Political Power Shifts in Israel, 1977 and 1992: Unsuccessful Electoral Economics or Long Range Realignment?

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ABSTRACT: During the past decade, several researchers have convincingly argued that, as a developed democracy, Israel exhibits a fairly clear pattern of electoral economic cycles. The present article questions some of the fundamental assumptions and "political anthropology" underlying this approach. Specifically, it points to the crucial impact of long-term economic restructuring and power realignment on the nature and outcome of electoral politics. The significance of these processes has become apparent mainly since the 1970s, with the transition from a growing economy dominated by a social-democratic government to a stagnating market dominated by large business groups. In the latter context, when there emerges a "consensus of discontent" among the key business and labor coalitions, the government is dethroned.

Due to limitations in available data, this study must be regarded as preliminary. Its hypothesis is tested against the two major electoral shifts, in 1977 and 1992. An alternative political-economic approach to the development of Israeli society, opposed to current political and economic paradigms, is presented.

1. *Introduction*

THERE IS A CONSIDERABLE ACADEMIC LITERATURE dealing with Israeli politics. This literature can be divided roughly into two trends. One is more "structural," emphasizing political structure and institutions, as well as the patterns created and transformed since the time of the British Mandate over Palestine. In this view, the old dominant political center was undermined and eventually replaced by a "competitive system" in which shifts of voters and parties along the "ideological axis" determine the outcome of elections and the formation of coalition governments (Horowitz and Lissak, 1989; Shapiro, 1980). The second approach is more "behavioral," stressing the electoral characteristics of voters. The focus is on demographic, ethnic and cultural changes and the way in which political parties are able to adapt themselves to the voter's will (Diskin, 1984; 1985).

These approaches are founded on a paradigm that has developed in the Israeli social sciences since the 1950s.[1] This paradigm may be summed up in two postulates: A) The "primordial sin" of Israeli politics is rooted in the authoritarian "socialist" or "statist" political culture of the East-European "founding fathers," who created a rigid "political center" and a "dominant party," seized control of the economy and diminished private enterprise. In this way, a statist economy developed, consisting of heavy government intervention in key industries, and in capital and labor markets. This process was further enhanced by the Israeli-Arab conflict.

B) Israeli society is a "*sui generis*" case; the historical determinants common to other developed societies do not apply to its historical experience. It is a classless society that never experienced a ruling class and did not pass through capitalist development.[2] The social-class perspective is therefore neglected in academic political analysis, which instead sees the political system as autonomous and contingent mainly on electoral choice and party alignment. In this context, the prevailing notion is that the current "democratization" of Israeli society, especially the growing "competitiveness" of the party system, strengthens the sovereignty of the voters and their capacity to influence politics. On the other hand, the economy is undergoing a process of "liberalization," "emancipation" from government control. Thus, the government's power to influence elections declines, while the impact of civic society grows.

The purpose of this study is not to confront these traditional approaches directly, but rather to suggest an alternative, broader

1 The essentials of this paradigm are to be found in manuals of Israeli political sociology and economics, *e.g.*, Eisenstadt, 1967; Lissak, 1978; Ben-Porath, 1986. For a critique see Ram, 1993; 1994.

2 Only two studies to date have been devoted to examination of electoral behavior from a class-consciousness perspective; both dealt with the reality of the late 1960s (Zloczower, 1968; Yatziv, 1979). These works predicted the decline of the Labour movement; they did not, however, analyze the objective development of the power relation between capital and labor. These studies challenged the predominantly American functionalist theories and the "end of ideology" concept that prevailed in the Israeli social sciences.

analytical perspective. The argument is developed along two main lines. First, I focus on "electoral economic cycles" – a subject that combines economic and political processes. This direction is taken in order to break out from this narrow niche toward a more comprehensive concept of Israel's political economy. Second, rather than stressing macroeconomic indicators or the behavior of the sovereign voter, I concentrate on the changes occurring within the dominant groups controlling politics and the economy. Without blurring the complex nature of these issues, I hope to offer an alternative analysis emphasizing the political-economic aspects that have generally been ignored in most discussions of the subject.

2. *Electoral Economic Cycles*

In 1975, Ben-Porath published a short article in *Kyklos*, claiming that, using simple macroeconomic indicators – particularly changes in private consumption per capita – one could identify in Israel what he called a political business cycle. "Presumably," he wrote (Ben-Porath, 1975, 400), "if this cyclical behavior is induced by a desire to generate a feeling of well-being before elections, then private consumption is an indicator of what the politicians are indeed trying to affect." This alleged link between elections and government-induced macroeconomic fluctuations was endorsed by subsequent writers. Levi (1984), for example, pointed to cyclical patterns in real GNP per capita, employment and the real wage as indicators for such policy; Doron and Tamir (1983) focused on public spending as a policy tool to generate a feeling of well-being among voters; Ben-Hanan and Temkin (1986) emphasized exchange-rate policy and the government's impact on the real prices of subsidized commodities as a means of achieving similar ends.

