

Beyond Comparativism: Israel's Welfare History in a Non-European Comparative Perspective

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ABSTRACT:

This article critiques Esping-Andersen's theory of the welfare regime. It argues that the theory is Eurocentric, in the sense that most late-developing, semi-peripheral countries do not fulfill its scope conditions. I demonstrate this point using the case of Israel during the first three decades after independence. The article points out two incongruities between the theory and the Israeli case. First, unlike in Western European countries the labor force in Israel was not commodified due to the developmental production regime. Second, the labor force was split into two social groups, the highly skilled middle classes and the low-skilled lower classes, each of which had a different preference regarding the welfare regime. The article presents several middle-range theories that are more consistent with the Israeli case. According to these theories, the welfare regime during the 1950s is best described as a 'productivist welfare model' that characterized small, late-developing countries in East Asia. During the 1960s and 1970s, a double movement of liberalization and welfare expansion took place. This double movement resulted from the consolidation of a cross-class coalition between the middle class and state actors, which had a preference for a more open, liberalized economy. This argument offers an alternative to the conventional class-based explanation for the consolidation of the social-democratic regime in the 1970s.

KEYWORDS: comparativist research design; welfare regimes; productivist welfare regime; double movement.

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Despite years of research, there is still no agreement regarding the right way to portray Israel's welfare regime during the first decade following statehood. Some scholars would portray it as a regime characterized by social solidarity and a socialist spirit, even if it was not a full-fledged social democracy (Doron 2003: 423; Bareli and Cohen 2012: 159–159). Other scholars depict it as a residual and highly selective regime that provided only limited social protection (Rosenhek 2002, 2007; Gutwein 2017; Koreh 2017).

This debate is linked to another open question: how do we explain the consolidation of the social-democratic regime in the 1970s? If the regime during the 1950s was based on social solidarity, then one has to explain its erosion amid the emergence of the middle class as a social group and the strengthening of the right-wing parties. If it was residual, one has to explain the consolidation of the social-democratic regime in the 1970s. Given that there is no shortage of research about this era, the persistence of the lack of consensus is puzzling.

I address this puzzle by highlighting the methodological and meta-theoretical questions associated with comparing the welfare regimes in Israel to other cases. Both the residual and the social-democratic models are defined based on Esping-Andersen's paradigm of a welfare regime, which was developed based on the experience of advanced economies, most of which are Western European. The question is whether this classification fits the case of Israel, which was a late-developing, semi-peripheral country.

I argue that the debate over Israel's welfare regime in its first decade originates from the attempt to apply Esping-Andersen's theory of welfare regimes to Israel, despite the fact that it does not fulfill the theory's scope conditions. Esping-Andersen's theory assumes that all three types of welfare regimes operate within a liberalized market economy. In liberalized economies, market forces commodify the labor force, exposing it to major social risks. In such circumstances, workers have an interest in creating extensive social safety nets, and they use their power resources to realize this aim. Hence, according to Esping-Andersen's theory, there is a causal link between the workers' power resources and the type of welfare regime.

However, in cases in which the economy is not fully liberalized, and state intervention mitigates the exposure of the workers to market forces, the workers may have other interests than the creation of an insurance-based social safety net. Therefore, once we no longer assume that the production regime is a historical constant, workers can affect their own welfare by shaping the production regime rather than the welfare regime.

If welfare is affected by both the production and the welfare regimes, the political economic theory of welfare has to explain the combined impact of the production and welfare regimes. Social groups or political actors now have to define their preferences regarding the combined impact of the two regimes. Esping-Andersen's theory is limited in its applicability because it makes a general assumption that the production regime is held constant in all cases. This assumption is not congruent with conditions in most non-Western European countries.

This is not the first article to address the lack of congruence between Esping-Andersen's class-based theory of welfare and Israel (Shalev 1992; Gal 1996; 2010; Doron 2003; Rosenhek 2007; Koreh 2017). For example, Gal (2010) suggests that the Israeli welfare regime during the 2000s is best described as a Mediterranean welfare state model, characterized by the dominant

role of religion, the family, and clientelism. My article contributes to the literature by presenting a detailed analysis of Esping-Andersen's scope conditions that are not fulfilled by the Israeli case. It also shows what other existing theories might offer a better explanation of the Israeli case. This analysis reaches a different conclusion regarding the political struggles that shaped Israel's socio-economic regime during the relevant period.

The article proceeds as follows. In the second section I indicate two incongruities between Esping-Andersen's scope conditions and the Israeli case. The next two sections argue that the welfare regime during the 1950s was not residual (or liberal) and not social-democratic. It was a productivist welfare regime, similar to the developmental states in East Asia. The next section discusses the mechanisms of change that led to the consolidation of the social-democratic welfare regime in the 1970s. Then, the article suggests an alternative mechanism of change based on the preferences and power of the middle class, the contribution of insurance-based social protection to labor productivity and the notion of military Keynesianism.

