

Social Policy and Nationbuilding: The Dynamics of the Israeli Welfare State

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Conventional studies of the Israeli welfare state have depicted it as relatively comprehensive and universalistic (Achdut and Carmi, 1981; Macarov, 1987; Roter and Shamai, 1990c). Moreover, these studies often link the presumed universalistic character of welfare policy to the central role of social democratic ideology in Israel, which was maintained by the politically hegemonic institutions of Labor Zionism (Avizohar, 1978). Diverging from this view, an alternative approach has emerged in recent years, examining the Israeli welfare state from a far more critical perspective. The main claim of this approach is that despite the fact that the Labor Party dominated the political institutions in the prestate (that is, before the attainment of a Jewish state in 1948) Zionist community, and was in power throughout the first three decades of statehood, and despite the existence of an extremely powerful and centralistic workers' organization (the General Organization of Hebrew Workers in Israel, *Histadrut*), the Israeli welfare state, as well as the Israeli political economy in general, did not adopt the institutional traits and policies that characterize the social democratic model (Shalev, 1992).

In profound contrast to the social democratic welfare state (Esping-Andersen, 1990), the welfare system in Israel has been characterized by low levels of benefits, extensive use of means testing, low decommodification effects, a sharp distinction between universal and occupational welfare programs which parallels the segmentation of the labor market, and significant formal and informal exclusionary practices that reflect the ethno-national hierarchy (Jews of European origin, Jews of Oriental origin, Palestinian citizens, Palestinian noncitizens, and labor migrants) characterizing Israeli society (Shalev, 1992; Rosenhek, 1999; Rosenhek and Shalev, 2000). This does not mean that the welfare state has not played a crucial role in distributive processes. On the contrary, it has functioned as a major factor in the institutionalization of the Israeli stratification structure. By allocating distinct amounts of resources, and by assuring differential levels of decommodification to different social groups defined by ethnicity, nationality, and citizenship, welfare policy has been a decisive determinant of their unequal life chances. In this way, the

welfare state has both reflected and actively laid the groundwork for the production and reproduction of the Israeli ethno-national hierarchy. As will be specified further on, the main characteristics of the institutional configuration and mode of operation of the welfare state in Israel originate in the concrete practices of nationbuilding conducted by the Zionist movement in Palestine, and in the continuous operation of institutional and policy legacies emanating from these processes.

The main aim of this article is to provide a critical account of the historical dynamics of the Israeli welfare state, focusing on patterns of continuity and change in its institutional structure and policies, and on the ways in which it functions as a stratificatory mechanism. The section which follows refers to the emergence of a Zionist proto-welfare state during the prestate period. Then there is an analysis of the institutionalization of the dualistic character of the Israeli welfare state during the first two decades of statehood and the ways in which this process was affected by institutional legacies from the previous period. This is followed by an examination of the process of expansion and partial universalization experienced by the welfare system during the 1970s. Finally, the so-called “crisis” of the Israeli welfare state during the last two decades is explored. In the last section, a number of conclusions regarding the significance of the restructuring of the Israeli welfare state and the ways, in which this process is affected by institutional and policy legacies, are provided.

The Israeli “Proto-Welfare State” Before 1948

Many studies of the historical origins of the Israeli welfare state have stressed the socialist ideology of the hegemonic political force in the prestate Jewish polity—the Zionist Labor movement—as the crucial factor in the establishment of a relatively comprehensive institutional apparatus that functioned as a “proto-welfare state,” even before the attainment of Jewish sovereignty in Palestine (Doron and Kramer, 1976; Schindler, 1976; Bar-Yosef, 1985; Doron and Kramer, 1991). Focusing exclusively on the ideological dimension, this orientation fails to acknowledge that the political and economic conditions, which the colonial Zionist project was required to confront, were decisive factors in the shaping of the prestate Zionist institutional apparatus in general, and of the “proto-welfare state” in particular. A more political and institutional approach reveals that the emergence of a comprehensive network of welfare agencies and programs during the prestate period is intimately connected with the process of Zionist nationbuilding (Rosenhek, 1998; Shalev, 1992).

Within the context of state formation, the *Histadrut* evolved as a pivotal agent for institutional building, fulfilling roles in the economic, political, and military arenas, which usually fall within the domain of state agencies (Grinberg, 1993; Shalev, 1992). Moreover, the dominant political party within the Zionist Labor movement, *Mapai* (Hebrew acronym for Land of Israel Workers’ Party), succeeded in building a hegemonic position within the Zionist polity, which enabled it to control and fashion the nationbuilding process.

Quasi-state functions of social services provision were mainly performed by two separate institutional apparatuses. The National Council administered residual and selective programs of social assistance to distressed and marginalized populations within the Jewish community, which were implemented at the local level.¹ On the other hand, an extensive—but exclusivist—system of mutual aid was established by the *Histadrut*, providing its members with health services, old-age and survivors pensions, unemployment relief, employment services, and subsidized housing (Doron and Kramer, 1991: 14). These services and benefits were aimed at facilitating the incorporation of Zionist settlers into the incipient Jewish economy and society. Hence, programs of social welfare were conceived of as mainly a means for the accomplishment of the

fundamental Zionist goal: the political and economic consolidation of the Jewish community in Palestine.

