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Israel's Neoliberal Turn and its National Security Paradigm

Abstract: Since the early 2000s, Israel has adhered to a particularly virulent strain of economic neoliberalism which has led to an unprecedented rise in nationwide levels of poverty and inequality. Attempts to explain this phenomenon have ignored a key aspect: The need of Israel – and especially its right-wing governments – to create an economic reality that reduces the pressure Israel faces from the international community in the wake of its continued occupation of the territories.

Keywords: *Israel; hawkish neoliberalism; market nationalism; cosmopolitan neoliberalism*

Introduction[1]

In the mid-1980s, the Israeli economy underwent a dramatic debt crisis and inflation, the response to which triggered a profound change in the country's economic regime. Israel's *neoliberal turn*, as it became known, led the government to abandon its policy of direct intervention in favor of deregulation, liberalization and privatization.

Despite being a global trend, with a similar shift taking place in most of the world's economies, Israel's road to neoliberalism has had its unique features. From the 2000s the neoliberal turn became particularly extreme, culminating in an unprecedented rise in levels of poverty and inequality, which ranked among the highest in the OECD. Research shows that during the 2000s Israeli poverty and inequality rates in disposable incomes increased and are very high in comparison to other developed countries (Ben-David and Bleikh 2013).[2] In

[1] This article draws on my recent book, *The Israeli Path to Neoliberalism: The State, Continuity and Change* (Routledge, 2018). A shorter version of this article appeared in Hebrew in *Hazman Hazeh* (2018), bulletin published by *Van Leer Institute* (2018).

[2] For more information about Israel's inequality and poverty rates see Kristal (2013) and the Social Insurance Institute's report (SII 2015).

the summer of 2011, the social malaise reached such a peak that Israelis took to the streets in a great wave of social protest (Rosenhek & Shalev, 2013).

At the same time, Israel's hi-tech industry and other export sectors flourished, turning Israel into a country with a large surplus on the current account of the balance of payments. The "Israeli miracle," as it is often described, also manifested itself in a large number of economic indicators such as low public debt, high level of foreign exchange reserves and high credit rating.So how can these unique features of Israeli neoliberalism be explained?

One explanation is that Israel adopted policy "best practices" of developed countries that were justified on the basis of mainstream economic theories and promoted by professional economists and international institutions (Razin, 2018). However, this explanation would only be applicable to the first decade of Israel's neoliberal turn, from 1985 to the mid-1990s. During this period, professional economists backed the policymakers and supported them almost unconditionally. Since the early 2000s, however, economic discourse in Israel has been riven with controversy, with debates over government policies raging within the community of economists in both the academic world and the civil service (Zilberfarb, 2005; Ben-Bassat, 2002).

Another explanation is that Israel adopted neoliberal and neoconservative ideologies, imported from the United States, due to external political and economic pressure (Svirski, 2006; Ram, 2006; Filc, 2006; Maman and Rosenhek, 2011). Indeed, there is a historical basis for the claim that the 1985 Emergency Economic Stabilization Plan, which initiated the neoliberal turn, was a product of American influence. Moreover, there is evidence that since the 1990s and especially the early 2000s, Benjamin Netanyahu, as finance minister and prime minister, played a leading role in introducing neoliberal policies, which were often justified by neoconservative ideology (Ben-Porat & Yuval 2007). However, the ideological explanation is undermined by the tension between the *liberal* values that legitimize a neoliberal regime and the *hawkish* worldview of the political right, which was instrumental in shaping the neoliberal regime in Israel (Ram, 2000, p. 235; Ben-Porat and Yuval 2007, p. 4). Why would a hawkish government advocate liberal policies? Moreover, can an ideology imported by a single person explain the far-reaching changes the Israeli economy underwent in those years? Even if neoconservative ideas helped to shape the local regime–which they probably did–one would need to identify the underlying local interests these ideas served in order to explain how they took root in Israel.