Several fundamental assumptions seem to characterize much of the literature on electoral economic cycles. First, most of these studies adopt the hedonic-rational framework, wherein a government that endeavors to maximize its votes and spoils (Doron and Tamir, 1983, 142) stands against voters who seek to maximize their consumption of private and public goods. The common presumption is that, because voters are short-term optimizers, they tend to suffer from amnesia and myopia, and thus become susceptible to electoral economic policy (Alt and Chrystal, 1983, 104). In the industrial developed democracies, where the underlying parameters of scarcity and demand are relatively stable, this setting usually creates a permanent cyclical pattern of government-induced expansions and contractions (Frey and Schneider, 1981).

A second tenet of this literature is the fairly rigid separation between "economics" and "politics." The economy is seen as a self-contained organism and government as an external force, generally regarded as the main cause of economic distortion. Finally, most observers in this area, both in Israel and elsewhere, tend to concentrate their attention on aggregate economic indicators. This preoccupation with overall macroeconomic performance pervades the descriptive and analytical literature alike (see for instance, the "reaction function" of Frey and Schneider, 1978).

Unfortunately, these basic perceptions are potentially misleading in a number of different ways. First, while the focus on short-term goals may be useful in explaining the re-election of a ruling party, it is not very revealing when we deal with dramatic electoral shifts, such as the ones occurring during the 1977 and 1992 elections in Israel. This inherent limitation is acknowledged by Ben-Hanan and Temkin (1986), who found a progressive shortening of pre-election economic upswings and wondered whether the 1977 elections marked the "end of the electoral economic cycle in Israel" (23). Although their answer was negative, they also argued that there was most likely a broader transformation underlying the electoral economic cycle, which gradually altered the political rules of the game. Long-term economic and political changes slowly undermined the dominant-party system, leading to a more intense multi-party competition and a forced shortening of electoral economic cycles.

The second shortcoming of the electoral economic cycle approach lies in its formalistic treatment of power. The emphasis is almost entirely focused on the relationship between the "voter" and the "government." Elections are primarily a competition over the rational votes of sovereign political consumers; since elections are seen as the ultimate essence of politics, it seems only natural to concentrate on the individual voter as the most basic unit or even the building block of political research. In a way, this disregard of effective power relations resembles the choice of many neoclassical economists who, in a world of giant oligopolies, remain preoccupied with individual rational consumers. A similar problem arises when, in the larger context of economic coalitions, one continues to view the government as the ultimate center of power. In Israel, this view endows the government with an immense ability to intervene and distort economic performance. The "socialist" tradition, it is often argued, generated a bureaucratic-collectivist political culture (Eisenstadt, 1967), which instituted the supremacy of the political orientation over the business orientation (Shapiro, 1977) and thus propagated the domination of politics over economic affairs (Arian, 1985, ch. 3). Electoral economics is then taken as evidence for the "demonic" power of the Israeli government, which works to harm economic performance and undermine its democratic basis (*e.g.*, Aharoni, 1991, 127–31). Unfortunately, this view may not be very adequate for the Israeli case, at least not since the 1970s.

As I see it, the neoclassical notion of market-like interaction between autonomous voters and omnipotent politicians serves to divert attention from a different, and perhaps far more important, relationship. The crucial political "determinant" may not be the preferences of political consumers, but rather the underlying structure of political-economic power. From this perspective, electoral politics is only part of a wider struggle ranging among the main power groups within the economy. According to Ferguson (1983, 6), there is an increasing need for research along these latter lines. In his view, "it is high time to begin developing a different approach – a fresh account of political systems in which business elites, not voters, play the leading part; an account that treats mass party structures and voting behavior as dependent variables" to be examined "in a context of class conflict and change within the business community."

Challenging Down's emphasis on individual utility and Olson's on group benefit, Ferguson suggests an "investment theory of political parties," an alternative approach that analyses changes in political hegemony as part of a more fundamental transformation in the structure of economic power. The central issue is not how politicians interact with voters, but the changing role of government in the wider context of power coalitions. Instead of focusing on the way in which political parties sway the masses, we should look for those long-term economic processes that transform the structure of political power and alter the relative position of government within that structure.

This leads us to the third weakness of the electoral economic cycle approach: its exclusive reliance on macroeconomic indicators. The difficulty with aggregate or average variables such as private consumption, government spending, taxes or subsidies is that they do not tell us much about the underlying processes of restructuring. For example, a rise in real private consumption per capita may serve to conceal a redistribution of income that makes one part of the population better off by worsening the living standard of the other part. Similarly, an increase in government spending may be the outcome of a decline in orders from one group of firms, coupled with a larger increase in procurement from the remaining contractors.[3]

Disaggregated indicators in fact are necessary if we are to gain a better understanding of long-term structural processes. In order to grasp the realignment of political power, we must start by looking into matters such as the distribution of income and wealth, the allocation of public spending, the relative burden of taxes, and the differential flow of government subsidies. The nature of these structural changes may then help explain major shifts in the ideologies, creeds, and sentiments of the ruling elites, whose general "mood" trickles down through the various mass media and gets assimilated by the voting population (Ferguson, 1983, 20–30). At the same time, one should not ignore all aggregate indicators, particularly those related to the labor market. Indeed, the very ability of the government to affect real wages and overall employment is, to a large extent, an indicator of its legitimacy and support among the key economic power groups. Given the crucial impact of these sentiments on voting behavior, our task then is to explain their structural origin.[4] To do that, we will first explore those long-term political-economic processes which, since the early 1970s, have altered the