Esping-Andersen's Theory and its Scope Conditions

Scope conditions are defined as the "circumstances in which a theory is applicable." The scope conditions constrain the "applicability of universal propositions" (Harris 1997: 123). When building a research design, one has to make sure that the theory's scope conditions are fulfilled by all the cases tested. The research, therefore, aims at specifying the scope conditions of theoretically competing causal mechanisms. When the scope conditions are not satisfied, the aim of the research is to build an empirically grounded middle-range theory that has been made conditional via the specification of its scope (Aus 2007: 174). The researcher has to build alternative theories or find them in the literature, where the scope conditions are satisfied.

The key question posed by Esping-Anderson is “whether... the class divisions and social inequalities produced by capitalism can be undone by parliamentary democracy” (Esping-Anderson 1990: 11). The phrasing of the question assumes that inequalities are produced by capitalism through commodification, defined as the transformation of independent producers into propertyless wage earners (Esping-Anderson 1990: 35). Commodification for Esping-Anderson is a universal feature of all modern societies. However, in practice, societies differ in their intensity of commodification: advanced economies characterized by free markets are more commodified than late-developing and emerging economies. Therefore, I argue, the first scope condition of Esping-Anderson’s theory is a high level of labor force commodification and/or the existence of a liberalized economy.

The second scope condition concerns Esping-Anderson’s assumption regarding the preferences of the working class. To discuss this aspect of the theory, I draw on Korpi’s power resources theory, which is considered an extension of Esping-Anderson’s theory. According to Korpi, in contemporary capitalist democracies, “it is fruitful to view politics as an expression of a democratic class struggle between labour and capital” (Korpi 2006a: 83). Korpi also argues that the interests of the working class are represented by socialist parties, which “bring public policies closer to wage-earner interests” (Korpi 2006a: 87). As for welfare regimes, Korpi maintains that the working class has more or less homogenous interests regarding insurance-based welfare institutions, because capitalist economies tend to structure citizens into pools of people whose interests are more or less homogeneous with respect to social risks and their elimination (Korpi 2006b: 179). At the same time, employers do not have an incentive to accommodate the demands of workers for social rights and welfare (Korpi 2006b: 171). Hence, Esping-Anderson and Korpi present a class-based theory of welfare in which workers and

employers have homogenous preferences regarding welfare expansion. Therefore, they are caught in a zero-sum class struggle. As we shall see below, the assumption of homogenous preferences does not always hold because of the complementarity between the production regime and the welfare regime. In some cases, workers in certain industries would prefer an interventionist (developmental) production regime to a social-democratic welfare regime. When the assumption of homogenous preferences among workers does not hold, the applicability of Esping-Andersen's and Korpi's theory of welfare does not hold either.

Welfare Regimes in Late-Developing Countries

Unlike advanced economies, in late-developing countries, the labor force was not generally fully commodified during their developmental era. In many of these peripheral and semi-peripheral countries, the labor force was not exposed to market forces because the government intervened in the economy to accelerate the development process and channel resources to selective industries (Evans 1995; Levi-Faur 1998; Chang 1999). To achieve these objectives, governments use measures to control prices, the quantities of goods and the allocation of resources—including labor— through the tight regulation of the labor market and the financial system (Haggard, Lee, and Maxfield 1993). In addition, governments restrict and control the international flows of goods, services and capital. The by-product of these interventionist measures is a low level of labor force commodification. Hence, workers are protected from market forces by the interventionist production regime.

For this reason, scholars of welfare regimes in East Asian countries reject the applicability of Esping-Andersen's classification to these countries (Huber and Stephens 2001; Kwon 2005). Esping-Andersen takes the existence of liberalized markets as a historical constant. He explains

cross-national variations in social welfare based on the variation in de-commodification through the welfare regime. In practice, late-developing countries differ from advanced ones in their production regimes, which offer workers more social stability and protection against market forces.

Scholars of the East Asian welfare states have suggested several alternative welfare models that capture the welfare regimes in late-developing countries: the *Confucian* model (Jones 1993), the *Oikonomic* model (Jones 1990), the developmental welfare model (Kwon 2005), and the productivist model (Holliday 2000). The productivist model has become a reference point for any discussion of welfare regimes in the Global South (Holliday 2000; Gough 2001; Aspalter 2003; Choi 2012). The productivist welfare model is considered growth-oriented, in the sense that it does not assume a delineation between measures designed to promote growth and those designed to maintain equality. Rather, it subordinates “all aspects of state policy, including social policy, to economic/industrial objectives” (Holliday 2000: 709).