Both systems were heavily subsidized by imported capital supplied to the Zionist institutions in Palestine by the Jewish Agency and the World Zionist Organization. Yet, due to its strategic alliance with the organized Zionist movement, the Labor movement was able to mobilize most of the resources for its own welfare system (Shalev, 1992: 39-42). Furthermore, at the ideological level the Labor movement was effective in imposing a vision that legitimized the resource allocation to its constituency on basis of their contribution to the national cause. Thus, while the welfare services provided by the *Histadrut* were ideologically framed as mutual aid and “pioneering,” the general programs of social assistance were stigmatized as charity (Neipris, 1981: 12). This hegemonic position at the ideological level consequently enhanced the Zionist Labor movement’s capabilities to mobilize material resources supplied by the international Zionist organizations and allocate them to its constituency. In turn, the ability of the *Histadrut* to provide welfare services and benefits to its membership functioned as an important mechanism for mobilization of political support, and hence for the building, expansion, and consolidation of the Zionist Labor movement’s political hegemony.

The connection between the operation of the Zionist proto-welfare state and the process of state formation clearly appears in various dimensions. First, the emergence of centralized welfare agencies was part and parcel of the development of a bureaucratic apparatus with the capacity to mobilize resources, especially from external sources, and distribute them to selected groups within the population. Furthermore, the distribution of vital resources to the Zionist immigrants assisted in the creation of the minimal conditions needed for them to remain in the country. Obviously, this was a necessary precondition for the success of the Zionist colonial enterprise. The role of welfare policy was especially important in the context of the competition in the labor market between the “expensive” Jewish workers and the “cheap” Arab workers (Shafir, 1989; Shalev, 1992). The services and benefits provided by the Zionist institutions—such as health care, education, and housing—functioned as a mechanism for subsidizing the Jewish workers, improving their position in the competition with the Arab labor force. In addition, by building up the dependence of the immigrants on the Zionist political institutions in order to satisfy basic material needs, the “proto-welfare state” consolidated the power of these institutions and their ability to mobilize the population for “national tasks.”

It is important to emphasize that the social policy implemented by the British Mandatory government played an important role in facilitating and encouraging the development of autonomous welfare agencies by the Zionist institutions. First, the low level of social services offered by the Mandatory state encouraged the Zionist institutions to create agencies that could provide the Jewish settlers with welfare services at a level necessary to promote their economic absorption in the country. The development of autonomous welfare agencies as part of the Zionist institutional structure was also facilitated by the way in which social services were provided by the central government. Services were provided to the two national communities under the Mandate authority—Jews and Arabs—through separate institutional channels. This policy harmonized with the interests of the Zionist colonial project, and the dominant Zionist institutions benefited from the opportunities it presented to them to promote the process of nationbuilding. Thus, when the dual system was established by the Mandatory government, the Zionist leadership supported it and opposed any substantial change that might promote the establishment of a uniform welfare apparatus under state responsibility.²

The Institutionalization of a Dualistic Welfare State: The First Two Decades of Statehood

The establishment of the state in 1948 resulted in fundamental changes in the political, institutional, economic, and demographic configuration of Israeli society. First, the establishment of a sovereign state apparatus had crucial effects on the dominant institutions' capacity to mobilize and distribute societal resources and on their capabilities for population management. In addition, basic changes occurred in the national composition of the population. Due to flight and expulsion, from the 700,000 to 900,000 Palestinians who lived in the territory, which became the State of Israel, only about 170,000 remained after the war (Peretz, 1958: 95), while as a consequence of massive immigration, the Jewish population grew from 650,000 in 1948 to 1,400,000 in 1952 (Eisenstadt, 1967: 61).

These social and political changes affected the mode of organization and operation adopted by the Israeli welfare state. The enormous wave of immigration that continued until the early 1960s placed a significant amount of pressure on the new state in general, and on its welfare system in particular. Moreover, this pressure appeared in a political context in which agencies that previously belonged to the organized Jewish community were transformed into state agencies responsible, at least formally, for all Israeli citizens. This change raised the question of inclusion and exclusion of populations that had been outside the sphere of action of the Zionist agencies during the mandatory period, especially the Arab residents which became Israeli citizens.

Despite the transformations caused by statehood, there were also notable lines of continuity in the institutional configuration of the Israeli welfare state from the prestate to subsequent eras. Institutional principles and policies which developed during the prestate period survived the changes in the social and political context, having crucial impacts on the shaping of the new state apparatus and its welfare policies. One central manifestation of continuity was the persistence of the framing of social policy primarily as an instrument to advance Zionist tasks of nationbuilding. These legacies from the prestate era, as well as the political and economic interests of the state, the *Histadrut* and the dominant Labor Party, caused the institutionalization of a highly fragmented welfare state along ethnic and national lines, in which diverse social groups—Jews of European origin, Oriental Jews, Palestinian citizens—were granted differential levels of protection and access to resources according to their status within the polity and their politically defined contribution to the national goals. The Jewish veteran population (mostly from European origins) and the new Jewish immigrants (mainly from Arab countries) were “assigned” to different welfare systems—which provided differential levels of benefits and protection; and, through both formal and informal practices, the Arab citizens were largely excluded from most welfare programs (Rosenhek, 1998, 1999).