3 The potential significance of such conflicting developments is emphasized in Bichler and Nitzan (1994).

4 It is of course true that no rigorous proof that meets the canons of a "dynamic" explanation of a link between desires of the elites and voter decisions has ever been provided by "elitist" theorists such as Ferguson, Domhoff (1979) or Abraham (1981). Nevertheless, the growing number of "structural" studies showing domination of the media by business elites are highly suggestive of the possiblity that such elites can exert significant impact on voting decisions. A short survey on the recent "elitist" studies will be found in Domhoff, 1990, ch. 1.

dominant ideologies and policies in the western countries, and then examine the relevance of such changes for the Israeli case.

3. *From Political Business Cycles to Political Trend*

The term "political business cycle" was first coined by Michal Kalecki, in his 1943 article on the "Political Aspects of Full Employment." Explaining the role of democratic government in advanced capitalist economies, Kalecki observed a fundamental transformation from the prewar period. Contrary to the early experience, when the emphasis was on the particular needs of business, the Great Depression convinced many governments of the need to actively regulate the overall level of economic activity. The main difficulty in achieving this goal arose from the objection of big business. While business leaders may agree to the use of expansionary policy as a means of preserving the legitimation of the regime, they strongly oppose any government attempt to maintain full employment. Kalecki pointed out that, although higher employment may lead to higher profits, a commitment to full employment serves to undermine a far more important credo: the ideological hegemony of business enterprise. The crux of the matter, which big business leaders know all too well, is that their own dominance can be sustained only in the absence of any alternative method for efficient economic organization:

> "Discipline in the factories" and "political stability" are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the normal capitalist system. (Kalecki, 1971, 141.)

As it turns out, then, governments in the postwar era were far from being autonomous. Caught between their conflicting needs to maintain political legitimacy and for capital accumulation, these governments were inevitably driven toward a political business cycle:

> . . . in the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large-scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subse-

quent boom a strong opposition of "business leaders" is likely to be encountered. As has already been argued, lasting full employment is not at all to their liking. The workers would "get out of hand" and the "captains of industry" would be anxious to "teach them a lesson". . . . The pressure of all these forces, and in particular of big business would most probably induce the Government to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which Government spending policy would come again into its own. (*Ibid.*, 144.)

Kalecki's theory of a political business cycle was adequate during the relatively prosperous period of the 1950s and 1960s when, in the context of overall growth, governments throughout the developed West tended to follow a counter-cyclical stabilization policy. Since the early 1970s, however, there seems to have been a profound change in direction. Writing some 35 years after his friend Kalecki, Josef Steindl observed that

. . . in the course of the 1970s we entered a new era, dominated by the conviction that in the future the long-term rate of growth is going to be much lower – or that it should be lower or *must* be lower – a belief which in the nature of things carries a great deal of self-fulfillment within it. (Steindl, 1979, 1, emphasis in the original.)

While this "end of prosperity" was affected by a combination of factors, it was mainly the result of two related developments: the increasing internationalization of the advanced capitalist economies and the growing concentration of large-scale business enterprise. Together, these fundamental changes augmented the power of the large multinational corporations and weakened the relative efficacy of domestic government policies. With their progressive loss of vitality, government became decreasingly committed to stabilization and welfare policies. The growing power of large corporations was accompanied by a consistent decline in their relative share of tax payments. Labor was now burdened by an increasing share of the tax bill, combined with a continuous deterioration of public services.[5] In Steindl's words:

. . . the business opposition to full employment policies, which Kalecki had so vividly described in his analysis of the "political business cycle,"

5 The literature dealing with these trends is summarized in Foster, 1984, 140–46.

gathered more and more strength toward the end of the growth period. It seems to have now, however, a more persistent and lasting character than in Kalecki's political cycle, so that we might rather speak of a "political trend." (Steindl, 1979, 8.)

By this "political trend," Steindl refers to the gradual abandonment of stabilization goals in favor of stagnation, or at best a "stunted growth" policy, limited social spending and persistently high levels of unemployment. In other words, during the 1970s the old postwar order of political business cycles gave way to a new regime. Instead of active fiscal policy and an ideology that placed government as a central actor, monetarism and the "free marketeers" called for an end to government intervention. The notion of an "overloaded government" was accompanied by a resurgence of free-market ideologies demanding abolition of the welfare state and acceptance of a "natural" rate of unemployment.[6] A somewhat similar political-economic transition was also evident in Israel. In my view, it was this structural transformation which destabilized the electoral scene and led to the dramatic electoral shifts of 1977 and 1992.