Another popular explanation for the embrace of neoliberalism in Israel are the interests of a small number of powerful actors in the private sector–the "tycoons"–who cultivated links with the government (Maman, 2004; Maman & Rosenhek, 2012). As the biggest beneficiary of the privatization and globalization of the Israeli economy is supposedly the private sector, this sector pushed for change. But this explanation is not satisfactory either. Israel's economic history demonstrates that structural changes in the economy were initiated first and foremost by the state, which granted benefits to the private sector so that it would not stand in the government's way but would rather join forces with it (Shalev, 1998; Maman & Rosenhek, 2012; Krampf, 2018). Moreover, the private sector is not a uniform bloc but a mélange of conflicting interests: While the high-tech sector and exporters benefit from the current economic system, many industries and services are adversely affected and seek to change it. If so, then the question is why the interests of the former took precedence over those of the latter.

The various explanations offered here are no doubt important for understanding why the extreme neoliberal model took root in Israel, but they do not provide a complete picture of the historic process. What is missing, I argue, is taking into account a big elephant in the room which has been largely neglected in research and public discourse to date: the link between neoliberalism and the hawkish foreign policy of Israeli governments.

Following the assassination of Yitzhak Rabin, the collapse of the Oslo peace process and the rise of the political right, the foreign and security policy strategies of Israel were reformulated. This article argues that the hawkish stance of Israel's right-wing governments over the past decade and a half were the incentive for embracing a specific type of neoliberal model, which elsewhere I call *hawkish neoliberalism* (Krampf, 2018). This model was associated with higher levels of inequality and poverty compared to alternative neoliberal models. The argument in favor of hawkish neoliberalism is twofold. One rationale, which often crops up in public discourse, is that radical measures must be taken to fortify Israel's geopolitical and economic resilience amid security threats. According to this view, the hawkish model provides Israel with the ability to weather periods of war and crisis. It is associated with the metaphor of Israel in the Middle East as "a villa in a jungle" whose inhabitants must fortify their economy to ensure their survival. Within this conception higher levels of inequality and poverty are perceived as being the cost of Israel's security conditions.

The second incentive, which rounds out the first and is rarely cited in scholarship or public discourse, is that the hawkish neoliberal model, promoted mainly by Israel's right-wing governments, is designed to reduce Israel's economic dependency on outside agents - first and foremost, the United States and to a smaller degree, European countries - for political reasons. Cutting down Israel's dependence on foreign aid means that foreign governments will have less power to influence Israel's political decisions in such matters as peace negotiations or Israel's handling of the occupied territories.

Two types of neoliberalism

So how is neoliberal radicalization linked to the attempts of Israeli governments in recent years to fortify its de-facto sovereignty? The term neoliberalism is often used as a catch-all phrase whose meaning is not clearly defined. The concept can be better understood by distinguishing between two different models of economic neoliberalism. Studies reveal at least two: the European–or cosmopolitan–neoliberal model, and the Anglo-American–or hawkish–model.

The European neoliberal model prioritizes liberalization of the domestic economy as well as international trade and capital flows. At the same time, it ascribes importance to market-oriented regulation, including regulation of workers' rights, and allows for varying levels of social welfare policies. At the international level, European neoliberalism seeks global or regional multilateral trade agreements founded on international cooperation. The European model is cosmopolitan in that it accentuates the shared benefits of international cooperation and the political ramifications of economic cooperation (Gill, 1998; McNamara, 1998; Ptak, 2009; Bonefeld, 2012; Hermann, 2007).

The concept of cosmopolitan neoliberalism is exemplified by the European integration process, but it is not unique to it. It was also reflected in the overall move toward globalization in the 1990s following the collapse of the Soviet Union, as vividly portrayed in several books that became bestsellers, among them Thomas Friedman's *The Lexus and the Olive Tree* and Francis Fukuyama's *The End of History and the Last Man*. Similar, but more sober versions of the neoliberal paradigm are manifested in the work of scholars of international relations such as Robert O. Keohane and Joseph S. Nye. Cosmopolitan neoliberalism promoted economic interdependence, democratization and multilateralism as a means of maintaining political stability and achieving growth and prosperity (Held & McGrew, 2007; Gowan, 2001).

In contrast, the Anglo-American neoliberal model originated in reforms enacted by Margaret Thatcher in Britain and Ronald Reagan in the United States (King & Wood 1999; Hay, 2006; Harvey, 2005). These reforms were based on the "business-friendly policy" approach, which was implemented at the expense of the welfare state and dealt a significant blow to the power of the workers. In terms of foreign relations, Anglo-American neoliberalism is more "isolationist" than the European model, in the sense that it does not advocate multilateralism and international cooperation.