Within this context, a main field of action of the welfare state was the implementation of diverse programs to facilitate the economic and social incorporation of the enormous mass of Jewish immigrants. The first challenge the state was required to confront was the provision of housing. Thus, most of the resources allocated to welfare services were directed towards the attainment of this goal (Roter and Shamai, 1990a). The absolute dependence of the new immigrants upon the state for access to housing resources, and their lack of political power, permitted the state to employ the provision of housing in the peripheral areas of the country as an instrument to achieve geopolitical aims. As in the prestate era, housing policy was consciously and deliberately formulated by the Israeli state as a tool for the fulfillment of Zionist goals. The two basic declared policy goals were “immigrant absorption” and “population dispersion” (cf Zaslavsky, 1954). These two goals were conceived as interdependent: the settlement of the new immigrants in the periphery was intended to be the main mechanism for attaining the goal of population dispersion (Kark, 1995; Tenne, 1962). It is important to clarify the meaning of the

term “population dispersion” within the Israeli context. This seemingly neutral term is strongly embedded in the territorial dimension of the Zionist-Palestinian conflict and in the relationship between the Israeli state and its Palestinian citizens, since it refers to the enlargement of the Jewish population in those areas where the Jewish population is sparse in comparison to the Palestinian population (Barkai, 1981: 162; Gonen, 1979: 22). The change of the demographic ratio between Jews and Palestinians in those peripheral areas was defined as a way to symbolically display the state’s sovereignty, as well as to enhance the state’s effective control over the territory (Falah, 1989: 248; Newman, 1989: 220).³

This policy had crucial consequences for the mode of incorporation of a large proportion of the new immigrants into the Israeli stratification system. Their state-commanded settlement in the periphery played a major role in reducing their opportunities in the labor market, education, and other services fields, pushing them towards the lowest strata of the Jewish population (Bernstein and Swirski, 1982). Simultaneously, diverse programs of public housing heavily subsidized by the state—many of them initiated and executed by the *Histadrut*—were directed to the veteran Jewish population (Drabkin-Darin, 1957; Lavon, 1974). These programs generally provided larger and higher-quality housing than the dwellings built for the new immigrants. Moreover, and probably more significant in the determination of life chances of this population, most of the public housing for the veteran Jewish population was built in the more developed central area of the country (Sleifer, 1979), where there were far more occupational and educational opportunities.

An important characteristic of the housing policy in Israel during those years was the absence of formal and universalistic rules for the determination of citizens’ entitlements in the housing domain. Even though, at the declarative level, the Israeli welfare state accepted responsibility for the provision of at least basic housing to its citizens, this principle and operative rules for its implementation, regarding for instance the distribution of housing units among the population, were never formalized (Heymann, 1981: 278). This situation strengthened the political and bureaucratic apparatus vis-a-vis the citizens, enhancing their capabilities to use the distribution of housing as an instrument for co-optation and clientelistic political recruitment. In addition, it facilitated the almost absolute exclusion of the Palestinian population from the distribution of housing assets by the state (Rosenhek, 1996).

A second important political goal of the state was to incorporate the new immigrants into the labor market, thereby avoiding intolerable levels of unemployment that would cause sociopolitical agitation and threaten the new regime’s legitimacy. Furthermore, the great number of immigrants were to be incorporated in such a way that this would not cause a reduction in real-wage levels of the veteran Jewish population. During the high-unemployment years in the 1950s, the principal means of attaining this goal was the implementation of work relief programs for new immigrants, in which the wages were lower than those paid for unskilled labor on the open market. The provision of work relief provided a minimum income for the immigrants and mitigated the pressures of excess labor supply in the labor market, thus preventing any potential threat to the veteran population (Gal, 1997: 395). It is important to stress that, at this stage, there did not exist a program of unemployment insurance or any other institutionalized means to provide financial assistance to the unemployed. Interestingly, in accord with their traditional stand from the prestate period, the Labor Party in power and the *Histadrut* vehemently opposed the implementation of an unemployment insurance program. One major reason for this objection was the belief that the provision of unemployment benefits to Jewish immigrants, especially to those from Arab countries, would encourage the development of a “dependency culture” and impede the emergence of a “work ethic” among people that lacked one (Roter and Shamai, 1990b: 156). Besides this ideological factor, which was related to the general negative attitude of the veteran population of European origin towards the immigrants from the Arab countries, concrete

political considerations underlay the Labor Party's opposition to the establishment of an unemployment insurance program. Since the politically powerful veteran population was not exposed to the risk of unemployment, it did not exercise political pressure to encourage the introduction of such a program. Moreover, the Labor Party leadership assumed that this population, which made up its "natural" constituency, would oppose the financial burden imposed on them by an unemployment insurance scheme (Gal, 1994b, 1997).