Researchers have identified three types of productivist welfare regimes. In Hong Kong, for example, the productivist welfare regime is facilitative. This regime type is very similar to Esping-Andersen’s liberal-residual welfare regime, except that “it espouses an overarching commitment to growth, which puts a different spin on things” (Holliday 2000: 710). In Japan, South Korea and Taiwan (until the liberalization process), the productivist regime took a developmental approach, as it extended social rights to selective social groups based on their putative economic contribution to the national interests. This approach leads to the creation of a kind of aristocracy of labor (Holliday 2000: 710). In Singapore, rather than providing social rights, the state provided benefits in terms of welfare provisions to selected social groups based on their productivity (Holliday 2000: 710).

The literature on productivist welfare regimes rejects Esping-Andersen's universalist assumption regarding the type of social risks the welfare regime is supposed to address. Social democracy is designed to address social risks and uncertainties caused by liberalized markets, primarily unemployment caused by the business cycles and technological changes. In a developmental production regime, the state limits social risks and uncertainties rather than pooling and redistributing them. The economy is protected from global competition, full employment is guaranteed by the state, and business cycles are eliminated. The state control of prices, quantities and allocation of resources makes social insurance redundant.

The productivist welfare regime is indeed minimalist, and in that sense, it shares similarities with the residual welfare regime. In both cases, the welfare regime offers a narrow and thin social safety net. However, the residual welfare regime complements a liberalized production regime. In this regime, the "public obligation to social welfare enters only where the market fails" (Esping-Andersen 1990: 43). Therefore, the state "is much less likely to be committed to full employment" (Esping-Andersen 1990: 131). In contrast, the productivist regime complements the developmental production regime, in which the state takes responsibility for development, growth, employment, training, and investment.

Classifying Israel's Welfare Regime in the 1950s

Does the productivist welfare model capture the social welfare system in Israel during the 1950s? Scholars have pointed out that Israel's welfare practices during the 1950s and the 1960s were wanting compared to the social-democratic model. Therefore, they argued that the welfare regime in the 1950s was residual. It provided means-tested aid, and assumed that social networks were a last resort for social welfare (Svirski and Bernstein 1993; Doron 2003; Maman and Rosenhek

2012; Gutwein 2017). However, the portrayal of the welfare regime in the 1950s as residual does not account for the fact that the state took responsibility for full employment, on-the-job-training, public investment and rapid development.

If the impact of the developmental production regime on social welfare is taken into account, as Holliday (2000) and Huber and Stephens (2001) suggested doing, it is no longer possible to define the regime as residual. The residual regime complements a liberal production regime (Esping-Andersen 1990: 43, 131), while the productivist welfare regime complements a developmental regime.

During the 1950s, the state—the Israeli government and the Histadrut, the national trade union—employed measures to control the labor force and the allocation of capital. Given that capital flows were restricted, the state had a monopoly on capital imports, which was a critical resource for investment. Foreign capital was allocated for selective purposes. Capital was allocated to labor-intensive industries, most of which were owned by the state or by the holding company of the trade union, Chevrat Ovdim. The government gained almost complete control over the domestic financial system and channeled domestic savings to labor-intensive industries (Shalev 1992; Levi-Faur 2001).

The developmental production regime aimed at full employment by creating new jobs, even if the jobs were not profitable from a purely economic perspective (Levi-Faur 1998). Based on the state's commitment to full employment, unemployment was reduced considerably throughout the 1950s (Shalev 1992: 199–200). The social risk of unemployment was reduced by the government's full-employment policy, rather than through unemployment insurance. Within the developmental regime, unskilled workers were “handsomely compensated by protected

markets, access to cheap credit and machinery, and a variety of other forms of state subsidy” (Shalev 1992: 206).

In contrast to my argument, Svirski and Bernstein (1993) contend that wage inequality increased during the 1950s, which indicates that the developmental regime was not as protective as I argue here. However, an examination of the data suggests that the claim about rising inequality is not robust. Svirski and Bernstein base their claim on two sources. The first is a study undertaken by the Bank of Israel, which covers 1957 to 1965 (Bank of Israel 1968). Thus, it begins just before the liberalization trends started to have an impact and does not capture that trend during the 1950s.

The second source traces the change in real wages during the first decade of the state (Baharal 1965). Baharal argues that the real wages of unskilled workers fell during the first decade. Svirski and Bernstein conclude from these findings that the welfare regime failed to achieve its purpose (Svirski and Bernstein 1993: 135). But this is not the only possible interpretation of the findings. Baharal’s (1965: 18) main conclusion is that unskilled workers' real wages fell due to the increase in the supply of workers. In non-economic language, he argues that mass immigration and the entry of workers into the labor force reduced wages. Therefore, one could argue that without the full employment policy, the wages of unskilled workers would have fallen much more.

One could also claim that even if the productivist-developmental regime was not responsible for rising inequality, the government could have implemented a social-democratic regime to reduce inequality even more. The question that arises is whether it would have been possible to implement a socio-democratic welfare regime while maintaining the developmental production regime. The research on welfare regimes in late-developing countries indicates that there is no single country that has combined a developmental production regime and a social-democratic welfare regime. All social-democratic countries—all of which are Western European

countries—have highly developed liberalized markets. Social democracy, therefore, is incompatible with developmental practices. The question is whether liberalization coupled with the expansion of insurance-based programs would have been in the interests of the workers. I will come back to this question later.