This is not to say that there are no advocates of cosmopolitan neoliberalism in American policy discourse. It is advocated in the United States mainly by the Democrats, as opposed to the Republicans and neoconservatives, who are more suspicious of the benefits of international cooperation. The neoconservatives do not oppose globalization, but they envision an alternative model of global economy in which the United States uses its bargaining power to promote policies in line with its own interests.

Many semi-peripheral countries, including Israel, were influenced by the neoliberal models of the United States and Europe, even if they did not adopt them blindly. On the one hand, when circumstances allowed it, some countries followed the European model and formed regional economic blocs. This was the case in Latin America, East Asia and Africa. Other countries, which could not or were not interested in joining regional blocs, embraced the hawkish model. From the perspective of a small economy, the global economy is perceived as a battleground in which countries engage in combat through economic means.

Under export-oriented neoliberalism, the central goal of the government is not primarily to boost growth and the citizens' welfare but rather to upgrade the position of the economy in the international arena by employing unilateral measures of market-oriented protectionist policy (Palley 2006; Dooley, Folkerts-Landau & Garber 2003, 2004). The purpose of this policy is to improve the current account balance–reducing the deficit or increasing the surplus–attracting direct foreign investment, slashing the public external debt and the hoarding of foreign reserves by the central bank.

This policy has both economic and political advantages, particularly for a small economy. First, it improves the state's ability to withstand economic and political shocks. Rather than relying on its allies or international organizations, the hawkish neoliberal state relies on its own resources. A second advantage, which stems from the first, is political. The strategy of self-reliance undermines the capacity of external actors–the international community, political allies or international organizations–to influence the policymaking process of the government. In that sense, a hawkish neoliberal regime contributes to the government's autonomy vis-à-vis external actors and to its de-facto sovereignty in a globalized world.

On the face of it, every small country should desire this type of neo-mercantilist neoliberal model. However, it also exacts a heavy social cost. The export-oriented neoliberal model, which drives a country to boost its external competitiveness, is shouldered by the workers and the citizens, who end up being hard-hit by a series of socially-regressive reforms: tax exemptions to export sectors, which are financed by other sectors, the weakening of organized labor and workforce flexibility, the introduction of reforms that lower real wages, and a higher cost of living due to an exchange rate that benefits exporters.

Hence, assessing the impact of the transition to neoliberalism, one must distinguish between two parallel processes: the process of liberalization and deregulation of the economy, and the process of mobilizing the economy through indirect market-oriented policy instruments. Whereas the former is at the core of the cosmopolitan neoliberal regime, the latter is at the core of the hawkish neoliberal regime. In Israel, the rising inequality noted in recent years stems not necessarily from the liberalization process, but at least partially from the policy measures taken to fortify the economy.

This is not a defense of the cosmopolitan neoliberalism of the 1990s or an attempt to embrace it as a social ideal. It, too, was characterized by relatively high levels of inequality for a social-democratic regime. The point is that while both types of regime have regressive effects on the welfare state and the workers, many of the social ills usually associated with the liberalization process are in fact the product of mobilizing the economy.

Between dependence and sovereignty

The two types of neoliberalism presented here, I argue, align with two periods in Israel's economic history since the onset of the neoliberal turn: From 1985 to 1995, Israel was characterized by a cosmopolitan, or dovish, neoliberalism. From the early 2000s and until today, Israel has been characterized by hawkish neoliberalism. In order to understand Israel's transition from one to the other, it is not sufficient to examine the *economic* pros and cons of each regime. Rather one must understand the *geopolitical* conditions underlying the choices made by Israeli policymakers.

As I explain in more detail elsewhere (Krampf 2018), Israel's economic strategy should be understood as a *market nationalism* regime, defined as the implementation of market-oriented policies for the purpose of promoting state preferences. Market nationalism is distinguished from *market liberalism*, which prioritizes liberal values and practices and it is also distinguished from conventional forms of *economic nationalism*, which suppress market forces to achieve state preferences. According to this interpretation, Israel used market-oriented practices to build an "economic fortress that shelters it economically and politically" (Krampf, 2018: 217).