An additional important dimension, in which one can discern a clear line of continuity with the prestate era is the provision of welfare services and benefits by nonstate agencies associated with the dominant party, rather than by the state. The *Histadrut* continued playing a central role in the welfare sphere, using the realm as a fundamental instrument for clientelistic political mobilization. The major manifestation of the *Histadrut's* function as a service provider was in the field of health services. Health-care services on the basis of voluntary insurance were provided by public nonstate sick funds, which were defined as nonprofit organizations. Among them, the biggest was the "General Sick Fund" affiliated with the *Histadrut*, which covered the great majority of the Israeli population. Membership in the "General Sick Fund" was linked with membership in the *Histadrut*, one automatically implying the other. On basis of this link, the provision of health services served as an important means of political recruitment for the Labor Party, especially among the new immigrants and to a certain extent also among the Arab population. Moreover, this arrangement functioned as a source of financial resources for the *Histadrut*, and indirectly for the Labor Party, since a significant part of the payments made to the General Sick Fund by employees and employers, and also part of the subsidies provided by the state, were eventually channeled to their apparatuses (Zalmanovitch, 1997). This explains the effective opposition of both the *Histadrut* and the party over more than four decades to the establishment of a statutory program of health insurance run by the state.

The *Histadrut* also played a central role in the area of old-age pensions. It owned occupational pension funds, which provided relatively generous wage-linked benefits to the organized and strong workers employed in the primary labor market. Besides their political significance, these funds, which were subsidized by the state through diverse mechanisms, served as an important source of financial resources to the *Histadrut* and its business-complex (Grinberg, 1993; Shalev, 1992).⁴ The weaker workers employed in the secondary labor market, mostly Jewish immigrants from the Arab countries and Palestinian citizens, had no access to these occupational programs, and were—and still are—covered only by the statutory program of old-age benefits established in 1953 by the National Insurance Law, which is based on the principle of subsistence and provides extremely low flat-rate benefits (Doron and Kramer, 1991: 88).

This dualistic institutional structure for the provision of old-age benefits reflects a general characteristic of the Israeli welfare state, especially during the first two decades of statehood. It was composed of two highly differentiated tiers: a generous system of occupational welfare related to the *Histadrut* and subsidized by the state, which largely benefited the Jewish veteran population; and a residual and highly selective system administered mainly by the state, directed to the Jewish new immigrants, and to a much lesser extent to the Arab population. A major component of this residual welfare state was the social assistance system that functioned at the local level without any statutory framework to define citizens' entitlements. It was characterized by the employment of harsh selective procedures, a lack of formal eligibility criteria, extreme discretion of welfare officials in determining eligibility and benefits levels, and varying levels of benefits between the different local welfare bureaus (Doron and Kramer, 1991: 30).

The first step towards the establishment of a relatively universalistic system of social security based on formal principles of citizen entitlements, was the establishment in 1953 of the National Insurance Institute (NII). This agency and the law that established it (the National Insurance Act) were the institutional and statutory foundations upon which programs of social

security were to be established. While the original plan was to establish an extensive system of social security, the government and the *Knesset* (the Parliament) decided that at this stage it would include only three basic programs: old-age and survivors benefits, work injuries, and maternity (Doron and Kramer, 1991: 75-83). As in other fields of welfare policy, a major factor that at this point impeded the emergence and institutionalization of a more universalistic and comprehensive system of social security, was the opposition of the *Histadrut* and the Labor Party to such a development. As already stated, both organizations obtained significant political and economic benefits from the ongoing operation of the particularistic welfare system that covered *Histadrut's* members (Doron, 1988; Roter and Shamaï, 1990c: 244). On the other hand, a significant factor that facilitated the establishment of the NII was the support of the Treasury officials. They reasoned that, rather than constituting a fiscal burden, the social security system would function—at least in the short and middle range—as a mechanism of fiscal absorption, providing significant and badly needed revenues to the government. Indeed, due to the limited scope of the system, the low level of the benefits (and their progressive erosion in terms of real wages during the 1960s), and the demographic structure of Israeli population, the social security system functioned till the 1970s as a significant tool of fiscal absorption (Barkai, 1998: 52-53).

An important development in the system of social security that marked the beginning of a progressive process of extension in the field of action of the NII was the establishment in 1959 of the first program of child allowances, which provided modest monthly cash benefits to families with four or more children until the age of 14 (Sharon, 1987: 204). Political considerations of the ruling Labor Party were central in the decision to establish this program. It was aimed at improving the life conditions of the large Jewish families from Oriental origin, in this way neutralizing political threats to the Labor Party that might emerge due to the harsh socioeconomic situation of this population. As a consequence of the program's gradual extension in terms of both coverage and benefit levels during the 1960s and 1970s, the child allowances scheme eventually became a central component of the Israeli welfare state, contributing significantly to the reduction of poverty rates, especially among the Jewish population. With respect to the Arab-Palestinian population, like in other fields of welfare policy, during the 1960s several informal exclusionary practices were in operation that limited their access to the program (Rosenhek, 1999; Rosenhek and Shalev, 2000). The establishment of the child allowances scheme and its subsequent development illustrate the significant connection between the nationbuilding process and the dynamics of welfare policy. The scheme functioned as an instrument for avoiding the extreme marginalization of Jewish immigrants, while simultaneously excluding, at least partially, the Arab-Palestinian citizens.