The claim that Israel during the 1950s was productivist rather than residual has broader implications. First, the complementarity between the welfare and the production regimes implies that any political analysis of the workers' preferences must take into account their positions regarding the welfare regime and the production regime. Second, the analysis implies that the expectation that the Israeli government could adopt a social-democratic welfare regime during the 1950s rests on the incorrect premise that such a welfare regime can be adopted independently of the production regime. I argue that a developmental production regime and a social-democratic welfare regime are incompatible.

Questioning Esping-Andersen's Class-Based Theory of Welfare

Now, let us consider the second scope condition concerning workers' homogenous preferences. Esping-Andersen's and Korpi's political-economic theory of welfare regimes makes a very strong assumption regarding the political dynamic that gives rise to social-democratic welfare regimes. It assumes that the two classes—workers and employers—are involved in a zero-sum conflict. Workers always seek a social-democratic-like welfare regime and employers want a minimalist residual regime.

This assumption has been challenged in recent years by a growing number of scholars. Swenson, who studied the cases of Sweden and the United States, argues that people tend to accept

the zero-sum-game approach as a “premise of faith” rather than testing it empirically. Scholars of welfare regimes, he maintains, assume that homogenous preferences within classes do not exist. Therefore, they look for other factors that could explain deviations from the predictions of Esping-Andersen’s theory (Swenson 2002: 8). Peter Hall (2016: 37) also rejects the homogenous preferences hypothesis, claiming that the preferences of workers regarding unemployment benefit programs may depend on their skills and the industries in which they work.

Two questions arise from Swenson’s and Hall’s approach. First, if workers do not seek a social-democratic welfare regime in all cases, what might be their alternative preferences? Second, if workers are not the agents that promote social democracy, what other actors might be interested in adopting a social-democratic regime?

As for the first question, if we assume that the welfare regime affects the workers’ welfare, and not all combinations of welfare and production regimes are compatible, we may conclude that workers articulate their preferences in terms of certain viable combinations of the two. Below I argue that for workers in late-developing countries the choice was between a combination of a developmental production regime coupled with a productivist welfare regime, and a liberalized market economy coupled with a social-democratic welfare regime. Hence, given that workers realize that insurance-based social welfare is coupled with labor-force liberalization, some of them would not be tempted by that choice and would opt for the developmental production regime coupled with a productionist welfare regime.

However, this choice is not available to workers in advanced liberalized economies. In such economies, workers face the reality of a movement-towards-markets (commodification), and struggle with employers regarding the intensity of the counter-movement (de-commodification). In late-developing countries labor markets were not yet commodified. Therefore, the choice was

economic modernization, which implied a double movement of commodification (liberalization) accompanied by de-commodification (welfare expansion), or a resistance to change and the preservation of the developmental, productivist regime.

I contend that workers in late-developing countries had heterogeneous preferences regarding the double movement. Highly skilled workers—the middle classes—were likely to support liberalization coupled with welfare expansion, whereas unskilled workers were more likely to resist change. The former benefited from the opportunities of the free labor markets as well as from the insurance-based social protection. Unskilled workers, on the other hand, risked being ejected from the labor force. Hence, once the policy issue of liberalization is linked to the policy issue of welfare expansion, Esping-Andersen's and Korpi's homogenous preferences hypothesis does not hold.

There are two types of economic mechanisms that explain this split in the homogenous preferences within the labor force. The first mechanism highlights the differential benefits of liberalization for high- and low-skilled workers. Trade liberalization in small economies increases the socio-economic divisions between workers in tradable goods industries, who are usually highly skilled, and workers in non-tradable goods industries, who are usually unskilled (Cardinale and Landesmann 2017; Ochsenfeld 2018). Highly skilled workers benefit from the increase in foreign demand for technology-intensive goods, while labor-intensive industries are either unaffected by the change or are affected negatively by the import of cheap goods. Formally, this mechanism is not supposed to affect workers' preferences regarding insurance-based social protection. However, as I will argue below, it is often the case that the expansion of insurance-based social protection is offered as a compensation for liberalization. If workers regard welfare expansion as compensation,

some of them might reject the choice on the grounds that their expected loss is greater than their expected gain.