4. *The Restructuring of Israel's Political Economy*

At risk of some oversimplification, Israeli history may be characterized as a transformation from a growing economy dominated by a social democratic government, to a stagnating economy dominated by business elites. During the 20-year period between 1952 and 1972, Israel enjoyed a rapid average growth rate of nine percent per annum. Much of this growth was induced by a substantial inflow of cheap capital, due mainly to unilateral transfers of reparations from Germany and from Jewish fundraising organizations. The bulk of this capital inflow was channelled through the government, enabling it to control the pace and nature of gross investment and capital formation. This, together with the expansion of government spending, particularly military expenditures associated with the Israeli-Arab conflict, made the Israeli government the country's pivotal economic power. In the Israeli political literature, this re-

6 On the doctrine of "overloaded government," see Huntington, 1975. For a critique of that doctrine, see Crouch, 1979, 14–16.

gime has often been characterized as a "dominant party system" (Arian and Barnes, 1974), a "party state," "corporatism" – or simply the "Mapai system." This latter term denoted much more than the electoral superiority of the Mapai (Labour) Party. More broadly, it reflected the cohesiveness, self-confidence and spiritual hegemony of the ruling elites.

At the time, the Israeli elites promoted social-democratic ideologies that had prevailed in Eastern Europe at the turn of the century, but the concrete historical context in which they operated involved a combination of a postwar welfare state and a managed war economy of "military Keynesianism." This modern institutional context of government intervention has slowly altered the structure of the Israeli economy. The growth of public spending and the expansion of the private sector were accompanied by a significant redistribution of income and concentration of wealth. Following the financial mergers of the 1950s and the industrial mergers of the 1960s, there emerged in Israel a "big economy" of corporate conglomerates and large firms, increasingly linked together through complex ownership ties, reciprocal business dealings and mutual relationships with the government.[7] The heavy recession in the mid-1960s intensified the concentration process and enabled the emerging core group to diversify its holdings and increase the integration of its component parts.

Since the 1967 war, the recession was replaced by economic boom. The Israeli market suddenly expanded to include one million new consumers from the occupied territories. Moreover, the postwar years, roughly until 1973, saw a very rapid increase in the number of Palestinian employees working in Israel (about 70,000), and a consequent increase in purchasing power. This resulted in the further development of the corporate core, which by the early 1970s already dominated all of the country's key industries and much of its financial sector.[8]

To a large extent, the process of corporate concentration was accelerated by the pattern of capital allocation itself. In its selec-

7 There is no space in this study for a full description of the development of the Israeli power elite. A more detailed account of its origins and development can be found in Frenkel and Bichler (1984). It is important to note that this subject has not yet been systematically studied by Israeli social scientists.

8 The literature on core firms in the modern economy is examined and summarized in Bowring, 1986. The Israeli core corporations are described in Rowley, *et al.*, 1988.

tive channeling of capital inflows, the government acted to promote certain business groups that were considered conducive to employment growth and long-term economic independence. These preferences created an intricate system of mutual interrelationships among the political, business and military elites (Aharoni, 1976, ch. 7), which eventually manifested themselves in a new, more polarized pattern of income distribution. The backlash against this latter development was increased labor militancy; this culminated in a "wage explosion" and, since the late 1960s, began to undermine the "Mapai system." With the unions' support no longer guaranteed, the government shifted toward a business orientation in an attempt to break the autonomy of organized labour (Shalev, 1992, ch. 5). The decline of the unions and the public sector was further accelerated by the rapid integration of Palestinian workers into the Israeli economy after 1967.

Thus, business restructuring was accompanied by a parallel segmentation in the labor market. The first to analyze this segmentation was Farjoun (1980), who described the growing dichotomy between the "primary" and "secondary" labor markets. With the 1967 occupation of the West Bank and Gaza Strip, and the concurrent militarization of the Israeli "big economy," writes Farjoun, ". . . came a growing need for a cheap mobile labor force, with no social rights, a free labor force in the classical meaning of the term" (115). This was achieved by the proletarianization of the Palestinian population, which was rapidly becoming the main labor pool for a growing number of "small economy" sectors, such as agriculture, construction, services and low-technology civilian manufacturing. The other side of this process was that the "big economy," particularly its financial and military branches, came to rely solely on a Jewish, unionized labor force, with relatively extensive social security and wage rates twice as high as those earned by the Palestinians (*ibid.*). This injection of cheap labor boosted the "small economy" and promoted the ideology of free enterprise against the world-view of Keynesian intervention.

The early 1970s were marked by the oil crises and the 1973 war, but these events merely served to conceal the dawn of a new historical phase. Since the early 1970s, the political economy of Israel has been characterized by two principal developments: 1) the progressive consolidation of the dominant core corporations accompanied by the ongoing weakening of the government and the decline of the public sector; and 2) growing dependency on the United States and increasing subjugation of Israeli culture to the "American capitalist ethos."

The first of these developments is associated primarily with the evolution of the military and financial sectors in Israel (Bichler, 1991). Indeed, much of the early emergence and subsequent consolidation of the large core corporations was due to the expansion of military spending and the closely related increase in inflation.[9] This process of concentration simultaneously reduced both excess capacity and competition, which in turn helped to maintain and even increase profit margins on lower volumes. On the other hand, the decline in the industrial "offset to savings" diverted funds to the stock and bond markets, causing a rapid speculative increase in the volume of financial assets.[10] With the prices of these assets rising even faster than the prices of goods and services, the ratio of stock market capitalization to GNP rose from less than eight percent in 1973 to 99% in 1982.[11] The process of corporate concentration and income redistribution slowly diminished the government's economic power. During the earlier phase, the government assumed a leading role in agricultural planning, industrial policy, research and development, residential construction and civilian public services. With the rise of the "big economy," however, it gradually retreated, initially into a position of a mere catalyst for venture capital and, eventually, into the role of a virtually passive financier. The 1977 rise of the Likud party, with its nationalist-military orientation and ardent opposition to economic planning, seems consistent with these tendencies.

