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**The Role of the State in the Emergence  
of the Israeli Capitalist Class**

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The Role of the State in the Emergence of the Israeli Capitalist Class

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Declaration:

I certify that this thesis submitted for the degree of Master is the result of my own research, except where otherwise acknowledged, and that this thesis (or any part of the same) has not been submitted for a higher degree to any other university or institution.

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## Abstract

This thesis presents an analysis of the development of the Israeli capitalist class from the establishment of the state in 1948 up until 2002. The paper focuses in particular on the role that the Israeli state apparatus played in the development of this class and argues that ideology alone cannot explain the transformation of Israel's economy over the last 15 years.

Rather, the basic thesis put forward below is that the changes in Israel's economy can best be understood by viewing the "economy" as a site of political contestation between classes. In the case of Israel, this paper argues that a central motif in understanding Israeli society and economy is the relationship between the state and class building projects. The role of the state in developing and strengthening an indigenous Israeli capitalist class explains the historical hegemony of Labor Zionism as well as the most recent transformation of the Israeli economy over the last decade.

Briefly put, this thesis examines three periods of Israeli class development: 1948-1973, 1973-1985, 1985- the current day. With the establishment of Israel in 1948, the state directed all foreign capital resources (from German reparations and Jews living outside the country) to national needs, through large conglomerates allied with the state and the Labor Zionist movement. This thesis argues that these transfers were also focused on a layer of families involved in private capital that were closely allied to the state such as the Ofer and Recanati families during this period.

In the second period, 1973-1985, the Israeli political economy was centered around two phenomenon, high levels of military production and high rates of inflation. The paper argues that both of these elements strengthened the key conglomerates and led to the domination of five core conglomerates: Koor, Clal, IDB, Hapoalim and Leumi. These conglomerates formed a shell under which the capitalist class was able to grow.

The paper focuses in some detail on the period following the 1985 Economic Stabilization Plan, when the Israeli state initiated a dramatic change in the relationship between the class and state projects. Through a detailed analysis of the changes beset by the ESP, it attempts to provide an analysis of the social origins and roots of the new capitalist class which characterized the Israeli economy during the 1990s and into the new millennium.

The paper presents a theoretical analysis of literature on the state, and attempts to draw conclusions on how this literature may be enriched through an examination of the Israeli case.

The paper also discusses the ramifications of these changes on the political and cultural levels of Israeli society, arguing that on the cultural level the increasingly close articulation between the Israeli and US economies has produced an Americanization of Israeli culture. On the political level, these changes have been a major force in the move towards the Oslo Accords and the peace process which were critical in allowing the new Israeli capitalist class to move onto the regional and international stage.

## ملخص عربي

تبحث هذه الرسالة دور الدولة في تطور طبقة الرأسمالية في إسرائيل وبالتحديد كيفية تطور الطبقة الرأسمالية في إسرائيل ودور الدولة في هذا التطور. تقليدياً، إن معظم النقاشات الأكاديمية بين الأكاديميين حول الاقتصاد الإسرائيلي، رأت في إسرائيل نظاماً إقتصادياً إشتراكياً بسبب دور الدولة الواسع في إدارة دفعة الإقتصاد. وترسخ هذا الاعتقاد من خلال أيولوجيا الحركة العمالية الصهيونية التي روجت لحركة التعاونيات، وفكرة العمل اليهودي ودور الهستدروت. وفي منتصف الثمانينيات، واجه التوجه التقليدي مشكلة في كيفية تبرير أو شرح التغيير والتحول في الاقتصاد السياسي الإسرائيلي من نظام يتميز بشركات تجارية كبرى مملوكة للدولة إلى إقتصاد ليبرالي جديد.

إن ما توصل إليه هذا البحث، يتناقض مع هذه التحليلات أو الرؤى، حيث أن هذه الميزات في المجتمع الإسرائيلي تفهم أو تفسر بطريقة أفضل من خلال رؤية الدولة كمحفز وباني للطبقة الرأسمالية، إذ تقوم على رعايتها وحمايتها وذلك في إطار مشروع إستعماري أوسع. وبكلمات أخرى، إن نظام الاقتصاد السياسي لدولة إسرائيل يفهم بطريقة أفضل من خلال مفهوم العلاقة المتبادلة ما بين مشاريع بناء الدولة، والطبقة والأمة.

والجدير بالذكر، أنه يوجد هنالك فترتين تاريخيتين أساسيتين ما بين عامي 1948 و 1985.