The (Short) “Golden Age” of the Israeli Welfare State

The decade of the 1970s marked an intense process of extension and institutionalization of the Israeli welfare state, particularly concerning the statutory programs of social security administered by the NII (Cnaan, 1987; Doron and Kramer, 1991; Gal, 1994a). This trend was manifested in the establishment of new social security schemes based on formal universalistic principles, as well as in the expansion of existing programs. Due to these policy initiatives the role of the NII in the welfare system was extended, at the expense of other institutional instruments, such as the Ministry of Social Assistance and the local government system (Achdut and Carmi, 1981: 65). The bolstering of the NII, in turn, enhanced the process of universalization and formalization of the system. In contrast to the other agencies, which favored residual programs based on means-tests, the NII was characterized by an universalistic organizational ideology. Moreover, it had clear institutional interests in the expansion of universal welfare schemes that were under its authority (Rosenhek, 1999).

The process of expansion and universalization of the welfare state was reflected in the notable growth in state expenditure on both social security benefits and social services. While in 1970 state expenditure on social welfare (education, health, income maintenance, personal welfare and housing) represented 13.2 percent of the GNP, in 1980 it reached 20.1 percent of the GNP (Kop, Blankett, and Sharon, 1986: 90). The increase was especially significant in the expenditure on income maintenance programs, most of which were administered by the NII. Between 1970 and 1975, the average annual real growth rate of expenditure on this item was 21.6 percent (Kop, Blankett, and Sharon, 1986: 91). As a consequence of this trend, since the mid-1970s the NII required financial supplements from the state's budget. On the other hand, the expansion of the social security system effected a significant increase in its redistributive effects (Barkai, 1998: 76), especially concerning the Jewish population.

The trend towards a more comprehensive and institutionalized welfare state was largely determined by the combination of political considerations of the Labor Party and autonomous initiatives of the professional and bureaucratic state apparatus. During the late 1960s, there was a rise in public and political awareness of the socioeconomic conditions of disadvantaged social groups in general, and of the Jewish population of Oriental origin in particular. As part of this process, the Labor Party became concerned about the potential loss of this population's political loyalty. As a consequence of this development, and in response to some incidents of social turmoil, the government and state agencies, especially the NII, began to consider different ways of improving the living conditions of these groups as a means to neutralize potential threats to the political order (Hoffnung, 1982). The main policy instrument that was decided upon was to broaden various welfare schemes, both in terms of coverage and in terms of benefit levels.

An especially suitable instrument to provide additional means of consumption and to improve the economic conditions of the Oriental Jewish population was the child allowances program, due to the high number of large families among it. Hence in 1970, the government, urged by the NII professional staff, decided to significantly increase the level of benefits paid, especially to families with more than three children. As a consequence, the redistributive and "anti-poverty" effects of the program intensified enormously (Achdut and Carmi, 1981; Habib, 1974, 1975), and it became a central component of the welfare system in Israel. Yet, accompanying the expansion of the program, was a decision to implement formal exclusionary practices aimed at reducing the level of benefits to which the Arab families were entitled. A substantial part of the increased benefits was allocated through a new program that provided extra allowances for children of families with military service veteran members (for the fourth and successive children in the first stage, and also for the third child since 1974). Since the overwhelming majority of Palestinian citizens are not drafted into the army, they were excluded from the additional cash benefits allocated through this program. As a consequence, the enlarged "anti-poverty" effects of the program largely bypassed the Arab population. It is important to stress that the program was established with the explicit—albeit publicly covered—goal of excluding the Palestinian citizens. Moreover, "veteran families" were defined in a very broad manner, aiming at incorporating the maximum number of Jewish families into the program (cf Rosenhek, 1999; Rosenhek and Shalev, 2000).

A similar combination of expansion of benefits on one hand and employment of formal exclusionary practices towards the Arab minority on the other occurred in the field of housing policy. As a response to political agitation among the second generation of Oriental Jews and middle-class newlyweds, who due to the rising cost of housing after the 1967 War found it extremely difficult to gain access to housing assets, it was decided to expand existing programs of heavily subsidized mortgages and loans, and to establish new ones (Lerman, 1976). As in the previous case, however, military service of the beneficiaries or a relative was a precondition for eligibility for the benefits, therefore excluding Palestinian citizens. In 1977 nonveteran's families

were admitted to the program, but were entitled to lower mortgages and at less favorable conditions of repayment than the “veteran” (that is, Jewish) population (Rosenhek and Shalev, 2000).