The second mechanism that can explain heterogeneous preferences regarding the expansion of insurance-based social protection is based on the claim that it is biased in favor of the middle classes (Gal 1996; Matthews and Hastings 2013). The middle class has more social capital and political clout, allowing it to shift the redistributive policies in its favor. According to Gal (1996: 70), the educated middle class has more power resources than the lower classes to bend redistribution policies in their favor. In the age of the welfare state, the middle classes gain power from the fact that they fulfill managerial, professional, and administrative functions in the welfare state. In many cases, it is the middle classes rather than the political echelons that shape policies. Second, the middle class gains from the welfare class through the employment channel: the large public sector provides the middle class with lucrative, stable jobs (Gal 1996: 42). The two mechanisms complement each other: the lower classes gain less than the middle classes from liberalization and they gain less from welfare expansion. Therefore, they are likely to resist the double movement.

Once we explain why workers would not seek social democracy in all circumstances, the next question is which actors other than the working class would advocate for universal insurance-based social protection and why. There is broad agreement that insurance-based welfare practices are likely to lead to greater labor productivity and labor mobility than other forms of social protection. Therefore, insurance-based practices contribute to the increased competitiveness of the global market economy (Acemoglu and Shimer 2000; Estevez-Abe, Iversen, and Soskice 2001). The contribution of insurance-based practices to labor productivity can explain why state actors

and political actors interested in the liberalization of a small economy are also likely to advocate for the adoption of insurance-based welfare practices.

The double movement of liberalization and welfare expansion is not unique to Israel. We see evidence of it in other developmental states at different periods. In Taiwan, since the financial crisis of 1999, the “social security system has been moving forward towards a comprehensive and institutionalized system such as is present in the western welfare states” (Shin 2000: 84). Huck-Ju Kwon argues that, contrary to the European experience, the case of the Asian countries “counter[s] the neo-liberal argument that market-driven globalization renders the welfare state of marginal importance” (Kwon 2005: 1).

Hence, so far, I have explained (1) why the middle class is likely to advocate for the double movement—liberalization coupled with welfare expansion—while the lower classes are likely to oppose it; and (2) why state actors who are interested in liberalization are likely to support insurance-based welfare expansion. Based on these two claims, I propose the hypothesis that the transition from the productivist welfare regime to the social-democratic regime was driven by a policy coalition consisting of the middle class and pro-liberalization state actors.

A policy coalition is defined as a group of “people from a variety of positions (elected and agency officials, interest groups leaders, researchers, etc.) who share a particular belief system” (Sabatier 1988: 115). Together, they operate as policy entrepreneurs who promote “dynamism and change” (Mintrom and Vergari 1996: 423). For my purpose, the crucial point is that a policy coalition may include different actors who join forces to promote a specific policy project.

Another factor that Esping-Andersen’s paradigm does not address concerns the impact of military spending on social welfare. Evidence in the literature on the impact of military spending on growth, employment, and social welfare is mixed. Some argue that there is a trade-off between

guns and butter. In contrast, others suggest that extensive military spending creates positive socio-economic externalities that promote growth and the redistribution of wealth, and narrows social gaps (See Chan 1992 for a discussion). The mixed findings suggest that there are various intervening variables. Therefore, each case has to be examined separately. For example, a study of Taiwan and South Korea revealed that extensive military spending led to a “virtuous cycle of security, growth, and welfare” (Moon 1992: 138). Alex Mintz argues that the rise of military spending in Israel during the 1970s contributed to the country’s growth and served in practice as ‘military Keynesianism’ (Mintz 1985; Mintz and Ward 1989).

I will test the hypothesis that the transition from the productivist welfare model to the social democratic model was driven not by a class-based coalition, but rather by a policy coalition of actors who supported and promoted the double movement. This policy coalition consisted of liberal right-wing political parties and state agencies such as the Ministry of Finance and the Bank of Israel that were interested in liberalizing the Israeli economy. The increasingly powerful middle class supported this approach.

The Consolidation of Social Democracy: A Backlash or a Double Movement?

During the 1960s, the Israeli economy went through two seemingly contradictory processes. First, the economy was liberalized. As a response to the signing of the Treaty of Rome and the acceleration of European integration, tariffs were lowered, and the Israeli economy was exposed to foreign trade (Pardo 2013). To improve external competitiveness, the government gradually abandoned the full employment policy, and by 1965 implemented an austerity policy (the recession policy) that lasted until the outbreak of the Six-Day War (Shalev 1992: 213; Mandelkern 2016).

At the same time, the productivist welfare regime was gradually undermined, as economists and policy-makers pointed out that universal social insurance was more effective than work-relief programs. It continued in the sporadic adoption of social-democratic practices such as unemployment insurance during the austerity policy, and was completed by a comprehensive transformation of the welfare system during the late 1960s and the early 1970s (Gal 1993; Koreh 2015; Krampf 2019).

Several authors have argued that welfare expansion was a backlash to the social consequences of the liberalization process. The abandonment of the full employment policy and the implementation of an austerity policy (the recession policy) increased social disparities, poverty, and unemployment. Shalev (2007: 204) maintains that the social protests in the early 1970s threatened the survival of the Labor Party as well as the state's ability to legitimize Zionism's 'melting pot' rhetoric. The outcome, according to this argument, was that the Ma'arach (the Labor Alignment then in power) responded to demands by providing more social welfare (Gutwein 2017: 42).