### الفترة الأولى تمتد من عام 1948 وحتى عام 1973:

حيث تميزت هذه الفترة بكونها الفترة الأولى في مرحلة بناء الدولة والطبقة. فخلال تأسيس الدولة في عام 1948، كانت الطبقة الرأسمالية ضعيفة للغاية وغير قادرة على قيادة المشروع الاستيطاني بسبب كون المصلحة الرأسمالية تكمن في العمالة الفلسطينية الرخيصة، وبالتالي فهي غير قادرة على توفير فرص عمل وأجور عالية للمستوطنين اليهود. ولهذا السبب، فإن الدولة والحركة العمالية الصهيونية كانت هي الساندة. إذ طورتا معاً نظاماً إقتصادياً مغلقاً والذي أدى إلى تنحي الفلسطينيين عن سوق العمل والأرض. ولاحقاً لعام 1948 كانت الدولة تمول من تحويلات رأسمالية قادمة من ألمانيا أو من اليهود في أنحاء شتى من العالم. وقامت الدولة بإدارة رأس المال هذا من خلال

الهستدروت، وشركات الدولة، وكذلك من خلال مجموعات واسعة من الشركات التجارية الخاصة والتي تركزت في عائلات وأسر ذات علاقة قوية بالدولة والحركة الصهيونية.

وفي ذات الوقت الذي تم فيه تهجير السكان الفلسطينيين، قامت الدولة بخلق طبقة عمالية جديدة من بين اليهود الشرقيين، وذلك من خلال الموجة الأولى للتطوير الصناعي في مدن التطوير. وفي أواخر الستينيات، كان التحكم بالإقتصاد الإسرائيلي يتم من قبل خمس تجمعات تجارية أساسية وهي: كور، هبوعاليم، لينومي، كلال، و آي. دي. بي. هذه التجمعات الخمسة كانت توجه أو تدار من قبل الدولة والهستدروت معا، فيما عدا مجموعة آي. دي. بي والتي كانت تدار من قبل أسرة راكاناتي. ويلي هذه التجمعات الخمسة، طبقة من الشركات التجارية الخاصة التي تشجعها الدولة من خلال مشاريع واستثمارات مشتركة مع تلك التجمعات الخمسة الأساسية. ومع بداية احتلال عام 1967، تم استيعاب الطبقة العمالية الرخيصة من بين الفلسطينيين في الأراضي المحتلة ضمن الاقتصاد الإسرائيلي وفي ذات الوقت توسع سوق السلع الإسرائيلية ليشمل الأراضي المحتلة عام 1967.

#### الفترة الثانية، وتمتد من عام 1974 وعام 1985

رغم أن إقتصاد الدولة كان يواجه خلال هذه الفترة نسبة عالية من التضخم، كان الإقتصاد الإسرائيلي يتمحور حول الإنفاق العسكري بشكل كبير. إذ قامت الدولة بتوجيه أموال الدعم إلى تلك التجمعات الخمسة الأساسية والتي ركزت بدورها على الإنتاج العسكري، مع أن الإقتصاد ككل كان يتداعى. إن هاتين السياسيتين؛ الإنفاق العسكري البالغ والتضخم المالي، تم تشجيعهما من قبل الدولة. وفي منتصف الثمانينيات، بدأ النظام الإقتصادي السياسي يتداعى من جراء معاناته من عدة عوامل. وهذه العوامل تتمثل بالانحسار في الإقتصاد العالمي، تدني الطلب على المعدات العسكرية، وتضخم محلي متسارع جدا. الأمر الذي جعل من المستحيل القيام بأي تخطيط إقتصادي. وكردة فعل على هذه التغيرات والعوامل، قامت الدولة في عام 1985 بتبني خطة دعيت بخطة الاستقرار الإقتصادي.

#### وهذه الخطة شكلت بداية الفترة الثالثة في الإقتصاد الإسرائيلي

وتمتاز هذه الفترة بأربع عمليات متشابكة والتي لم تحدث مباشرة لمرة واحدة، بل امتدت طوال فترة زمنية

تصل إلى يومنا هذا. وهذه العمليات هي:

الأولى، كانت التغيير في العلاقة ما بين الدولة والتجمعات الخمسة الأساسية، حيث تم فصل التجمعات الأساسية عن أجهزة الدولة ونقلت إلى أيدي الطبقة الرأسمالية الجديدة؛ وتم هذا من خلال خصخصة الشركات المملوكة من قبل الدولة وتجزئة إمبراطورية الهستدروت.