The second characteristic of the new, post-1970 phase arose when, following the end of the Vietnam war, the Middle East became the focus of attention for leading business interests in the United States, particularly those associated with petroleum and

9 The relationship between inflation and the distribution of income and assets in Israel is examined in Alexander, 1978.

10 Particularly affected were the assets of the core conglomerates: according to the report of the commission of inquiry dealing with the 1983 collapse of the stock market (Bejski, *et al.*, 1986, 61), shares of the three largest banks, which accounted for 7% of the aggregate value of all financial assets in 1973, rose to 44% of that total by 1982.

11 Data on stock market capitalization are from the Bank of Israel (1974, 445; 1983, 282). The GNP figures are from the Central Bureau of Statistics, *National Accounts 1972–1985*, 166.

arms. During the 1970s and 1980s, the Israeli government became increasingly dependent on civilian, but mainly military, assistance from the United States. This support served not only to keep Israel at the forefront of U. S. strategic interests in the region, but also to provide much needed contracts for the large U. S.-based corporations, which since Reagan were increasingly dependent on arms-related production (Rowley, *et al.*, 1989).

The growing dependence on the United States, together with the drastic restructuring of the Israeli economy, have altered not only the economic role of the Israeli government but also the country's dominant ideologies. Much as Steindl (1979) described, the leading business groups in Israel and the United States began to demand that the Israeli government adopt a deliberate stagnation policy. The combination of stagflation, declining investment, growing domestic and foreign debts, expanding military budgets and restricted welfare services, which first appeared in the early 1970s, became since the mid-1980s the accepted – and to some extent even desirable – order. Under the combined pressure of the large Israeli corporations and the U. S. administration, Israeli governments – both those led by Likud and those run by a "national-unity government" of Likud and Labour – embarked on a systematic drive to cut wages, revert to regressive taxation, reduce civilian government spending, and abandon the capital market in favor of the large conglomerates. Particularly illuminating are the recent trends toward deregulation and privatization. For example, in relaxing the investment rules for pension funds, the government has revoked its commitment to workers' pensions in order to allow the large conglomerates that manage those funds to use them as a source of financial leverage. At the same time, all recent governments appear determined to maintain very high rates of interest in order to support the large banks. These banks almost collapsed in 1983 under the burden of their own speculation, and their ongoing bailout worked to undermine the very survival of many industrial and agricultural concerns. Finally, despite the backdrop of deteriorating public services and alarming increases in poverty,[12] governments during the 1980s continued to subsidize doubtful ventures in military technology (Bichler, 1991; Halperin, 1987),

12 See for example National Insurance Institute, *Annual Survey*, mainly the years 1987–91.

poured resources into the occupied territories, and started (partly under pressure from the U. S. administration) to privatize their extensive holdings.

How did this broad transformation from the early era of economic growth and dominant social-democratic government to the subsequent regime of stagnation and dominant business elites affect the course of electoral politics? What was its impact on the pattern of election outcomes? How can it explain the sharp electoral reversals of 1977 and 1992? We now turn to these questions.

5. *Political Power Shifts: When Do They Occur?*

The long-term growth of the 1950s and 1960s ensured the dominance of the Labour Party. With cheap capital inflows, rising civilian (and, since the mid-1960s, military) spending, subsidized housing and an interventionist industrial policy, the cultural and political hegemony of the Mapai government went practically unchallenged. In this context, "stop and go" electoral economics was a feasible and effective policy; it was accepted by the various elites and helped secure their continuous dominance.

All of this started to change in the early 1970s, with the precarious combination of stagnation and restructuring. On the one hand, the polarization of income and growing unemployment tended to alienate the large unions while, on the other, the fiscal crisis of the government and the ensuing stagnation made it increasingly difficult to sustain the increases in profits that the large conglomerates had come to expect. Under these antagonistic conditions, the labor and business coalitions began to lose some of their self-confidence and question their commitment to existing institutional arrangements. Different groups pulled in different directions, which made the government's political "juggling" ever more delicate and the electoral outcome increasingly uncertain. However, when these negative sentiments happened to coincide – that is, when there emerged a "disappointment consensus" among both the key labor unions and business elites – the government lost power. I believe that this is what happened when the Likud first came to power in 1977, and then, later, when it was defeated by Labour in 1992.