As already noted, over the 1970s also were established new programs of social security. A particularly significant illustration of the process of expansion of the welfare system was the adoption in 1972 of the unemployment insurance program. This decision, which connoted a remarkable departure from the traditional opposition of the Labor Party to unemployment insurance, was connected to the party’s attempts to neutralize social and political agitation through the expansion of the welfare state. An additional factor that facilitated the adoption of the program was the support granted to it by the Treasury. In a period of full employment, rising consumption levels, and inflationary pressures, the Treasury envisioned the program as a means to reduce the public’s spending power through fiscal absorption (Gal, 1993: 116-17).

An additional manifestation of the formalization of the welfare system was the establishment in 1980 and implementation in 1982 of the Income Support Benefits Law. By transferring the administration of the program of financial assistance to the needy population from the local welfare bureaus to the NII, the passing of the law marked the transformation of a residual relief program into a program operating under the principle of citizens’ entitlements with statutory sanction. Accordingly, in contrast to the previous system of social assistance, the new program was characterized by the operation of formal rules of eligibility and for the determination of benefit levels. Moreover, it provided higher benefits and assured longer periods of financial assistance (Doron and Yanay, 1989). As in other cases of policy innovation during this period, the NII played a key role in the establishment of the program of income support benefits, both initiating the change and designing the mode of operation of the new program (Bar, 2000).

It is important to stress that despite the process of expansion and partial universalization of the Israeli welfare state, it did not lose its dualistic character. First, the formal exclusionary practices applied towards the Palestinian citizens clearly indicate that the welfare system persisted in functioning in a way that both reflected and reproduced the ethno-national hierarchy. Moreover, the dualistic character of welfare policy remained in place not only because of the operation of formal exclusionary practices toward Palestinian citizens, but also due to the incorporation into the Israeli labor market of a substantial number of noncitizen Palestinians from the occupied territories who had no political and social rights. Following the 1967-War, these workers were incorporated into the least attractive positions in the secondary labor market as a cheap and unprotected labor force (Semyonov and Lewin-Epstein, 1987). The important benefits that this incorporation generated to the Israeli economy in general, and to employers in particular, were related to a large extent to the fact that, as noncitizens, these workers were almost absolutely excluded from the welfare state. By governmental decision, they were covered only by three of the social security programs operated by the NII: work injuries, maternity, and employers’ bankruptcy; remaining excluded from all the other important programs, like old-age and survivors benefits, children allowances, unemployment insurance, and income support. The access enjoyed by the secondary labor market to this unprotected labor force was a factor that significantly reduced the “rigidities” that might have resulted from the growing decommodification of Israeli workers effected by the relatively extended welfare system that developed during the 1970s.⁵

The “Crisis” of the Israeli Welfare State

Like in other countries, during the last two decades the welfare state in Israel experienced changes that are often characterized in both academic and public discourse as indicating a severe

crisis: reduction in benefit levels, tightening of eligibility criteria, cuts in budgets allocated to social services, more frequent use of means-tests, and privatization of certain social services provision. Yet, as demonstrated by many studies (e.g., Therborn and Roebroek, 1986; Pierson, 1995; Stephens, Huber, and Ray, 1999), the changes experienced by welfare states during this period are much more complex than the picture described by alarmist claims regarding the dissolution of the welfare state.

During the 1980s the process of expansion experienced by the Israeli welfare state during the previous decade came to an end, and the efforts of the Treasury to reduce, or at least contain the growth of the costs of social security and social services intensified (Barkai, 1998). This shift was related to the general restructuring of the Israeli political economy, initiated by the 1985 Emergency Stabilization Plan to halt the hyperinflation then suffered by the Israeli economy. The main traits of the restructuring, which are manifested especially during the 1990s, have been liberalization of capital and other markets, privatization of state- and *Histadrut*-owned enterprises, deregularization of the labor market, a growing openness to the “global” economy, and a significant decline in state expenditure (Shalev, 1999, 2000). Yet, as demonstrated by Shalev (1999), this restructuring process is more partial and marked by contradictory trends than what might be inferred from the neoliberal rhetoric of most political actors. The contradictions and complexities of the liberalization of Israeli political economy are clearly manifested in the mixed patterns of continuity and change experienced by the welfare state.

Several important developments indicate a trend toward retrenchment of the Israeli welfare state. One of the major means employed by the Treasury to cut the budgetary allocations to social security was to allow for the erosion of benefits real value through their less than full adjustment to inflation and to increases in wage levels (Barkai, 1998: 18-19). Because of its public “invisibility,” this instrument to achieve cost containment or reduction was particularly convenient from a political point of view, and, like in other welfare states (cf Pierson, 1995), it has been widely used in Israel. As a result, during most of the time over the last two decades, especially in the 1980s, the real value of the benefits paid by the three major programs of social security—old-age and survivors pensions, child allowances, and unemployment benefits—declined (Barkai, 1998: 18-19; Gal, 1994b: 124; Roter and Shamai, 1990c: 255-57, 268). An additional instrument used to keep down the costs of social security and to reduce its decommodification effects was to tighten the eligibility rules employed. This was used especially in the unemployment insurance program, particularly during the 1990s, when unemployment in Israel reached unprecedented levels. These measures were directed at reducing the chances of unemployed, especially the younger among them, to be entitled to unemployment benefits, compelling them to accept jobs characterized by low occupational conditions and wages (cf Gal, 1994b: 129).