The backlash hypothesis is consistent with Esping-Andersen's and Korpi's theories, as it assumes that welfare expansion was driven by the representative bodies of the working class. Shalev (1992: 219) argues that the austerity policy—the Mitun—weakened the workers but strengthened the Histadrut, the national labor union. Thus, in the short term, the Mitun was instrumental not only in producing the desired outcome of corporatism but also in recreating the preconditions for the Histadrut's very participation in corporatist intermediation between labor and the state.

However, there is evidence that undermines the backlash hypothesis. There is strong evidence that during the 1960s the lower class lost its power and the middle class gained power

(Ben-Porat 1992; Gal 1996; Bichler and Nitzan 2001). One of the indications of the empowerment of the middle class is that during the 1960s liberal right-wing parties increased their size and power, and the center-left wing parties moved to the right. Moreover, the Bank of Israel and the Ministry of Finance, two state agencies that advocated for the liberalization of the economy, became more dominant (Krampf 2010; Mandelkern 2016). As for the Histadrut, even if we assume that it maintained its power, there was no consensus within the organization as to its position regarding the reform of the welfare state. The Histadrut, as I will show below, was split about the issue of unemployment insurance, as the leaders preferred a return to full employment.

Additional evidence that undermines the backlash hypothesis is the sequence of events, which excludes direct causality between social hardship and social legislation. As Koreh (2015) shows, when unemployment peaked in 1967, there was still no consensus about the idea of social insurance. Only when the recession ended after the Six Day War was the Ministry of Finance willing to accept the passage of social insurance. Gal (1996: 111) and Krampf (2013) show that even in the first half of the 1960s, prior to the social protests and even prior to the recession policy, academics and journalists had pointed out the inadequacy of the current welfare system and the need for reform. In 1962, the Bank of Israel and the liberal right-wing parties advocated for unemployment insurance instead of work relief (Doron and Kramer 1992: 130). These facts do not refute the backlash hypothesis. However, they weaken it by demonstrating that the support for the reform of the productivist welfare regime emerged within the right-wing parties and the pro-liberalization state actors regardless of the high unemployment levels caused by the recession policy.

Moreover, the backlash hypothesis assumes that the demand of the social protesters was for an expansion of social insurance. This assumption draws on Esping-Andersen's theory, which assumes that a social-democratic regime is in the interests of workers in all historical contexts.

Swenson rejects this claim and portrays it as a premise of faith rather than an empirical hypothesis (Swenson 2002: 8). In practice, there were other ways to deal with social distress than the expansion of social welfare policies. The government could have also returned to the full employment, protectionism and work-relief programs.

Below I offer an alternative explanation for the transition from the productivist to the social-democratic welfare regime based on the notion of the double movement. I argue that the welfare expansion in Israel was not driven by a backlash against the consequences of liberalization. Rather, it complemented liberalization in two senses: first, both processes benefited the middle class and second, both processes were designed to boost Israel's competitiveness.

Social Insurance as a Means to Enhance Labor Productivity

One of the anomalies that cannot be explained by Esping-Andersen's theory is the fact that the Israeli right-wing liberal parties supported social insurance, whereas the Labor Party opposed it. Both the Liberal Party on the right and the socialist parties on the left submitted motions to enact unemployment insurance, which were dismissed by the center-left parties (Krampf 2019: 890). Moreover, the Bank of Israel and the professional economists also called for a reform of the productivist welfare model. These findings stand in stark contrast to Esping-Andersen's theory. In this section I argue that the support of the right-wing parties and that of the Bank of Israel can be explained based on the belief that insurance-based welfare arrangements contribute to labor productivity, whereas work-relief welfare measures undermine it.

Studies show that insurance-based welfare helps the country be more competitive worldwide and increases exports (Acemoglu and Shimer 2000; Estevez-Abe, Iversen, and Soskice 2001). According to this logic, when policymakers became concerned about Israel's limited

productivity and inability to compete in liberalized trading situations (Pardo 2013; Mandelkern 2016), they advocated for abandoning the full employment policy and the work-relief programs. An insurance-based social protection was more consistent with the liberalized labor market.

The starkest support for this claim is found in Yosef Almogi's—the Minister of Labor—justification for the social-insurance reform. Almogi replaced Yigal Alon as Labor Minister in 1969, and was one of the keen supporters of social insurance. Almogi explained that one of the goals of social insurance is to improve the mobility of workers. “If a worker knows that in addition to employment that the government provides, there is a fund that all workers contribute to, that will reduce the fear [of residual and high unemployment] and increase mobility” (Economic Committee 1969). Social insurance, he argued, reduces “hidden unemployment” that “hampers our development and hampers the optimal production of our only resource: manpower.” It will enable “those who are expected to be laid off to enter a new profession and a new job and will bring benefit to all sides.” In contrast to occupational welfare, social insurance enables the state to create “productive jobs” (Economic Committee 1971).