This hypothesis is not easy to substantiate with available Israeli data. Ideally, we would need to relate the temporal course of electoral politics to key disaggregated variables that reflect the relative positions and "moods" of the various elites; unfortunately, such data rarely exist. For instance, the relative position of the large conglomerates is greatly affected by changes in their institutional arrangements with the government; but how can these arrangements be assessed when even their most rudimentary aspects – such as the size distribution of taxes, subsidies or government contracts – are not publicly known? Also, unlike in many other developed countries, Israel's Central Bureau of Statistics does not estimate the national accounts from the income side. As a result, we have no official statistics on the size distribution of profit, and even the overall magnitude of business income is estimated only indirectly. Similarly, if we are to observe shifts in the labor arena, we need information on net (as opposed to pre-tax) wages, as well as on the distribution of labor income; again, unfortunately, these data do not exist in Israel.[13]

In spite of these difficulties we may identify three important similarities between the 1977 defeat of the Labour government and the 1992 fall of Likud.

First, in both cases the pre-election years show a marked deterioration in the profit position of the "big economy."[14] Prior to the 1970s, when the economy was still dominated by a Keynesian government, the large corporate groups were only at their formative stage and their profits were still relatively low. From the early 1970s onward, however, these large firms started to emerge as a leading economic power and their net profits began to grow rapidly, in both absolute terms and as a share of total business income. This rapid growth ended in the mid-1980s and then reverted to a decline, which continued into the early 1990s (see Rowley, *et al.*, 1988). From 1974 to 1976, profits of the large holding groups declined by approximately nine percent annually. This period saw a cessation of GNP growth for the first time since 1966. Between 1984 and 1991 there was a persistent decline in profits of the "big economy," especially in the years 1990–91. These last years were ex-

13 For a critical review of economic data in Israel, see Bichler, 1991, ch. 4.

14 The profits of the Big Economy combine the net profits of Israel's five largest conglomerates: Leumi group, Hapoalim group, IDB, Koor, and Clal. The data are based on the companies' consolidated reports and are expressed in constant prices. A detailed analysis of the financial performance of the big economy is given in Rowley, *et al.*, 1988.

perienced with particular severity by the business elite, whose expectations had been temporarily raised in 1989 by a brief spurt of growth.

From this follows the second similarity, involving domestic military purchases. With the emergence of chronic stagnation since the mid-1970s, the profits of the big economy became increasingly dependent on financial activity and military production.[15] Domestic military procurement grew rapidly from the mid-1960s until its peak in 1974 – a period that also saw the most rapid consolidation of the big economy. Between 1969 and 1974, domestic military procurement grew at an annual rate of 14%. As a share of GNP this indicator stood at about three percent in the early 1960s, and reached a peak of 13% during the 1973 war. The subsequent period, until the 1977 dethronement of the Labour government, witnessed a sharp decline in these expenditures, at an annual rate of 8.5%.[16] Since 1977, however, under the new Likud regime, domestic military procurement resumed its upward trend, which continued until the 1982–83 war in Lebanon.

From 1984 to 1990, real arms purchases remained at a more or less steady level. But overall military sales continued to rise with the growth of heavily subsidized military exports. Since 1991, however, military exports began to decline, and a serious concern arose among the elites regarding the somber prospects for world military sales. The relaxation of superpower rivalry, the demise of the Soviet Union, and the outcome of the Gulf War, which left Israel out of the winning coalition, have signaled the diminishing importance of Israel's strategic position to the United States. These factors have all converged to generate a sense of apprehension in the Israeli military-industrial complex.

The apparent downward rigidity of military spending throughout the 1980s and early 1990s – a rigidity that persisted despite growing public calls for cutbacks – serves to demonstrate the piv-

15 The impact of military spending on the profits of the big economy and on the process of aggregate concentration in Israel are analyzed econometrically in Bichler and Nitzan, 1994.

16 The data are based on the National Accounts of the Central Bureau of Statistics, various years. For discussion of the feasibility of this data see, *e.g.*, Berglas, 1983. In Israel there is no systematic information about the distribution of contract awards; nevertheless we can assume that the bulk of domestic military contracts flows to the big economy (as many unofficial indicators seem to suggest); see, *e.g.*, Bichler and Nitzan, 1994.

otal political position of the large corporations. At the same time, the pressures to curtail the military economy, together with the decline of inflationary speculation, bore heavily on the profits of the big economy. During the late 1980s, many leading firms – and most notably, the country's largest industrial concern, Koor – started to crumble, and that must have undermined the self-confidence of the business elites.

Although the government was increasingly attuned to the demands of big business, its ability to further increase this sector's profits was evidently limited. Moreover, during that time, the business elites grew anxious about Israel's deteriorating relationships with the U. S. Administration, as highlighted by repeated revelations such as the Pollard affair, the Iran-Contra scandal and the Dotan affair. Over the years, the large Israeli conglomerates became increasingly dependent on U. S. military and civilian assistance (Cockburn and Cockburn, 1991), as well as on the intricate set of business relationships with the large U. S. armament corporations – a dependency that was now increasingly endangered by the apparent inflexibility of Likud's foreign policy. The souring of relations with the United States also ran counter to the long-term assimilation of American values by Israeli elites, particularly the "business ethos."