Finally, principles of income testing were included in the traditionally nonselective program of child allowances. In 1984, taxation of the allowances for the first two children in families with less than four children was introduced, and in 1985 the taxation was extended to the allowance for the third child. In the same year, it was decided to abolish the universality of the allowance for the first child in families with less than four children, and to pay it on the basis of income tests. In 1990, means-testing was extended to the payment of the allowance for the second child in families of the same size (Doron, 2000: 14). However, the use of selectivity in the child allowances program was short-lived. In 1993, the government decided to revoke the conditioning of the benefits to income tests. No less important, in 1994, as part of the price paid to the Arab parties in return to their support of the minority Labor government, the government decided to abolish the formal exclusionary practice (the veteran’s child allowance program), on the basis of which the Palestinian families were entitled to lower benefits than the Jewish ones (Rosenhek and Shalev, 2000: 314). For the first time since 1970, therefore, the child allowances

program became a truly universalistic scheme that provided equal benefits to all families in Israel according to their size. During the 1990s, there were also attempts, promoted mainly by the Treasury, to include selectivity principles in the old-age benefits program. Yet, due to significant opposition by the main political parties, which were concerned about the unpopularity of such a measure, the attempts failed (Doron, 1997: 13-14).

Despite the measures employed to reduce the allocations for social security programs, the expenditure on income maintenance grew at a notable pace, both in absolute terms and in relation to national product (Weinblatt *et al.*, 2000: 35). While in 1980 the benefits paid by the NII represented 5.05 percent of the GDP, their share grew to 6.54 percent in 1990, reaching 7.69 percent in 1999 (Bank of Israel, 2000: 332). Contrary to what occurred during the 1970s, however, this trend was not caused by policy initiatives aimed at expanding the social security system. Rather, it was the result of the growing proportion of elderly people in the population, the high levels of unemployment—which effected a considerable increase in the expenditure of unemployment insurance and income maintenance programs—and the massive wave of immigration from the former Soviet Union (Weinblatt *et al.*, 2000: 34).

An important change was effectuated on the revenue composition of the social security system. With the aim of reducing labor costs, the contributions paid by employers to social security were drastically cutbacked during the 1980s and 1990s: from 13 percent of the payroll wage in 1977, to 9.8 percent in 1985, 5.9 percent in 1987, and 4.4 percent in 1990, reaching a low point of 2.1 percent in 1995 (Barkai, 1998: 54). The reduction in employers' contributions was compensated by special reimbursements paid to the NII by the Treasury. Nevertheless, this change might have important consequences for the social security system, as it reduced the NII's independent sources of revenues, making it more dependent on the state budget and hence more vulnerable to cutbacks (Doron, 1997: 8).

The development of spending on social services (like education, health services, housing, and personal social services) during the last two decades was also marked by contradictory trends. In the first half of the 1980s the expenditure on social services by the state declined in real terms—an annual average decrease of 1.7 percent (Weinblatt *et al.*, 2000: 32)—while over the second half of the decade spending remained relatively stable. A notably large increase in spending on social services occurred during the first half of the 1990s; between 1989 and 1996 the state budget for these services increased at an average annual rate of 10.1 percent in real terms. One major factor that caused this increase was the enormous wave of immigration from the former Soviet Union, and the state's efforts to facilitate the immigrants' incorporation. The budget for programs of immigrant integration rose on an average 18.7 percent annually, and the budget for housing, most of which was directed to the new immigrants, increased at an annual average rate of 33.9 percent (Weinblatt *et al.*, 2000: 138). This indicates that, as in the past, during the 1990s, the Israeli welfare state was still conceived of as a major instrument for the incorporation of new Jewish immigrants; a task that represents one of the most central components in the process of Zionist nationbuilding.

Within the context of the restructuring of the welfare state, the state tried to implement a policy of privatization with the aim of achieving a significant reduction in its direct involvement with the provision of social services, granting a far more central role to the private and voluntary sectors. This policy was often interpreted in Israel, as well as elsewhere, as indicating a progressive loss of the state's control over the area of social services provision, and hence as an additional signal of the withering away of the welfare state (e.g., Gal, 1994a). Nevertheless, the mode of operation of provision of social services in which privatization was implemented suggests that the control and regulation capabilities of the state have been maintained.

This is clearly illustrated by the “Long-Term Care Program,” established in 1986. Under the program the NII provides, on a means-test basis, financing for care services to seriously

disabled elderly people living in the community. The care-services, however, are not supplied by state agencies, but by both private and voluntary nonprofit organizations. Yet, this does not mean that the state does not control and regulate the implementation of the program; state agencies assess the eligibility of the applicants, determine the services to be provided in each individual case, and designate the specific supplier agency (Ajzenstadt and Rosenhek, 2000). The main aim of the privatization policy, in this and other cases, has been to protect the state from clients' growing demands, while keeping its control capabilities intact. This has been achieved through the use of the services-provider nonstate agencies as "shock absorbers" between the state and its citizens. In this sense, the privatization of social services provision has augmented rather than diminished the state's autonomy.