الثانية، وهي تتمثل في تشكل الطبقة الرأسمالية الجديدة من ثلاث اتجاهات أو مصادر، وهذه المصادر الثلاثة كانت أولا رأسمال عالمي، وغالبا ما كانت على علاقة مع الحركة الصهيونية، كتيد أريسون وتشارلز برونفمان. وثانيا رأسمال محلي خاص تم دعمه في السابق من قبل الدولة كأسرتي راكاناتي وأوفر، وثالثا عناصر من بيروقراطيي الدولة الذين قادوا خطة الاستقرار الاقتصادي وعملية خصخصة الاقتصاد.

والعملية الثالثة، تمثلت في إندماج إسرائيل ضمن الاقتصاد العالمي أو المعولم. وبكلمات أخرى، ازدادت الاستثمارات والملكيات الأجنبية في إسرائيل، وبدأ رأس المال الإسرائيلي يمتد إلى الاقتصاد العالمي.

والعملية الرابعة والأخيرة كانت تتمثل في إعادة تشكيل علاقة الطبقة العمالية برأس المال، ونقل الثروات من أيدي الطبقة العاملة إلى رأس المال، والذي قادته الدولة من خلال سياساتها، كالتوقف عن دعم الدولة لسلع معينة.

وأدت هذه العمليات الأربعة إلى تشكيل طبقة رأسمالية منفصلة عن أجهزة الدولة. ومما نرى، أنه بالرغم من تحكم الحركة العمالية الصهيونية بالإقتصاد الإسرائيلي، والادعاء بأيدولوجية التوجه الاشتراكي، لم تكن الدولة تعارض الرأسمال الخاص، وبدلا ساعدت في خلق الظروف الملائمة لنمو هذه الطبقة.

كما يتمحور البحث أيضا حول كيفية إنعكاس هذه التغييرات الاقتصادية السياسية على المستوى الثقافي والسياسي، وعلى الأخص، التغيير نحو أمركة الثقافة الإسرائيلية المرتبطة بنمو الترابط والتبادل ما بين الاقتصاد الإسرائيلي والأمريكي، وكذلك التغيير السياسي كاتفاقيات أوسلو أو العملية السلمية والتي كانت خطوة مهمة في السماح للاقتصاد الإسرائيلي للتحرك نحو المستوى العالمي والإقليمي.

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"We've had two stages of Zionism--agriculture and defense. You can't build a country on agriculture and defense. Now we need a third stage of Zionism based on export- related capitalism."<sup>1</sup>

## Chapter 1: Introduction

These words from a 1995 interview with Stef Wertheimer, an owner of Israel's fifth largest bank and a leading entrepreneur, is a popular reflection of much scholarly analysis concerning Israel's political economy. It is generally acknowledged that over the last 15 years, Israel's economic structure has changed significantly and Israel has embraced an outwardly expanding vision of global capitalism. A great deal of popular and academic commentary has analyzed the ramifications of this shift on the political, legal, economic and cultural spheres of Israeli society and external relations with Arab neighbors.<sup>2</sup>

Despite the widely acknowledged realization that Israel's political economy has undergone a dramatic transformation, a striking lacuna within the large body of literature on this theme is a satisfying explanation into the reasons for this change. The vast majority of analysis – whether academic or popular – posits these changes as being the result of an ideological shift in Israel's ruling elite. Put simply, Israel's leaders used to ascribe to a version of socialist ideology and then in the mid-80s they rapidly embraced a neo-liberal capitalist prescription for their economic woes. This "ideological-push" explanation of Israel's political economy transformation is a consistent feature throughout recent literature.<sup>3</sup>

The central question this paper aims to address is: What are the origins of the capitalist class that emerged in Israel during the 1990s and what was the role of the Israeli state apparatus in its development? In contrast to the traditional view, this paper argues that ideology alone cannot explain the transformation of Israel's economy over the last 15 years. Rather, the basic thesis put forward below is that the changes in Israel's economy can best be understood by viewing the "economy" as a site of political contestation between classes. In the case of Israel, this paper argues that a central motif in understanding Israeli society and economy is the relationship between the state and class building projects. The role of the state in developing and strengthening an indigenous Israeli capitalist class explains the historical hegemony of Labor Zionism as well as the most recent transformation of the Israeli economy over the last decade.

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<sup>1</sup> Robert Lenzner, "Zionism:Phase III," *Forbes* 18 Dec. 1995, 100.

<sup>2</sup> See for example Shafir and Peled (2000) for a collection of articles on this theme, Maoz Azaryahu (2000) on cultural shifts in Israeli society.