This reference leads to the third similarity, since in both 1977 and 1992 there was growing uneasiness about Israel's relationship with the United States. The 1974–77 Rabin government first clashed with the Ford Administration over the peace talks with Egypt, and then with the Carter Administration over Palestinian self-rule. This latter conflict even led to an American "reevaluation" of its military assistance to Israel (Gazit, 1983).

However, for these negative business sentiments to affect the electoral outcome they had to coincide with a broader atmosphere of discontent in the labor market; indeed, both electoral reversals were preceded by severe setbacks for the labor unions. The 1960s were marked by a period of relative prosperity, supported first by the German payments and then by the post-1967 War boom. Since the mid-1970s, however, Israel entered a period of "stunted growth." The Rabin government of 1974–77 adopted a contractionary policy aimed at increasing exports and improving the balance of payments. The policy included cuts in government capital formation, an effort to reduce real wages and a move towards more regressive taxation. The outcome was clear: unemployment rose 50% between 1973 and 1977. Real wages stopped rising after a long period of continuous increase going back to the beginning of the 1960s (between 1969 and 1973 real wages had risen 3.4% annually).[17]

The Begin government, which came into office in 1977, embarked on an expansionary policy of inflationary finance and foreign borrowing; this lowered the rate of unemployment and increased both profits and labor income. These developments were short-lived, however. Since the early 1980s, there has been a persistent tendency (with short-term fluctuations) toward higher unemployment, and which was further augmented by wage erosion during the late 1980s and early 1990s (both of these developments were intensified during the 1989–91 period by the massive immigration from the former Soviet Union).[18] The stagnation became particularly severe after 1985, when the "unity government" of Likud and Labour launched its "stabilization policy." The plan included high real rates of interest (up to 40%), cuts in civilian spending and transfers (particularly social programs), reduction in marginal tax rates for high-income earners and a growing reliance on indirect taxes and levies, privatization, and support for foreign investment. Subsidies for agriculture were cut back and income of the whole sector, cooperative (Kibbutzim and Moshavim) and private, declined drastically. The sword of privatization now hangs over the head of key large government firms: Israel Aircraft Industry (the biggest Israeli arms producer), Bezek (the communication giant), and Israel Chemical (the leading Israeli exporter).

These trends have generated growing anxiety among the unions, especially given the rapid increase in the rate of unemployment since 1987, and the decline in real wage rates since 1989. (In this context, the immigration from the Soviet Union, which might otherwise have acted as an economic stimulus, only contributed to a

17 Data on the rate of unemployment is based on the *Statistical Abstract of Israel*, various years, chapters on "Labor and Wages." The average real wage is computed by dividing the "average monthly wage per employee post" (before taxes) by the annual CPI.

18 Unemployment rose continuously from 2.3% in 1979 – with the exception of some pre-election token decreases – to almost 12% in 1992. The trend in real wages was steadily upward from 1977 to 1988 (with the exception of 1985, the year of "stabilization policy"). This trend was reversed between 1989 and 1992, when real wages decreased at an annual rate of 6.5%.

further rise in unemployment and stronger downward pressure on wages.) The adverse evolution of unemployment and real wages again points to an important similarity between the fall of Labour in 1977 and the defeat of Likud in 1992. In particular, both elections were preceded by a few years of adverse trends in the key variables of the labor market. In other words, prior to these two elections there arose a "consensus of discontent" among the various elites. For the business coalitions, lower profits, falling military sales, and an antagonistic foreign policy signified a challenge to their leading role, while for the big unions, permanent high unemployment and lower wages spelled mass discontent and loss of authority.

In this context, it is necessary to consider the impact of the "Palestinian problem" and the intifada (uprising), which broke out in the occupied territories since 1988. Contrary to conventional wisdom, both leading parties – Likud and Labour (and actually most of the Zionist parties, including the major parts of the current Meretz – have not recognized the Palestinian right to an independent state. As a matter of fact, the Palestinian question has never been a direct issue in electoral campaigns. The difference between the two major parties concerning the Palestinian question was merely tactical. The occupation itself was economically profitable, while its costs were relatively negligible (maintenance of a small army and "Shabak" – General Security Service – force with minimal legitimation expenses). However, since the 1990s, the Israeli elite has started to lose its self-confidence, as it has become apparent that the occupation authorities have lost control and that terrorist activities have been spreading and endangering personal security within the "green line." The elite's despair rapidly shifted the collective mood and led to a search for a non-controversial authoritative figure who represented the "old values." The combined weight of these sentiments projected itself forcefully onto the voting population and likely contributed to a change of government.

6. *Summary and Conclusions*

In this work, I have argued that the customary approach of electoral economic cycles may not be sufficient to explain sharp political reversals, such as the 1977 defeat of the Labour government, or the 1992 dethronement of Likud. Belief in a sovereign, rational, utility-maximizing voter does not seem consistent with observed behavior, such as the fact that – despite a 400% rate of inflation, rising unemployment, the loss for many people of lifetime savings in the stock-market crash and the costly military entanglement in Lebanon – a full third of the voting population still chose to vote Likud in the 1984 elections. Moreover, since the 1970s, Israeli governments found it increasingly hard to run effective "election economics" campaigns, a fact that further diminishes the explanatory power of electoral economic cycles.

