

Israel in a Nutshell

A Different Introduction to Present Day Israeli Society and Economy

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Israel, established in 1948 and presently (2011) with a population of 7.75 million, has been known at least since 1967 as a strong military power. In the last decade it gained renown for strong economic performance as well and especially for leadership in hi tech research and development. Israel recently joined the prestigious "rich countries club," the Organization for Economic Cooperation and Development (OECD). With a GDP per capita of \$29,500 (PPP) in 2009, it ranked 24 out of 34 OECD members. But it ranked higher - 15 out of 169 countries (in 2010) - on the United Nations Human Development Index, which takes into account not only economic performance but also performance in the fields of health, education and gender equality. It commands advanced technologies – it has several civilian and military satellites circling Earth. Internationally, it enjoys a strong alliance with the United States and preferential treatment by several EU countries.

But Israel is a classic case of a country whose macro-economic indicators are good but most of whose households are not invited to the end-of-year celebration. Israel has one of the highest poverty levels in the OECD, one of the highest levels of inequality, and one of the lowest achievement levels in international school tests. How can we explain these apparently contradictory indicators?

Perhaps the best point to start is the fact that Israel has yet to settle its century-old conflict with the Palestinians. In 1918, when the British took Palestine from the Ottoman Empire, the Palestinians were a majority: 650,000, compared with 50,000 Jews. But the British had promised the land to the Zionist movement; as a result, by 1948, the figures were 1.1 million Arabs and 0.6 million Jews. The United Nations voted to divide up the land into a Jewish and an Arab state. The Palestinians opposed the decision and took up arms. In the war that ensued, the Jews were the victors, and most of the Palestinians fled or were expelled from the areas that came under Israeli control, creating a huge refugee problem that still lingers on. In the same war, Israel defeated the Syrian, Iraqi, Jordanian and Egyptian armies that came to the aid of the Palestinians. With some or all of those armies it fought again and again in 1956, 1967 and 1973.

The first positive change came in 1979, with the signing of a peace treaty with Egypt, the major military adversary. Then in 1993 Israel and the Palestinian Liberation Organization recognized each other and signed the Oslo accords that established a

Palestinian Authority in the Gaza Strip and the West Bank. The next year Israel signed a peace treaty with Jordan. Those two treaties helped improve Israel's international standing and expand its international trade. But the Oslo accords did not lead to the establishment of a Palestinian state nor to the end of the Israeli occupation and colonization of Palestinian territories conquered in 1967: Israeli settlements are now home to about 300,000 Israelis, not counting the Israeli population of the Palestinian areas of Jerusalem unilaterally annexed by Israel in 1967. The conflict is expressed in almost daily small-scale confrontations, but it also led to two large-scale Palestinian uprisings, the first intifadah in 1987 and the second one in 2000.

The ongoing conflict has high social and economic costs. Each of the two intifadahs was accompanied by increased misery for the Palestinians but also by economic downturns for Israel: the second intifadah resulted in two years of negative GDP growth. The incessant hostilities led to high defense expenditures: in the mid-2000s, these reached 7.3% of GDP, placing Israel 6th on the CIA World Factbook list (8 of the top 10 countries are Arab) regarding outlays on defense. The burden on the Israeli budget is somewhat eased by the fact that the United States funds about one fifth of Israel's defense budget.

The high defense expenditures funded not only a large and modern army but also the growth of a sophisticated military industry, now accounting for about 10% of all Israeli exports. In the early 1990, in the wake of the collapse of the Soviet Union, some of those industries were privatized and some of the accumulated knowledge civilianized, leading, among other things, to the flourishing of hi tech industries and services. Israel is best known for its research and development capabilities, which often produce innovations that are sold to international IT giants. Those giants - Microsoft, Intel, HP and others - have also established their own R&D centers in Israel. In fact, most Israeli R&D workers are employed by multinational corporations.

Hi tech has given Israel the shining image of *A Start-Up Nation*, to use the title of Dan Senor and Saul Singer's book. Yet hi tech industries and services hardly represent the nation as a whole, as they employ not more than 10% of the Israeli civilian work force. Furthermore, most of them are located in the center of the country, in and around Tel Aviv. They employ mostly graduates of the best high schools and top universities. The lucky ones can earn millions of dollars if and when they make a successful exit – selling their product to US giants. But regular work is also well remunerated: average hi tech salaries in 2010 were about NIS 18,000 per month – around \$ 5,150, or \$ 62,000 per year (at May 2011 exchange rates). This is lower than the equivalent pay in the US, but enough to place a family with two earners making that sum in the upper decile of the Israeli household income scale.