This interpretation draws on the contention that a government guided by a hawkish foreign policy or plagued by security issues will have an added incentive to adopt hawkish neoliberal policies as an alternative to a heavy reliance on international accords and foreign aid. Such a regime, if successful, acts as a kind of economic and political shock-absorber, and helps to exclude outsiders from exercising influence over the local decision-making process.

This is illustrated by a study of the economic regimes of the Baltic States that joined the European Union in 2004 (Bohle & Greskovits, 2007). The countries closest to Russia, which feared for their independence, adopted more rigid neoliberal policies with regressive social implications. On the other hand, countries closer to Central Europe, including Poland and Hungary, adopted a less strict neoliberal model with a dominant social component. According to the researchers, the Russian threat to the national sovereignty and economic independence of the Baltic States led them to choose a more radical form of neoliberal economics.

In Israel too, economic and geopolitical conditions have made "economic independence"–minimizing Israel's reliance on economic aid and Western markets–a critical policy objective since its establishment. However, the weight of this goal relative to others has varied over time. Shortly after the establishment of the state, Israel began receiving reparations from West Germany, which were used to finance the industrialization of the economy and to absorb immigration. Therefore, a reduction of the trade deficit was a not considered a viable policy option. In the mid-1960s, when payments from Germany were coming to an end, the first real attempt was made to minimize the trade deficit and encourage exports by means of the austerity policy of 1965–1966 (Shalev, 1992; Krampf, 2018). This policy did not achieve its goal, but it highlighted the social cost of a more competitive economy: higher levels of unemployment, higher levels of inequality and a more intensive exposure of the labor force to economic cycles.

After the Six-Day War, and even more so after the Yom Kippur War, the urgency of narrowing the trade-deficit diminished as the United States began to provide substantial economic, military and civilian aid. This aid led to a significant increase in government expenditure. It footed the bill for an army befitting a regional power, a European-scale welfare system, generous support for industrialists and exporters, and the costs of administering the occupied territories. The cost of these achievements was a growing economic and political reliance on US economic and military aid.

As long as Israeli and American interests coincided, as was the case during the Nixon administration, which saw strengthening Israel as a means of blocking Soviet influence in the Middle East, American aid was not perceived by Israeli governments as a threat to its sovereignty and autonomy. However, in the second half of the 1970s and the 1980s, American interests in the Middle East changed, with the United States seeking to establish itself as a mediator between the Arab states and Israel. As a result, the Americans began exerting soft pressure on Israel to adopt a more dovish foreign policy. This led to the signing of the peace treaty with Egypt in 1979. Israel's economic dependence on the United States peaked six years later, in 1985, when the Israeli economy was on the verge of collapse. Israel was rescued, eventually, thanks to American emergency aid (Maman & Rosenhek, 2011; Krampf, 2018). The condition for receiving this aid was the adoption of the Emergency Economic Stabilization Plan. Israel's withdrawal from Lebanon to the security zone that year also seems to have been related (Levi 2003, p. 171).

Thus began the age of dovish neoliberalism in Israel - an era of liberalization along with the advancement of the peace process and hopes for regional and international cooperation. Under these circumstances, economic dependence on the United States was not seen as exacting a high political cost. In the 1980s and 1990s, American aid was perceived as part of a political- economic exchange between the United States and Israel. Israel was moving the peace process forward in keeping with American interests and applying a neoliberal economic policy that conformed to the American worldview. In return, it received economic backing from the United States.

The cosmopolitan neoliberal regime was justified on the basis of a rationale formulated by Shimon Peres. In his book *The New Middle East*, he writes that the countries of the Middle East

> *have lost every need for war, as the development of a modern economy depends more on a nation's technological level than on its territory. It is also cheaper to acquire natural resources with money than with weapons, at an economic price rather than at a price derived from war. Secondly, the price of war (and any big war in the future will be in the shadow of nuclear weapons) makes such behavior exceedingly unreasonable* (Peres, 1978, p. 5–6).