An additional important change in the institutional configuration of the Israeli welfare state, which illustrates the complex character of its restructuring during the last two decades, is the establishment of a statutory and compulsory national program of health insurance in 1994. The fundamental shift in the organization of health services put into effect by the program is manifested in the following principles: universal coverage, collection of insurance fees by the NII and their distribution to the public health funds according to formal rules, abolition of the link between membership in the *Histadrut* and insurance by its health fund, determination of fee levels as a percentage of wages by the government, and definition of a universal "basket" of health services by the government (Gross, Rosen, and Shirom, 1999; Zalmanovitch, 1997). Although the health services are still provided by nonstate public health funds, the new scheme in effect means the nationalization of health insurance, as it grants the state an almost absolute control over all aspects of the health services system (Gross, Rosen, and Shirom, 1999).

A major factor that encouraged this basic reform was the change in the political value of health service provision for the *Histadrut* and the Labor Party. As noted earlier, the provision of health services by the *Histadrut*-owned General Sick Fund traditionally functioned as an important instrument for political recruitment, as well as a source of financial resources, for the workers' organization and the Labor Party. During the 1980s, however, due to an acute financial crisis, the services provided by the fund severely deteriorated, and growing public opposition to the fund and its connection to the labor movement came to the fore. Moreover, this occurred within a general context of growing weakening and delegitimization of the once powerful *Histadrut* (Grinberg and Shafir, 2000). Under these conditions, the provision of health services by the *Histadrut* was transformed from a political asset to a political burden for the Labor Party, and when the latter came to power in the early 1990s, it decided finally to implement the nationalization of the health system.

Conclusions

Despite the alarmist claims raised by some scholars regarding the deep decay of the Israeli welfare state (e.g., Doron, 1991, 1995), and notwithstanding its persistent dualistic characteristics, the social security system in Israel still plays an important role as a redistributive and anti-poverty instrument. For instance, in 1999 the transfer payments and taxation systems were able to reduce the poverty rate of families by a significant 44.1 percent (National Insurance Institute, 2000: 10). The Israeli society is certainly experiencing a process of growing inequality and marginalization of an increasing proportion of the population, but the main reason for that is not the weakening of the welfare state, but rather general developments in the political economy, and especially their manifestation in the labor market: growing levels of wage inequality, increasing rates of long-term unemployment, and the peripheralization of a great number of occupational sectors.

Indeed, as in other countries, in Israel there have been strong pressures on the welfare state during the last two decades, and the neoliberal rhetoric of free market, minimal state intervention, and deregulated labor market appear to be hegemonic among the main political forces. Nevertheless, these ideological trends and pressures have been counteracted to a significant extent by electoral considerations of both coalition and opposition parties and, especially, by the persistence of the consensual (among the Jewish population) notion that still defines welfare policy as a key instrument for the furthering of Zionist tasks of nationbuilding (cf Shalev, 1998). As in previous periods, these factors continue to play a crucial role in the dynamics of social policy, conferring to the welfare state a significant amount of political and institutional capabilities to resist the neoliberal pressures. This indicates that—like in other countries—the politics of welfare policy in Israel is far more complex than what might be inferred from simplistic claims about the inexorable “crisis” of the welfare state.

Notes

- ¹ The National Council was the governing institution of Knesset Israel, the representative body of the Jewish community in Palestine.
- ² The opposition of the Zionist institutions to the establishment of a uniform welfare system is evident in the program for social security presented by the Histadrut to the Mandatory Government in 1944. The Histadrut demanded the establishment of a government-financed system of social security, but administered, in the case of the Jewish community, by its own autonomous agencies. In the deliberations during the preparation of the program it was made clear that the establishment of a uniform system of social security administered by the state would damage the interests of the Zionist project and its dominant institutions. A change of this kind would deprive the Zionist institutions of the advantage of using their autonomous welfare agencies to promote goals of state formation and conflict management; cf Rosenhek (1998).
- ³ The attainment of “demographic balance” between Jews and Palestinians in the periphery as a major goal of housing policy is explicitly mentioned in numerous official documents and publications of the Ministry of Housing and other state agencies; cf e.g. Haber (1975).
- ⁴ Until the 1990s, the Histadrut owned an enormous complex of industrial, commercial, and financial enterprises that represented a major factor in Israeli economy, in terms of both national product and employment.
- ⁵ Since the early 1990s, significant numbers of both documented and undocumented migrant workers were added to the Palestinian workers from the occupied territories as an unprotected labor force largely excluded from the welfare state, and employed in the secondary labor market. For a comparison of the welfare policy implemented toward noncitizen Palestinian and migrant workers, cf Rosenhek (2000).

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