For Israelis lucky enough to make those sums, this is of course a welcome change. But there is little room for hope that the elevation of this stratum is the harbinger of things to come for the rest of Israelis. Among other things, because new privilege is accompanied by new walls of protection and exclusion, such as public schools made exclusionary by self-imposed, parental out-of-pocket payments. The government, for its part, ensures privilege by making consecutive cuts in personal income and corporate taxes, the proceeds of which could serve, among other things, to improve education for those left behind.

Less well-off Israelis may attempt to imitate the privileged, in what Joseph Stiglitz aptly calls "trickle down behaviorism," but their chances of success are slim: 75% of Israeli employees earn no more than one-third of high-tech salaries, that is, NIS 6,000 a month, or \$1,700 (at May 2011 exchange rates). Israel has always had a low-wage economy. In the 1980s, the fledgling hi tech and financial services created, for the first time, a platform for an Israeli Western-style upper-middle class, but that class is small. The main task facing Israel is, thus, to lift a sizeable chunk of the rest to a similar level of income and life-style.

Who are "the rest"? In 1948, the vast majority of the 600,000-strong Jewish community consisted of European Jews, presently sharing the collective appellation Ashkenazi. Most hailed from Eastern Europe, the popular base of Zionism; another sizeable contingent came from Western Europe, mainly from Germany, after Hitler assumed power. Within one decade after the war of 1948, approximately 900,000 Jewish immigrants had arrived, about 45% of them Holocaust survivors from Europe and some 55% Jews from Arab countries. By then, the veteran, pre-1948 community, was firmly ensconced in all the important political, economic and cultural positions. All new immigrants found absorption conditions difficult; but Holocaust survivors shared with the pre-1948 Jewish community language (Yiddish, Hebrew, or at least one of the major European languages), history and culture. Eventually, they blended in with the veteran Ashkenazi Jews.

The adjustment of the Jews from Arab lands, whose ranks were to be reinforced by subsequent waves of immigrants, was more problematic: with some exceptions, they spoke Arabic (or, in the case of Jews from North Africa, French), while the foreign language taught in Israeli schools was English. Most had not been active Zionists, and their communities had been enervated by an abrupt uprooting from the Arab countries. Most families ended up spending many years in transitory camps. They were eventually settled in peripheral areas of the country, where they suffered high levels of unemployment throughout the 1950s. It was only when Israel embarked on a course of rapid industrialization that they were finally "absorbed," at the cost of collective proletarianization. All of which served to cement an enduring social, economic and cultural cleavage between Ashkenazi Jews and Mizrahi Jews, the latter appellation reflecting the common fate experienced by communities as disparate as those of Moroccan, Iraqi or Yemenite origin.

Social and economic gaps between the two groups remain a defining characteristic of Israeli society. Mizrahi Jews constitute around 45% of first and second generation Israeli Jews (statistics are not available on the ethnic origin of third-generation Israeli Jews). Many still reside in peripheral areas – in so-called "development towns" in the Galilee (north) and the Negev (south), and "south of the tracks" in big cities like Tel Aviv and Jerusalem. Urban Mizrahi employed persons (second generation) earn, on average, about 40% less than their Ashkenazi counter-parts; Mizrahi high schoolers, on average, do worse than Ashkenazi ones in matriculation examinations, and fewer of them attend colleges and universities.

Mizrahi Jews have mounted some of the most outstanding social protests in Israel, most notably the protest movement that began in the Wadi Salib neighborhood of Haifa in 1959 and the Black Panthers' movement that formed in Jerusalem in 1971. A decade later, the Mizrahi plight gave rise to Mizrahi political parties, the most

successful of which is the ultra-Orthodox Shas party, presently (2011) holding 11 of the 120 Knesset seats. Mizrahi Jews have also given massive support to the right-wing Likud party, up until 1977 the major opposition party to Mapai (Labor), the party that dominated most state agencies at the time of the arrival of the Mizrahi Jews.

