The change mostly occurred in the nature of the intervention. Before 1985, the state was directly involved in virtually all the economic processes with its direct subsidies. The main aim was the achievement of the full employment. Now the goal and consequently the agenda of the state were changed. The Israeli government now is focused on more export-oriented sectors. The creation of the added value replaced full employment as a major goal. As a result, the foreign investment increased significantly.

The Israeli government has also contributed to the rapid growth of the Israeli high-tech sector. It established a number of venture funds. Some of them were operating at the expense of the public money, while others were financed both by public and private investors. Today Israel is the champion in the world in the number of startups per capita. Moreover, the Israeli government contributes to the development of the field through its compulsory military service! The soldiers with the relevant background gain experience in the army, especially in the battalions of communication. Moreover, the army is cooperating with the high-tech companies applying their potential in the fields of electronics, communication, optics and so on.[63]

Overall, we see that the state moved away from its laborist ideologies and established a business-friendly climate. The attitude of the Israeli leaders towards profit making and private capital was no longer antagonistic. The government gradually sold off most of its key assets. However, its role did not minimize to nil. It still provides the institutional environment so much important for the economy and the foreign investment. It supported the priority sectors in a myriad of initiatives such as venture funds. It also established professional institutions to take control of and assist the private sector, which started to grow from the scratch, since 1985. Before 1985 a few big companies (if ever) were private.

Conclusion. In his thought-provoking book the reigning Prince of Liechtenstein Hans-Adam II explains the reasons behind socialism and nationalism ''walking hand-in-hand''. In short, nationalists believe that a paradise on the earth shall be created for a chosen nation.[64] For that purpose, the nationalist governments have no choice but to increase the taxes and the bureaucratic apparatus. They also have a tendency to prefer full employment over the stability of their own national currencies. The analysis above clearly shows the fallacies and the limitations of leftist-laborist ideologies that underpin such economic policies. The relative economic success of Yishuv and later Israel that took place before 1985 is difficult to ascribe to the leftist policies. As it was shown above it was due to a combination of a myriad of factors stretching from labor demand of the metropolitan power (before the establishment of the statehood) to reparations and diaspora support. Moreover, the philosophy and ideology underlying the

[63] **Maman** and **Rosenek,** 2012, p. 354.

[64] **Liechtenstein Hans-Adam**, II, The State in the Third Millennium. van Eck, 2009, p. 64.

economic policies of the laborist government of Israel, despite being anchored on teleological egalitarianism failed to avoid internal inequities among the Jews. As a result, the national currency was strongly inflated and was changed four times. The worsening economic situation resulted in a change of the government with the new government adhering an ideology placed in the opposite side of the ideological continuum. The diminishing involvement of the government in economic affairs and the introduction of the pivotal principles of the market economy laid the foundation of modern and developed state which, despite its minuscule sizes and uneasy political relations with its neighbors is among the global leaders in a number of fields, including the high-tech industry. Therefore, Israel is a unique case to prove the efficacy of liberal economic policies vis-à-vis illiberal or better to say anti-liberal economic policies.

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ԱԼԲԵՐՏ ՀԱՅՐԱՊԵՏՅԱՆ
ՀՊՏՀ «Ամբերդ» հետազոտական կենտրոնի ավագ հետազոտող, տնտեսագիտության թեկնածու

Ոչ լիբերալից դեպի լիբերալ. գաղափարախոսական շրջադարձի արդյունքները Իսրայելի օրինակով.– Իշուվի ժամանակներից մինչև սոցիալիզմ և սոցիալիզմից մինչև լիբերալիզմ ընկած ժամանակահատվածում Իսրայելի անցած հետագիծն արտացոլում է տնտեսական քաղաքականության հիմքում առկա գաղափարախոսության փոփոխության արդյունքները և, հետևաբար, ավելի շատ ակադեմիական ուշադրության և քննարկման է արժանի: Սույն հոդվածում Իսրայելի օրինակով փորձ է արվում դիտարկելու գերիշխող գաղափարախոսության կտրուկ փոփոխության արդյունքները՝ ոչ լիբերալ լեյբորիստական և սոցիալիզմի գաղափարախոսությունից դեպի լիբերալ՝ շուկայական տնտեսության համար առավել բարենպաստ միջավայր: Այդ նպատակով ձևակերպվել է հետևյալ հետազոտական հարցը. «Ի՞նչ հանգամանքներում Իսրայելի կառավարությունը փոխեց տնտեսական քաղաքականության հիմքում ընկած փիլիսոփայությունը»: Հոդվածում կիրառված մեթոդաբանությունը որակական է: Մասնավորապես՝ հաշվի առնելով այն հանգամանքը, որ ընտրված քեյսը, դիցուք, եզակի է, իսկ ստացված արդյունքներն ընդհանրացման ենթակա չեն, կիրառվել է «քեյս սթադիի» մեթոդը: Մենք հանգել ենք այն եզրակացությանը, որ Իշուվի և հետագայում Իսրայելի հարաբերական տնտեսական հաջողությունը, որը տեղի է ունեցել մինչև 1985 թվականը, դժվար է վերագրել առավել ձախակողմյան գաղափարախոսությանը: Մյուս կողմից՝ կառավարության նվազող ներգրավվածությունը տնտեսական հարցերում և շուկայական տնտեսության առանցքային սկզբունքների ներդրումը ստեղծեցին ժամանակակից և զարգացած պետության հիմքը, որը, չնայած իր փոքր չափերին և հարևանների հետ ամբարիշտ հարաբերու-

թյուններին, համաշխարհային առաջատարների թվում է մի շարք ոլորտներում, այդ թվում՝ բարձր տեխնոլոգիաների բնագավառում:

Հիմնաբառեր. *Իշուվ, Իսրայել, գաղափարախոսություն, լեյբորիզմ, սոցիալիզմ, հիպերինֆլյացիա, լիբերալիզմ*
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От илиберального к либеральному: итог идеологического поворота по примеру Израиля.– Путь развития Израиля со времен Ишуви к социализму и от социализма к либерализму отражает результаты изменения идеологии, лежащей в основе экономической политики, заслуживает более академического изучения. В данной статье рассматриваются последствия резкого сдвига господствующей идеологии на примере Израиля, от не либеральной лейбористской идеологии к более экологичной рыночной экономике. С этой целью была сформулирована следующая исследовательская задача. «При каких обстоятельствах израильское правительство изменило философию, лежащую в основе ее экономической политики?» Методология, используемая в статье, является качественной. В частности, с учетом того, что выбранный случай уникален, а полученные результаты не подлежат обобщению, был использован метод ''тематическое исследование''. Исследования показали, что последующий относительный экономический успех Ишуви в Израиле, имевший место до 1985 года, трудно отнести к более левой идеологии. С другой стороны, уменьшение участия государства в экономических делах, введение основных принципов рыночной экономики заложили основу для современного развитого государства, которое, несмотря на свои небольшие размеры и порочные отношения с соседями, является одним из мировых лидеров в ряде областей, включая высокие технологии.

Ключевые слова: *Ишув, Израиль, идеология, лейборизм, социализм, гиперинфляция, либерализм*
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