Markets were perceived by Peres as a pacifying instrument, from which the private sector on both sides would reap dividends. Indeed, the peace envisioned at Oslo enjoyed broad support from the local business sector, which anticipated profits in the wake of economic cooperation with Jordan and the Palestinian Authority. International companies also began to show an interest. In this respect, the paradigm of the New Middle East derived its inspiration from European neoliberalism and the European integration process (see, Ben-Porat, 2005a, 2005b, 2008).

Under this vision of the New Middle East, economic self-reliance became less of a strategic priority. The first reason was economic: Within the framework of cosmopolitan neoliberalism, trade deficits are seen not as a problem but as the natural and harmless by-product of a free global economy (Klein, 2004). Therefore, the government had no incentive to strive for a current account surplus. The second reason was political: Given that Israel and the United States had a common regional vision, the government could trust America to foot the bill for its peace efforts. The cost of achieving economic self-reliance thus outweighed the expected benefits.

The outbreak of the Second Intifada, accompanied by the collapse of the Oslo framework and the consequent rise to power of a series of right-wing governments marked the end of Israel's dovish neoliberal era. As the catchphrase "there is no partner" gained a foothold in the public discourse, the optimism that underlay Peres' vision of the New Middle East was replaced by the outlook that the necessary prerequisites for the realization of this vision were non-existent. In this new configuration, achieving economic self-reliance regained importance in the eyes of the political leadership.

Despite the liberal rhetoric adopted by the right-wing prime ministers and ministers of finance, a closer look at their policies and how they justified them shows that economic policy was perceived as an instrument to promote Israel's national priorities in the international arena. Along with the need to compensate for the security risks faced by Israel, the hawkish neoliberal regime addressed the widening gaps between Israeli and American interests, which added urgency to the question of economic dependence on the United States. The ability of Israel's right-wing governments to persist in their hawkish foreign policy depended, therefore, on the extent to which they could wrest themselves free from American pressure.

Giving up foreign aid?

While Israel's reliance on the United States cannot and should not be reduced to financial aid, whatever aid is forthcoming provides the Americans with a swift and easy means of intervention in Israeli decision-making. Thus Israel's hawkish economic strategy has effectively limited – but not eliminated, of course – the power of the American administration to bend Israel's arm in matters of foreign and defense policy.

From the moment Benjamin Netanyahu was elected prime minister, during his very first term in office, he appeared before the US Congress and announced: "We are going to do it. In the next four years, we will begin the long-term process of gradually reducing the level of your generous economic assistance to Israel" (Netanyahu, 1996). From 1997, civilian aid to Israel, some $1.2 billion a year, gradually decreased and came to an end in 2008. However, the Israeli government was not prepared to turn down military aid, which has only increased over the years and now totals more than $3 billion a year. As of 2019, it is expected to swell to $3.8 billion, following an agreement between Netanyahu and Obama.

The fact that the *actual* scope of US aid has not diminished would seem to undermine the central argument presented here. However, it should be borne in mind that the extent to which a donor country can exert pressure on the recipient country does not depend only on the amount transferred but also–and mainly–on the extent to which the recipient country is capable of relinquishing it. In 1985, for example, Israel was desperately in need of aid, so its bargaining power vis-à-vis the United States was low. Today, Israel continues to receive military aid, but this aid is no longer vital to its existence, as it was in the past. American military aid to Israel as of 2017 stands at $3.1 billion, which accounts for 1.3 percent of the government budget and 17 percent of the defense budget. This is hardly a negligible amount, but it is not critical, given Israel's holding of more than $100 billion in foreign reserves and an external debt of less than 8% of GDP. Under these circumstances, it is no wonder that the political right has been clamoring for an end to American aid in order to free the country from political pressure (Baker & Davis, 2016; Buchnik, 2016; Israel, 2016).

This is not to say that Israel has reached a full and complete autonomy vis-à-vis the United States. The dependence of Israel on US diplomatic, military and technological direct and indirect support is an essential element in Israel's historical path. However, the question is not whether Israel is dependent or not on US support. Rather, the question is to what extent the US support to Israel enables it to influence Israel's preferences and choices in the area of foreign policy and national security. This article presents the argument that during the 2000s the right-wing regime was successful in narrowing the capacity of the US to use its economic support as a political leverage. This achievement was enabled by the hawkish neoliberal strategy.