The year 1948 created another line of cleavage, between Jewish Israelis and Arab-Palestinian Israelis. Of the approximately 1.3 million residing in the former territory of the British mandate in 1949, between 600,000 and 700,000 fled or were expelled from areas that came under Israeli control. This was the beginning of the Palestinian refugee problem. Some 150,000 Palestinians remained within the borders of Israel. At the present time, Palestinians who are citizens of Israel number 1.2 million.

Israel's Palestinians fared badly, compared to Jewish citizens. For two decades, up to 1966, they were under military administration which restricted their movements. Most of their lands were confiscated and given over to Jewish villages, towns and development projects, transforming the mostly peasant Palestinian community into hired hands. Little government money came their way: for decades, their villages saw little if any investments in infrastructure and industrial development; governmental services such as education and health were poor. As a result, Palestinian Israelis find themselves at the bottom of almost all social and economic indicators: school attendance, high school graduation, university and college enrollment, hi tech employment, infant mortality, poverty, crime, imprisonment. Urban Arab employed persons earn about 30% less than their Mizrahi and about half of their Ashkenazi counterparts. Worst off among Arabs is the formerly nomadic Bedouin community in the south of the country, and especially those who live in the so-called "unrecognized" villages, which have no access roads, no municipal infrastructure, and no governmental services like education.

The Yitzhak Rabin cabinet (1992-1995) put an end to some forms of overt discrimination and began investing in Arab communities, especially in school construction. Recently, prominent Israeli hi tech leaders have been discussing hiring larger numbers of Arabs and promoting Arab entrepreneurs. The government itself is beginning to employ more Arab employees.

Palestinian protests have focused mainly on land confiscation. On May 30, 1976, Palestinians came out en masse to protest the confiscation of lands in the upper Galilee. Six protestors were killed by Israeli security forces. May 30th became an annual day of protest, under the name of "Land Day." Palestinian citizens of Israel also instituted May 15 as the "Day of the Nakba," in commemoration of the catastrophe (Nakba) that befell them with their defeat in the war of 1948.

In the first decades after 1948, the only political party that spoke openly of the plight of Palestinian citizens of Israel was the Communist party; in 1977 it gained 51% of Arab votes. Since then, the political scene has diversified, and at the present time (2011), there are 18 Arab members of Knesset (3 more are Druze, a subdivision of the Arab community that is closely identified with the Israeli state), 10 of them representing three almost exclusively Arab parties.

The Ashkenazi/Mizrahi and the Arab/Jewish cleavages, while the major ones, are not the only ones. Another major line of cleavage is that between secular Jews and Orthodox ones. The Orthodox community is a descendant of a reaction movement of the traditional, devout European Jewish community to the enlightenment and secularization movements. Orthodox Jews, *Haredim* in Hebrew, are easily distinguishable by the black attire of the men and the head-coverings of the women. They live in separate neighborhoods, send their children to separate schools, and are represented by separate political parties. Together with Shas, they have 16 Knesset members. Haredim have the highest rate of poverty, higher than that of Israeli Arabs; one of the reasons for this is the low rate of participation of Haredi men in the work force. The Haredi community makes up for the lack of earned income with state subsidies that are offered to men enrolled in religious educational institutions.

Immigrants from the former republics of the Soviet Union, about one million in number, constitute another distinguishable group. They are spread throughout the country, but they still maintain Russian-language newspapers, and Russian-language television and radio stations, and they have a representative political party, with 15 Knesset members. Though many immigrants from the former Soviet Union have done well, especially those who joined the high tech industry, others are still over-represented among low wage earners and under-represented among high wage earners.

Jewish immigrants from Ethiopia, about 100,000 in number, are in many ways distinct from all the rest. They live in Ethiopian-majority neighborhoods, study (mostly) in Ethiopian-majority schools, hold mostly menial jobs and despite heavy governmental aid, especially in the areas of housing and higher education, the vast majority of them are poor. University graduates have a hard time finding jobs, with many ending up in NGOs or government departments dealing with Ethiopian immigrants.

