From Heart Felt Growth to Systematization

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*This article examines the development of the Israeli capitalist class and the role played by the state apparatus in that development. In contrast to analyses claiming that Israel was a "socialist-type" economy prior to the mid-*1980*s, it argues that the Labor Zionist movement fostered the emergence of an indigenous capitalist class by encouraging the growth of private capital through key conglomerates initially tied to the state. Following the* 1985 *Economic Stabilization Plan, these conglomerates were placed in private hands linked with large foreign capital. Israel's recent incorporation into the global economy has undermined the traditional sustaining elements of the Zionist project, producing a crisis of legitimacy in the state. It also has important ramifications for the future of Israeli-Palestinian relations.*

IT IS WIDELY recognized that Israel's economic structure over the last two decades has changed significantly to embrace an outwardly expanding vision of global capitalism. This shift has been marked by the privatization of state-owned and quasi-state enterprises, the relaxation of government control of the capital markets, and increased foreign investment. Popular and academic commentary has analyzed the ramifications of this shift on the political, legal, economic, and cultural spheres of Israeli society as well as on relations with Arab neighbors.[1]

Despite the large number of books and articles devoted to this dramatic transformation, attempts to explain it are not persuasive. Most analyses posit the changes as the result of an ideological shift in Israel's ruling elite. According to this view, the Israeli leadership initially subscribed to a version of socialist ideology. In the mid-1980s, however, as a result of the end of Labor's power monopoly and the rise of the right wing Likud, the leadership was said to have abruptly embraced a neo-liberal capitalist prescription for the country's economic woes. This ideological-push explanation of the transformation of Israel's political economy[2] fosters the view of Israel as a "special case" whose uniqueness defies standard methods of historical inquiry.

This article argues that the emphasis on ideology has played down and in some cases obscured Israeli class relations. The fact that Israel's economy was state-controlled and directed for decades by the Labor Zionist movement was not a reflection of socialist ideology but an outgrowth of the context in which

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it developed: during the colonization period, the absence of a strong indigenous Jewish capitalist class led the state (or proto-state) to control investment, but this control was not antagonistic to private capital. To the contrary, from 1948 on the state pursued policies aimed at nurturing a capitalist class by encouraging a few key families to undertake joint projects and investment with state and quasi-state enterprises. The turning point in this state-led class formation was the 1985 Economic Stabilization Plan (ESP), which led to the emergence of private capital as a class independent from the state.

The Early Years

In the pre-state period, the private Jewish capitalist class resident in Palestine was a weak and disorganized force incapable of taking the lead in the Zionist project of settling the land. From the beginning of the 1930s, this leadership role was assumed by the Labor faction of the Zionist movement represented by Mapai (The Workers Party of Eretz Israel) and its principal arm, the Histadrut (General Federation of Workers in Eretz Israel). Until 1948 the Histadrut (whose leadership substantially overlapped with Mapai's) controlled the key elements of the Zionist project: colonization, economic production and marketing, the labor force, and defense. And since local private capital was too weak to provide enough employment for the new immigrants, it fell to the Labor Zionist movement, particularly the Histadrut, to create jobs by "establishing its own industrial, financial, construction, transport, and service enterprises."[3] These enterprises ultimately formed the core of the great conglomerates that for decades dominated the Israeli economy.

When Israel was established in 1948 under the leadership of Labor Zionism, the Jewish population was overwhelmingly composed of European (Ashkenazi) Jews, who comprised 87.5 percent of all Jewish immigrants to Palestine between 1919 and 1948.[4] With the expulsion of most of the indigenous Palestinian population in 1948, resulting in the absence of the readily exploitable working class traditionally found in colonial situations, the state embarked on a massive immigration program aimed at bringing Jews from the Middle East and North Africa (Mizrahi Jews) to settle in the new state. The imported Mizrahi Jews were able to constitute a working class on which the economic foundations of the country could be built. The Mizrahim thus laid the basis for the first wave of industrialization that began in the late 1950s and was centered on the so-called Development Towns.[5]

This early history is instructive with regard to the role played by the state (or prior to 1948, the "pre-State state," as the Histadrut is often termed) in class development. At the level of the working class, the state led the process of immigration and settlement of Mizrahi Jews in specific industries and localities. At the level of the capitalist class, the Labor Zionist movement, through its unchallenged control of the state apparatus, adopted a strategy of state-led industrialization funded through external capital flows. This