<sup>3</sup> See for example, Aharoni (1998), Paris (2000), Kleiman (1996)

Interpretations of the Israeli economy that emphasize the ideological persuasion of Israel's "elite" are analogous to the way in which the central question of Zionist historiography is also approached: Why did the Labor Zionist movement dominate the Israeli state for so many years? The traditionally prevalent discourse of Israeli sociology, as reflected in the works of the early Israeli sociologists Shmuel Eisenstadt, Moshe Lissak and Dan Horowitz, presents a widely accepted narrative of the coming to power of the Labor Zionist movement tendency within the Zionist movement and its ideological hegemony within the pre-1948 Yishuv and beyond. This narrative locates the hegemony of Labor Zionism in the single-minded determination of its leaders (such as David Ben Gurion), and the commitment and self-sacrifice of the pioneering generation of the Second Aliyah (1904-1914) from which the founding leaders of the Labor Zionist movement were drawn. In both these explanations, ideology is seen as the prime and central force in shaping the economic, political and social conditions of the period in question.

In contrast, this paper will examine the problems with this traditional perspective and put forward an alternative approach for understanding the hegemony of the Labor Zionist movement. At the outset, several problems with the traditional approach to the Labor Zionist movement can be identified which will be examined in further detail below:

- 1) Traditional interpretations that locate the reasons for Labor Zionism's dominant role in its ideological strength and persuasiveness betray a strikingly casual and disinterested approach to the economic and political relationships that shape human activity. These approaches generally start with the assumption that the Labor Zionist movement was led by socialists who wanted to build an egalitarian classless society. An examination of the actual historical record, however, seems to very much contradict this standpoint. Indeed, this approach seems to be very much driven by an attempt to imbue the Zionist movement with a universalist and humanistic ideology which it quite clearly did not possess. In contrast, I argue below that the starting point of any political-economy analysis should be an examination of the concrete class forces that existed in the pre-State period and how these related to the requirements of the settlement project. From this point we can then understand how certain ideological tendencies came to win hegemony over the state and class building projects. Other approaches tend to invest human actors with a much greater degree of freedom in pursuing their ideological interests than a rigorous analysis of the social and economic conditions would actually seem to permit.<sup>4</sup>

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<sup>4</sup> Gershon Shafir, Land Labor and the Origins of the Palestinian-Israeli Conflict 1882-1914. (Cambridge, UK: CUP, 1989), 3.

- 2) Related to the above point, an increasingly large body of criticism has been directed at the traditional schools of Israeli sociology for the lack of consideration given to Palestinians as an indigenous people of the land and therefore a key determinant in shaping Israel's economy, society and polity. This criticism has generally emphasized the colonial nature of Zionist settlement and adopted a comparative approach with other colonial experiences of the 18th and 19th centuries. Shafir, Michael Shalev, Baruch Kimmerling and others have all placed the Palestinian dispossession and the struggle over land at the centre of their analysis of Israeli and Yishuv society. They have argued that the Palestinian presence was the critical determining factor in the "reality" of the early Yishuv. It was this reality which shaped the character of the Zionist movement - particularly its Labor component. The dominant Israeli sociology is criticized for attempting to explain the development of the Yishuv solely in terms of intra-Jewish disputes and for adopting a voluntaristic explanation for the hegemony of Labor Zionism.

The parallel critique elaborated in this paper in regards to Israel's new political economy is the lack of consideration given to the global and regional context of Israel's political economy. Israel's economy is not neutral in regards to Palestinians, in sharp contrast, the proletarianization of Palestinians in the West Bank and Gaza Strip following 1967 played a critical role in altering the structure of Israel's economy and the onset of the Intifada in the late 1980s did likewise. As we shall see below, global economic recessions, supply and demand in the international arms market, and global political developments have all affected the structure of the Israeli state and economy. The transformation of Israel's economy should thus be seen as partly resulting from exogenous forces mediated through and impacting upon an internal class structure.

- 3) The emphasis on ideology has de-prioritized and in some cases completely obfuscated the actually existing class relations of Israeli society. According to the traditional view, because the Labor Zionist movement embraced a form of socialist ideology that promoted the "national good" over class conflict, Israel developed into a classless society where concepts such as rate of profit, worker-capitalist relations and capital accumulation could be safely ignored as categories of analysis. One consequence of this approach is a view of Israel as a "special case", the uniqueness of which defies standard modes of historical inquiry and is explainable only through the mobilizing power of Labor Zionist ideology. I shall show below that this view of Israel as "unique" is itself a highly ideological maneuver that serves to obfuscate what has actually occurred over the last two decades.