That Israel's political right ascribes strategic importance to slashing dependence on America and Europe is further driven home by the government's efforts to diversify Israel's trade partners as well as the arguments it uses to justify this action. In January 2015, for example, following the decision of the International Court of Justice in Hague to probe Israel's conduct in the 2014 Israel-Gaza conflict, Netanyahu told the Israeli cabinet: "My emphasis on markets in the East is not because we want to give up the other markets, but because we definitely want to cut down our dependence on certain markets in Western Europe is undergoing a wave of Islamization, anti-Semitism and anti-Zionism […] and we want to ensure that the State of Israel has diversified markets all over the world in the years to come "(Harari, 2015).

Similar comments have been made by Naftali Bennett, who during his term as minister of the economy was one of the leading promoters of hawkish neoliberalism in Israel and made an effort to attract investors and boost exports, especially to non-Western countries in East Asia, Africa and Latin America. A year later, he said: "Our diplomatic-economic approach is to focus on our economic power, which takes some of the weight off the conflict. You take country X, provide massive aid for their farming and water problems, and they won't drive you crazy over the conflict. It works. You just need to keep it up" (Friedman, 2014). This typical remark illustrates another aspect of Bennett's economic autonomy approach: Israeli exports provide an attractive basis for establishing conflict-bypassing alliances. One may argue that export-oriented growth only deepens Israel's reliance on foreign actors. 'Economic independence' in Israeli discourse does not mean autarky but rather a narrowing of the current deficit or achieving a surplus. As a small open economy in a globalized environment, Israel is structurally dependent on imports and exports. This obviously exposes it to potential political pressure levers such as boycotts or the withdrawal of benefits for Israeli export, which is the type of action called for by the BDS movement. The hawkish model deals better with such issues than the cosmopolitan model. It does not rely on "fair" trade conditions, but on the upgraded global competitiveness of Israeli firms, less dependence on foreign aid and loans, and powerful financial shock absorbers in the form of high-level foreign currency reserves and current account surpluses. These advantages of the hawkish neoliberal regime compensate not only for the security risks faced by the Israeli economy, but also for the political risks associated with Israel's hawkish foreign policy.

The price of success

Looking at outcomes, the success of Israel's hawkish neoliberal regime is largely measured by economic variables that reflect its relations with the rest of the world. Israel's current account balance reached a surplus of $12 billion in 2016. This was after a deficit of $2.4 billion in 1985 and achieving a balance by 2003. Israel's foreign debt reached a low of 8% of GDP in 2016, after accounting for 80% of GDP in 1985. Finally, foreign exchange reserves held by the central bank rose from $3.7 billion in 1985 to approximately $100 billion in 2017. The significance of these figures is that Israel is equipped to withstand political or economic shocks without requiring aid from other countries or international organizations (Krampf, 2018).

If so, one would think that we are talking about a simple story of economic success. However, the isolationist model adopted by Israel takes a heavy and particularly extreme social toll on a large proportion of the Israeli populace. To understand why, it is necessary to delve into the technical aspects of this market-oriented neomercantilist approach.

In order to encourage exports, the Israeli government provides concessions and privileges to a small number of large companies, mainly in the High-Tech sector, which is characterized by high labor productivity and high real wages. This policy has strengthened the trend of export concentration: Most of Israel's exports revolve around a few High-Tech companies which enjoy massive government support. In 2007, Israel's ten largest exporters accounted for 36% of its total exports; in 2014, their share increased to 50% of total exports (CBS 2009; IEICI 2014). In 2010, four companies - Teva, Israel Chemicals, Intel and Check Point - which accounted for 0.5% of commercial operations in Israel - received tax breaks of $4 billion, which came to 70% of the total tax breaks granted that year and about half of the surplus in Israel's current account. Overall, 90% of the total tax breaks went to a quarter of the companies in the top size decile (Koren 2013; MoF, 2015; see also, Krampf 2018: 226–227).

This policy had regressive social repercussions, as it gives priority not only to companies that export, but also workers in this specific sector. According to a study by Gilad Brand and Eitan Regev, the gap between export industries, characterized by high production productivity and high wages, and local production industries, characterized by low production productivity and low wages, has grown significantly over the last two decades (Brand & Regev, 2015). This means that a small group of industrialists and workers in Israel enjoy economic prosperity, leaving all the other sectors behind.

