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Adva Center
Information on Equality and Social Justice in Israel

The Occupation: Who Pays the Price?

The Impact of the Occupation on Israeli Society and Economy

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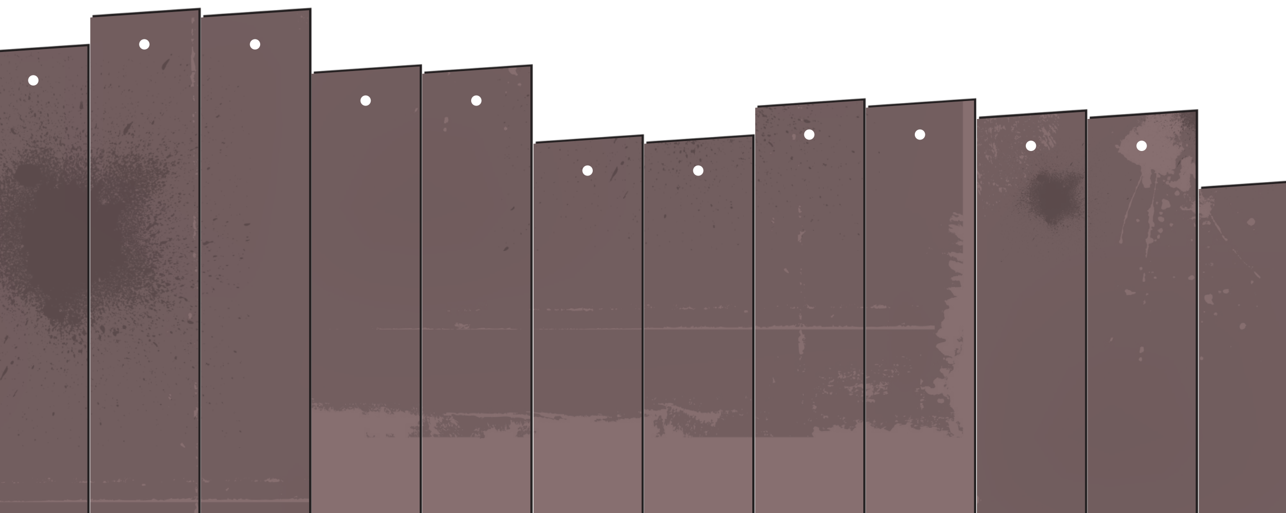

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Introduction

What is the cost to Israel of the occupation? And who is paying the price?

Debate about Israel's military rule over the Palestinian territories occupied in 1967 – now marking 50 years – usually revolves around moral, diplomatic, military, and legal matters.

The impact of the conflict on Israeli society – on the standard of living, economic growth, inter-ethnic and Arab-Jewish relations, and disparities between the center and the periphery – are rarely considered. Political, academic, and media discourse often take place as if the occupation had no real connection to what is happening within Israeli society.

This document seeks to add a vital and missing dimension to the discussion – the link between the realities on both sides of the Green Line – by focusing on some of the critical social and economic repercussions of the occupation and of the Israeli-Palestinian conflict

What emerges from this research, it can already be said, is that the main victims of this reality are low-income Israelis, both Arab and Jewish. These citizens of Israel are harmed by the competition with cheap Palestinian labor, which also opened the door to workers from other countries; by the policies of fiscal restraint that are intended to convey a message of fiscal responsibility, despite the frequent violent clashes; by the effect of belt-tightening measures on the social safety net and on the large social ministries – education, health, and welfare; and by the need to pour increasing amounts of money into defense and the military instead of social services.

The occupation adversely affects economic stability, creating growth conditions that are sometimes extremely volatile, particularly during extended periods of violence, such as the two Intifadas and Operation Protective Edge in the Gaza Strip in 2014. This instability hurts not only low-income Israelis, but also large corporations and high income earners; however, the latter have enjoyed the generous protection of the governments of Israel, which have done everything in their power to shield the wealthy by decreasing personal and corporate taxes, reducing the cost of credit, and crafting policies that lower labor costs.

Inequality in Israel has escalated over the last three decades, and is today among the highest in the western world. This is generally attributed to the neoliberal policies that have prevailed since the 1985 Economic Emergency Stabilization Plan. Particularly severe neoliberal policies were instituted during the Second Intifada, concurrent with one of the longest economic crises in the history of Israel. Without the sense of emergency created by this Intifada, such extreme measures would probably not have been put in place, or they might have been more moderate and gradual. This is the most glaring example of the link between neoliberalism within Israel and the long-running military occupation across the Green Line.

Not One, But Two ”One Percent” Groups

In 2010, Israel joined the OECD, the club of rich countries. Out of 34 member states, Israel ranks 22nd on per capita GDP. It ranks even higher – 19th – on the UN’s Human Development Index, which takes into account not just economic performance, but also indicators of health, education, and gender equality. Several Israeli universities rank among the two hundred best in the world. Much of Israeli industry and the service sector enjoy a hi-tech infrastructure. Israel pioneered the development of drones and maintains civilian and military space satellites. Indeed, most international hi-tech companies conduct R&D in Israel, burnishing its image as a "start-up nation."

And yet, at the same time, Israel has the highest poverty rate of OECD countries, and one of the highest rates of low-wage earners, defined as workers who earn no more than 2/3 the median wage. Close to half of all Israeli 17-year-olds do not matriculate. Most areas of Israel are defined as belonging to the social and economic periphery, far from the heart of "start-up nation" socially and economically.

How can one explain these two incongruous faces of Israel?

From a historical perspective, the main explanation resides in the 1948 encounter of the three main groups that compose Israeli society:

Veteran members of the Zionist community, most of European descent, held the governance, command, and administrative reins of the new state. Later, with the development of industry, services, and finance, most executives of the new business sector hailed from this stratum.