My own approach in this paper has been to focus not on cases of reelection, but on those instances in which the government lost power. These drastic reversals point to fundamental processes of political-economic restructuring, processes that are often ignored in the electoral literature but have a profound impact on political outcomes. Specifically, I have argued that the two cases in which the Israeli government failed in a bid for reelection arose from a coincidence of discontent among the business elite and key labor unions.

These reversals, however, became possible only since the 1970s, after the culmination of some important changes in the underlying structure of the Israeli economy. Israeli history involved a profound structural transition from a regime of economic growth with a dominant Labour government, to an era of stunted growth in which business elites assume the leading role. The first period, lasting roughly until the early 1970s, was marked by growing population, rising real GNP per capita, expanding public services and rising military spending.[19] With the inflow of cheap foreign capital, the Labour government enjoyed a considerable degree of autonomy and cultural hegemony; this enabled and legitimized an effective "on and off" economic policy before and after elections. This process, which resembled Kalecki's "political business cycle," began to disappear with the growth of the "big economy" since the early 1970s. The rise of the large conglomerates, together with the increasing dependence of Israel on the United States, undermined

19 This resembles in some sense the claim by Gold (1977) that, after the Second World War, there emerged in the United States a "Keynesian coalition" among the big economy, the large labor unions and the government to prevent stagnation via increases in military spending.

the relative power position of the government and brought about a substantial change in dominant ideologies.

In the political literature, this change is often described as a shift from a "dominant party system" to a "competitive party system" (Arian, 1977; Shapiro, 1980). The customary notion is that this transformation arose when demographic, ethnic, religious or nationalistic changes altered the political preferences of the voting population. By focusing solely on the electoral form of the system, this view fails to recognize the profound change in its political-economic essence: the decline and delegitimation of the political elite itself and the ascendancy of a political power alignment that established a new political order. It is noteworthy that proponents of the customary view overlook what might be called the "democratization paradox," according to which the increase in the level of competition among political parties has taken place side by side with the monopolization of the economy. In other words, a reverse tendency exists between increasing economic concentration, on the one hand, and the decline of the "dominant party system" and the end of Labour hegemony, on the other. This evaluation implies that Israel is perhaps not a special case after all, and suggests that an alternative theoretical perspective emphasizing social class and the process of capitalization may go a long way toward explaining its political development.

Since the 1970s, Keynesian interventionism has given way to the new-old ideology of free enterprise, including acceptance of a "natural" rate of unemployment and stunted growth. Under these conditions, the political arena becomes increasingly unstable and "competitive." Although the government is called upon to "take its hands off the economy," it must still respond to the plight of the various power coalitions. This need to both promote accumulation in the big economy and maintain legitimation with the labor unions involves a very delicate balancing act, which is made even more difficult by the weaker economic position of the government. The Rabin government of 1977 and the Shamir government of 1992 failed in that task. Both governments faced growing discontent among all the important elites and key unions and, with these negative sentiments projected forcefully through the various mass media, they both fell.

Here, we come to the final point concerning the structural change taking place in the 1990s. In recent years, the Israeli elites have faced the reality of the "new world order." The globalization of big business and the increase of world competitiveness cast doubt on the expediency of a state of "permanent war economy" for Israel's big economy. More important, the international market for armaments has entered a new period of contraction and cutthroat competition in which Israeli companies will find it hard to gain or even retain market share.[20] Those who want to survive must realign themselves with international investors, which see Israel as a springboard for regional business. Also, the Israeli conglomerates discovered that the international market, especially the emerging countries, offer great potential – but this depends upon removing the Arab boycott, which in turn is considerably dependent upon settling the Palestine-Israel conflict. In short, war has become an economic burden, both to the multinational corporations seeking to enter the region, and to their domestic counterparts who wish to ride the tide. Thus, since the rise of the Rabin regime the so-called "peace dividend" process began. This process, while largely stimulated by American intervention in the Middle East, encouraged the Rabin government to settle the Palestinian-Israeli conflict, which had become a burden, and to move towards a competitive economy integrated into the rest of the Middle East. This kind of integration in the new capitalist order led the Rabin regime to confront both the unions and the nationalistic right. The Rabin government is taking drastic measures in order to cut wages and social services, to maintain a high rate of unemployment and to destroy the unions. On the other hand, the government is receiving support from the business elites and from the business sector at large, which profits from the recent upward trend in the stock market and tax-free capital gains. The three main centers of opposition most injured by this demilitarization-oriented neo-liberal policy – the unemployed and low-wage workers, the clerical right and the settlement movement, and the unions representing employees of large industrial firms – are unlikely to be able to unite against this trend. Thus,

20 It is interesting to note that, while domestic military spending has declined in the last two years, military imports (supported by American grants) have not. If this continues, the Israeli contractors will eventually be forced to transform themselves into subsidiaries of their American counterparts (Tediran, one of the leading contractors, became in the last decade a considerable subcontractor of American arms suppliers).

as long as Rabin manages to maintain solid relations with the U. S. Administration, integrating Israeli business into the Middle Eastern "Pax Americana," he will not need to implement any drastic measures, aside from formulating a short term "electoral economics policy" before the coming elections.

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