In addition, the Bank of Israel's dollar purchasing policy, which is typical of the hawkish model, has led to a rise in domestic prices. This policy preserves a lower shekel exchange rate than would be expected without the Bank's intervention, thereby providing an incentive for exporters. At the same time, it raises import prices and increases the cost of living. This adversely impacts the real wages of workers in Israel. In practice, because the level of wages in the export industries is relatively high, the harm is mainly to wage-earners in the middle and lower classes. In this sense, Israel's citizens are subsidizing Israeli export.

In recent years the question regarding Israel's export-oriented growth strategy raised controversy among economists and policy makers. Avi Simhon, chairman of the National Economic Council, called to end the dollar purchasing policy of the Bank of Israel. This move, he argued, would raise state revenues, enable tax reduction and lower the cost of living (Bareket 2016). Along similar lines, Barry Taff, an economist at the Bank of Israel and a member of the bank's monetary committee (2011–2013), argued that "the intervention [of the Bank of Israel] in the foreign exchange market is in fact not a monetary policy, but an industrial policy: you help one sector, the exporting sector… But this has costs" (Aaron Institute, 2015). In response, the Bank of Israel dismissed the criticism arguing that "the Israeli economy–a small and an open economy–will not be able to exhaust its relative advantages if it is based on domestic-oriented industries that cannot utilize economies of scale" (Bareket 2016).

The claim that economic openness and competitiveness has social costs is well studied and documented. Conventional models of international trade demonstrate the causal link between economic openness and the exposure of workers to high levels of social risks and higher rates of poverty. However, research also shows that most open economies, in which workers are more exposed to global market forces, adopt more generous social policies in order to compensate workers for the social externalities. Political economists argued, therefore, that in certain circumstances there is complementarity between liberalization processes and welfare expansion (Molana and Montagna 2007; Obinger et al. 2005). Rodrik finds a correlation between economic openness and high levels of public spending (Rodrik 1998). Katzenstein, who studied the formation of North European welfare states, links economic openness to the formation of corporatist regimes. According to this view a "generous state' strategy views welfare and efficiency as complementary rather than conflicting goals" (Katzenstein 2015: 19).

However, contrary to this model, which is based on a combination of an export-oriented growth strategy combined with a generous welfare system, Israel's hawkish neoliberalism does not compensate workers for the social costs of building an effective and efficient exporting economy. According to John Gal, Israel's welfare policy is best portrayed as a Mediterranean Welfare state characterized by "fewer resources, relatively low levels of social expenditure, weak state support for the poor… and overall limited success in alleviating poverty and overcoming social and economic gaps" (Gal 2010: 2996). This combination of an intensive–and effective–export-oriented growth strategy, coupled with a relatively stingy welfare state have particularly problematic social consequences.

A lesson from Israel?

In light of the analysis presented here one is left wondering whether the hawkish neoliberal model was imposed on Israel due to the unique security conditions in the Middle East or whether it was a political or ideological choice. It is undeniable that the capacity of Israel to embrace and imitate the European model of cosmopolitan neoliberalismis is constrained by domestic institutional, political and economic factors that cannot be changed in the short or medium terms. In that sense, there is a grain of truth in the dictum, common in public discourse in Israel that "we're not Europe." At the same time, it would be a mistake not to recognize the discretionary space of policymakers in which ideological and political factors play a key role in shaping the domestic socio-economic regime in Israel. This article suggested that the socio-economic consequences of security choices must be taken into account irrespective of the policymakers' ideological point of departure.

The case of Israel also has relevance for other countries. Whereas in the past Israel's hawkish neoliberal model was uncommon, if not unique, the rise of nationalism in Europe in recent years has undermined the stability of the European cosmopolitan model. A shift from the cosmopolitan to the hawkish model is thus a distinct probability. The European leadership will have to acknowledge that the technical work of liberalizing the economy and market building are not sufficient for creating and maintaining the cosmopolitan ethos necessary for achieving both long-term economic prosperity and political stability.

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