Finally, there are large numbers of non-Israelis in the labor market. Starting in 1967, Palestinians from the occupied territories began commuting to Israeli agricultural settlements and urban construction sites. In the late 1980s they numbered about 150,000. The first intifadah caused the government to restrict their entry. Instead, the government permitted entry of migrant workers from outside the Middle East. There are now some 300,000 migrant workers – Filipino females caring for the elderly, Chinese and Romanians working in construction, and Africans working in restaurants and hotels. Needless to say, none of the non-Israeli workers is protected by Israeli unions, nor do inspectors from the Ministry of Labor see to it that their employers act in accordance with Israeli labor laws.

Does the state-run social security system provide where the labor market does not? By the 1980s, Israel had developed a European-style safety net, with old age insurance, child allowances, unemployment insurance, long-term care, disability insurance, income maintenance, maternity leave, and more. However, allowances are much lower than their Western European equivalents. Another distinguishing feature of Israel's social security system is that while workers' monthly payments to the Social Insurance fund are equal to those in OECD countries, employers' contributions are only about one-quarter of the OECD average, which explains the great discrepancy in

the size of benefits between Israel and Western European countries, making those who need to rely solely on Social Insurance payments, in effect, poor.

Let us now turn to macro-economic policy. During the first three decades after 1948, Israel was characterized by a developmentalist agenda, whereby the state controlled most capital flows, directed investments, orchestrated rapid industrialization, developed infrastructure and housing, aimed for full employment, and instituted universal elementary, followed by secondary, education. During most of those years, GDP growth registered 10% on average. The development of the military-industrial complex rode that wave of state-led developmentalism. In 1985, following a severe economic crisis, Israel changed course, guided in large part by the evolving Washington Consensus. From then on, emphasis would be placed on economic growth, with less attention being paid to full employment or upgrading the labor force; the business sector, not the state, would be at the helm of economic growth; and the state itself was downsized. The state became preoccupied with reducing its borrowing in order to expand and cheapen business credit, with privatizing many of its own enterprises, with cutting the cost of labor, and with aiding business exports.

Within a decade or so, Israel saw the rise of a clearly identifiable business elite, which slowly concentrated around some twenty major family-owned, pyramidal business groups that now control a quarter of the companies listed on the Tel Aviv Stock Exchange. Some of the leaders of those large business groups adorn the list of world billionaires, which presently (2010) counts 16 Israelis. The top business groups include Israel's major banks, insurance companies, hi tech industries and services, and real estate firms. Their executives are well remunerated: the cost of the top executives in the 25 largest public corporations was (in 2010) more than 90 times the average Israeli salary. The major business groups have gained considerable political clout, giving rise to legislative attempts to at least separate financial from industrial and commercial holdings.

The problem is, the new economic policies, based as they are on the goal of maximizing business-led growth, have resulted in the marginalization of large chunks of the Israeli population. Business investments are concentrated in the center of the country and in a few industries: high tech, finance, and real estate. The Tel Aviv district and the Central district attract the bulk of new investments; the north of the country and its south, and even the Jerusalem district, receive much less. The same country that has some of the most advanced R&D facilities in the world is home to towns that are still stuck with low-tech, low-wage, low-mobility industries established in the 1950s. With the state down-sizing itself and with the business elite going global, there is little prospect that the near future will see a dramatic change in the situation of those who find themselves outside the global economy.

Throughout these developments, Israeli workers have been losing their collective power. Union membership, which stood at 70% in the 1950s and 1960s, is down to 25%-30%. The Histadut, once one of the strongest union federations in the world, was shorn of its powers: it sold most of the firms it once owned, including the largest bank, Hapoalim, and the single largest industrial conglomerate, Kur. It lost control over Israel's largest HMO (Health Maintenance Organization) – once the largest source of income to the Histadrut, as HMO membership fees were passed on to the Histadrut. It also lost its pension funds. Pension fund monies, which once served to

finance Histadrut enterprises, now serve to finance the privately-owned business groups.

The Histadrut, which never managed to overcome the national, ethnic and other cleavages within the Israeli workforce to form a country-wide coalition of labor, now represents a relatively small number of strong unions, mainly in the public sector. The 60% of Israeli workers who earn less than 75% of the average wage, including the 40% who earn less than half the average wage, have no strong voice representing their case. In the last few years a more militant unionizing campaign is being lead by a new organization, Koach LaOvdim.