The Ministry of Labor was one of the forces that prevented the enactment of unemployment insurance in 1967. Therefore, Almogi's becoming the head of the ministry was a critical event in the sequence that led to the enactment of social insurance in 1972. The ministry joined the broader policy coalition that consolidated and expanded during the 1960s. This policy coalition included the liberal right-wing parties, who supported liberalization and an insurance-based welfare system as early as the 1950s, the right-wing faction of the Ma'arach, the state agencies—the Ministry of Finance and the Bank of Israel (Koreh 2015; Krampf 2019), and the middle classes (Gal 1996; 1993).

The Middle Class as a Driver of Welfare Expansion

Another mechanism that explains the double movement of liberalization and welfare expansion highlights the role of the middle class. During the 1960s, the middle class grew in terms of numbers: the percentage of employees in scientific and technical professions and managerial positions grew from 25.3 percent in 1960 to 33.7 percent in 1971, and the percentage of employees in agriculture, construction, and manufacturing declined from 48.2 to 41.0 percent (CBS 1972: Table XII: 317). This structural change in Israeli society led to the strengthening of the liberal right-wing parties.

The expansion and strengthening of the middle class during the 1960s weakens the backlash hypothesis. The claim that the expansion of welfare was driven by the lower classes and unskilled workers is inconsistent with the fact that they had less power than during the 1950s. There are several indications that the middle class was the key beneficiary of the double movement that took place during the 1950s. First, the middle class benefited from the liberalization of the labor force, which allowed highly skilled workers to increase the social gaps between them and the lower classes in terms of wages and status (Ben-Porat 1992). The abandonment of full employment had a differential impact on the labor force, as the differences in wages between highly skilled and unskilled workers increased (Krampf 2019: 892, Figure 1). Gal (1996: 144) points out that between 1958 and 1966, the professional struggles of the highly skilled workers were successful and led to wage increases, whereas those of the blue-collar workers failed. The austerity policy also harmed all workers (Gutwein 2017: 51). However, the impact of austerity on the unskilled workers was much stronger than on the highly skilled workers (Krampf 2019: 892 Table 1).

At the same time, the middle class benefited disproportionately from the emerging welfare system. Gal (1996; 1998) shows that that the middle class was a key driver of welfare expansion in Israel. The expansion of the public sector—associated with the welfare state—provided lucrative, well-paid, stable occupations for the skilled and educated middle classes (Gal 1996, 196). Gal reports that except for an improvement in the conditions of the lower classes in the first half of the 1970s, the beneficiaries of welfare expansion in Israel were the middle classes.

Therefore, based on Gal's analysis of the transition to social democracy and Krampf's analysis of the differential impact of the austerity policy, I conclude that the middle class was among the winners of the double movement that took place in the 1960s and early 1970s. It benefited from liberalization and from the expansion of the welfare state. Given the shift of the political system to the right, we may also conclude that the middle class was also one of the drivers of change.

There is evidence that the middle class benefited more than the lower classes from the double movement of liberalization and welfare expansion. However, what were the actual workers' preferences regarding this change? Identifying workers' preferences is a difficult task. The literature on the enactment of the unemployment insurance law does not provide direct evidence regarding the preferences of the workers. Krampf (2019), however, presents indirect evidence that the unskilled workers preferred a return to the full-employment policy rather than unemployment insurance. In a discussion in the Histadrut Committee on Unemployment Insurance from April 1967, Berl Reptor, the head of the Histadrut Employment Office, informed the committee that according to a survey conducted by the Histadrut, the workers did not want insurance against unemployment but, rather, jobs: "The public says, 'I want a job, and if there are

no jobs, I want relief work – not charity”” (Histadrut 1967: 3). Reptor expressed his concerns that unemployment insurance would push unskilled workers out of the labor force.

The discussion in the Committee on Unemployment Insurance is not sufficient to claim that the lower class wanted full employment rather than social insurance. However, it is sufficient to cast doubt on the assumption that the lower class had a preference for social insurance. The question regarding the actual preferences of the lower class requires additional research.

Warfare and Welfare

The Six-Day War was a critical juncture that fundamentally transformed the Israeli political economy (Shalev 1998). In this section I argue that the consequences of the war—occupation, the expansion of public spending and minimization—appeased the social divisions in the Jewish sectors of Israeli society, and led to a growth model that did not require considerable sacrifice from any Jewish social group. In that sense, the war created conditions that stabilized the production and welfare regime during the 1970s.

First, the war terminated the austerity policy enacted in 1965. After the war, public spending and investment rose very rapidly. Public spending surged from less than 30 percent of the annual GDP in 1965 to 70 percent in 1976. The number of employees in the public sector increased from 23 percent in 1966 to 30 percent in 1980, not including the military sector (CBS 1982). Some authors argue that the austerity policy ended prior to the war (Navon 2016). However, this claim incorrectly assumes that the government’s decision to provide unemployment benefits in 1966 was an indication of the abandonment of the austerity policy, whereas, in practice, it was part of it.

The war had a long-term impact on Israel's growth model. It deeply transformed the geopolitical and economic conditions and, therefore, the state's preferences. After the war, Israel's international position changed radically. It started to receive economic and military financial assistance from the U.S. (Bar-Siman-Tov 1998), which enabled it to finance a practically unlimited level of current account deficit. During the 1970s, the annual average direct financial assistance reached 10 percent of GDP (calculated from Sharp 2015). Hence, the foreign financial assistance had a major impact on Israel's growth model, because within the new international situation, Israel had a means to finance its trade deficit. Policy makers did not have to worry about external competitiveness, and the need to suppress wages—as was done in the austerity policy during 1965 and 1966—disappeared.

Another long-term impact of the war was the expansion of military spending. Military spending tripled between 1965 and 1975 from less than 10 percent of the annual GDP to more than 30 percent (CBS 1982). According to Mintz and Ward, the government also used military spending for socio-economic purposes such as maintaining high levels of corporate profits and employment. They conclude that, “even in highly security-conscious societies like Israel, the government is able to use military spending at the margins to influence the prevailing macroeconomic conditions” (Mintz and Ward 1989: 530). Mintz and Ward call this economic regime military Keynesianism.

Svirski argues that the Israeli ‘imperial project’ prompted growth and employment, but also led to biased growth and a distorted socio-economic structure. The beneficiaries of military Keynesianism, he argues, were the highly skilled workers in the technology-intensive sectors. The other sectors were neglected, but were compensated by the relatively generous welfare system. The government, he claims, provided “welfare instead of wages” (Svirski 2005: 103). In most countries, he contends, “the purpose of the social safety net is to complement the wage system, not

to replace it. In Israel, the safety net assisted in softening the blow that the proletariat absorbed when it was pushed to the margin [of the labor force]—mainly the Mizrahi proletariat in the development towns” (Svirski 2005: 103).

However, the lower classes and unskilled workers were also compensated by the entry of Palestinian workers. Economic theory shows that “low-skilled immigrants increase the wages of high-skilled workers by increasing their productivity” (Razin 2018). When the low-skilled workers are not citizens, their marginalized position can lead to an increase in the wages of the low-skilled workers. According to Lewin-Epstein and Semyonov (1987; 1986), this is what happened after the war. The entry of non-citizen Arab workers into the Israeli labor force led to the “upgrading of the occupational structure.” As a result, “endogenous ethnic groups, both Jews and Arabs, entered higher-status occupations and vacated ones in which the growth of non-citizens Arabs took place” (Lewin-Epstein and Semyonov 1986: 350). Obviously, the upgrading shifted the whole occupational structure upward, and therefore the middle classes also benefited from it.

Military Keynesianism was not a factor that contributed to the transition from the productivist to the social-democratic regime. However, it most likely had positive social spillovers, and any discussion of the heyday of the Israel welfare state must also account for these spillovers. Military Keynesianism helped reduce unemployment and the volatility of unemployment. Therefore, it lessened the burden on the welfare system. Moreover, the financial assistance from the U.S. provided financial resources to support a more generous welfare state.

Discussion and Conclusion

This article offered an explanation for the long-lasting debate regarding the character of the Israeli welfare regime during the 1950s and the factors that led to the consolidation of the social-

democratic welfare regime during the 1970s. I argued that the debate did not emerge from a factual disagreement but from the attempt to use a Euro-centric theory of welfare—Esping-Andersen’s theory and Korpi’s power resources theory—to explain the case of a late-developing country. The welfare regime during the 1950s, I maintained, cannot be portrayed based on Esping-Andersen’s three worlds of welfare regimes. It was not a social-democratic or residual (liberal) one. Rather, it is best described as a productivist welfare regime, common in late-developing countries that employed developmental practices to promote growth.

This article also addressed a puzzle regarding the formation of Israel’s social-democratic welfare regime during the 1970s. There are strong indications that during the 1960s Israel’s political parties moved toward the right and that the middle class became more dominant than earlier. Hence, the consolidation of the social democratic regime cannot be explained based on the power resources of the lower classes, as the power resources theory predicts. In contrast, I used theories that explain why a policy coalition consisted of the middle class and pro-liberalization state actors would have an interest in promoting a shift from the productivist welfare regime to the social democratic regime, and how it was able to realize this change.

Finally, more broadly, the article demonstrates why it is important to go beyond comparativism when we seek to understand the political economy of non-Western and non-European countries. It is essential to examine whether the scope conditions of conventional theories—often tacit scope conditions—are fulfilled, and what types of amendments are needed to fix the theory.

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