Women workers fare the worst. Most low-wage earners are female. Nationally, their monthly salaries are about 60% those of males and their hourly wages 80% those of males. The better-off women used to work for the state, as teachers, nurses and social workers. This was once the territory of Ashkenazi women; in recent years, many Ashkenazi women have moved into the business sector, where prestige and remuneration are higher, while Mizrahi and new immigrant women from Russia have taken their former places, at a time when budget cuts have negatively affected prestige and remuneration. Arab women's participation in the labor force is very low; among those who are employed, many work for the state institutions located in Arab localities. In general, women who are less well-off are employed in clerking, selling and caring; these are the provinces of Mizrahi and Arab women, new immigrants, and migrant workers.

Israeli women – Jewish and Muslim, Christian and Druze alike – are subject to religious institutions in which they have inferior status (to that of men) when it comes to personal status matters. As a civic category, they have yet to make a breakthrough: their representation in most political institutions is low compared to that in western European countries. One area where they have made a significant advance is education: women have higher high school matriculation rates than men, and higher representation in the student bodies of colleges and universities. However, their representation in the ranks of the faculty is still low, especially at the higher echelons.

For Israeli society and economy to move up a grade, three major transformations need to take place. **The first is a political settlement of the Israeli-Palestinian conflict.** This may not allow for an immediate reduction in defense expenditures, but it may at least prevent routine additional expenditures tagged for "hostilities" in the occupied territories. Over the last two decades, these expenditures have amounted to more than the combined annual budgets for Education and Health. A political settlement would also raise Israel's credit rating and open up new markets in the region. Most importantly, it would facilitate a major change in the national agenda, from guns to butter and from the prioritization of military affairs to the prioritization of civilian and social ones.

The second transformation needed is in the field of education. At the present time, less than 50% of Israeli 17 year olds receive a high school matriculation diploma, and only about 30% of the age group enrolls in college or university within eight years of high school graduation. Down-sizing of the state, which began in 1985, has hit the budgets of most schools, especially in the social and geographic periphery of the

country. Parents who can afford it, most of them in the big cities in the center of the country, improve their children's chances by making out-of-pocket payments for additional teaching hours inside the schools and private lessons outside of them. And this, in turn, works to make high scholastic achievements the privilege of a shrinking sector of the population.

In contemporary Israel, income and wealth are becoming more and more concentrated - which brings us to **the third transformation needed: a long-term investment policy that centers not only on high-tech and finance, and not only in the Tel Aviv area.** Such a policy change, combined with a long-term educational transformation, would provide a much larger pool of highly educated persons capable of functioning in a global environment. This needs to be accompanied by a labor policy based on workers' rights and strict, universal implementation of labor laws.

Links to some relevant Adva Center publications:

Israel, A Social Report 2010 –

<http://www.adva.org/uploaded/social-Eng-site%20final.pdf>

Israel's Unbalanced Economic Development

<http://www.adva.org/uploaded/investments-eng.pdf>

Through a Gender Lens 2011-2012: Looking at the National Budget Proposal and the Budget Arrangements Law for Fiscal Years 2011 and 2012.

<http://wbf.org.il/Uploaded/throughgenderlensENG2011.pdf>

Workers, Employers and the Distribution of Israel's National Income, 2010.

http://www.adva.org/uploaded/labor%20report%20in%20English%20press%20release_1.docx

Ten Facts you Probably Did Not Know About Israeli Women

http://www.adva.org/uploaded/10_facts.pdf

The Cost of Occupation: The Burden of the Israeli-Palestinian Conflict, 2010 Report.

http://www.adva.org/uploaded/E-kibush_2010_for%20site.pdf

Separation, Inequality and Faltering Leadership: Education in Israel.

<http://www.adva.org/uploaded/education%20English%202009.pdf>

Israel's March of Folly

<http://www.adva.org/uploaded/Israels%20March%20of%20Folly%20-%20Shortened%20Final.pdf>

Non-discriminatory hiring practices in Israel Towards Arab Citizens, Ethiopian Israelis and new immigrants from Bukhara and the Caucasus.

<http://www.adva.org/uploaded/Affirmative%20Action%20in%20Israel%20in%20the%20Area%20of%20Employment.pdf>