The Palestinians who became Israeli citizens comprised the remnant of those who had been defeated in the war, a community that had lost its leadership and most of its land, whose members had once been farmers and who now became the farm hands and laborers in fields and factories belonging to Jews.

The Mizrahim, who immigrated to Israel from Arab countries under circumstances similar to those of refugees, were dispatched to settle distant towns without proper schools or health services, and could find only low-paying jobs in traditional industries.

Israeli society underwent many changes in the three generations that followed 1948, some due to state investment in economic development, housing, education, and health. The Six Day War led to expansion of the military and the defense industry; population growth necessitated a larger civil service, more schools, and increased health services; and all these created a fairly large middle class that included Mizrahim. However, the seeds of inequality planted during the early years bore fruit: In 2015, sixty-seven years after the establishment of Israel, Ashkenazi employees were earning 31% more than the average wage, Mizrahi employees only 14% more than the average wage, and Arab employees 38% *less* than the average wage.

In 1985, almost forty years after the founding of the state, the Israeli government adopted a neoliberal socioeconomic approach that exalts the "free market." Thus, it gradually shed responsibility for economic and social initiatives and passed on the economic baton to the corporate elite. The results were profound, including the privatization of state corporations and services, lower labor costs, reduced taxes, and a growing burden upon households to finance social services.

The change of direction in 1985 further deepened the disparities of 1948: Two of the factors that until then had fostered inequality – nationality and ethnic identity – were now compounded by a third factor – private capital.

If, prior to 1985, the hope of reducing inequality rested upon government policies, afterwards it rested upon economic growth: Growth would create jobs, raise the standard of living, and ultimately reduce inequality. In practice, however, the outcome was different: Privatization led to creation of a stratum of capital owners, managers, and providers of professional services, who together comprise the upper income decile. Within that decile, the top one percent began to emerge. When there was growth, much of the profit rose to the top. The middle class, which until then had benefited from the expansion of the state and the military, began to shrink, while the stratum of those earning minimum wage or less became entrenched.

So far, this is a well-known tale, not just from historians and sociologists, but also from the protest movements that evolved: the Mizrahi protest in Wadi Salib in 1959; the Black Panthers of 1971; the Arab Land Day demonstrations in 1976; and the social justice protest of the Ashkenazi middle class in 2011.

But the story of Israeli inequality is larger. In 1967, halfway between 1948 and 1985, Israel conquered and occupied the Palestinian territories, regions that, from 1948, had been controlled by Egypt (the Gaza Strip) and Jordan (the West Bank). In response to Israel's policy of holding on to this land, the Palestinians engaged in political and military resistance, whose most salient chapters were the first and second intifadas.

Many Israelis, perhaps the majority, relate to the occupation and the ongoing Palestinian resistance as a political or security issue unrelated to the socioeconomic story told above. This is an unfortunate misconception: "Occupation maintenance" is a very expensive enterprise, one that undermines economic growth and hampers the state's ability to invest in development of the periphery, upgrade educational services, and raise the standard of living for all Israelis. The periodic clashes necessitate a substantial financial investment in the army and large expenditures on each and every confrontation. Although "startup nation" is prospering, these clashes make it difficult for other Israelis to join in the prosperity.

The effort of maintaining political, military, and economic rule over the occupied territories has been Israel's major preoccupation for a very long time. This issue tops the public agenda, sidelining socioeconomic issues. A Palestinian state or unilateral annexation? Evacuation of Amona or its expansion? One state or two? Two states and one homeland? These issues are what distinguish the political parties and determine election results, preoccupy the state leadership day and night, and affect Israel's international standing. In political discussions, socioeconomic issues have second-class status.

Constant tension between the two agendas – the socioeconomic and the political-security – can be illustrated by the concept of "the top one percent," associated with the 2011 American protest movement ("Occupy Wall Street").

The American slogan referenced the wealthiest one percent of the population, epitomized by Wall Street in New York. And in recent years, it has become apparent that Israel has an economic one percent of its own. This one percent conducts business from the luxury high-rises in Tel Aviv, and often also lives there. This is a stratum of some 85,000 people (one percent of the population of 8.5 million), who became exceedingly wealthy in the previous generation, outstripping other Israelis, including fellow members of the top income decile.

But Israel, unlike the United States, has another top one percent, and this group is political – the so-called "ideological" settlers, who reside on the hills of Samaria and Judea. The political leadership of these settlers is a powerful pressure group able to impose a political veto on any evacuation of Israeli settlers from the occupied territories and, indeed, any political accommodation that includes an independent Palestinian state. Their political clout augurs continued occupation and continued conflict. This group is often estimated at 60–80,000 people – a number comparable to the top economic one percent. While this one percent vetoes every move toward political agreement and settlement evacuation, thereby contributing to the economic instability characteristic of Israel, the other one percent vetoes every initiative to tax the wealthy and expand the welfare state, thereby exacerbating and perpetuating inequality in Israel.

The socioeconomic one percent evolved and consolidated largely after the state turned away from national missions such as immigrant absorption and guaranteed full employment. This did not prevent the state from undertaking a new national mission – not improving the lives of the "other Israel," but rather benefiting the "Greater Land of Israel." The 1985 policies never crossed the Green Line. On the other side, the state invested huge sums and countless resources in the new national mission, thereby creating beyond the Green Line the second, political one percent.

The two one-percent groups are not identical, of course: One owns a great deal of property within and outside Israel, and can relocate in times of trouble; the other squats on hills, claiming divine title to the land, and will wage battle when threatened. One has been out of touch for years with the 99 percent faltering under a mortgage and the high cost of living, and feels at home in global financial circles; the other has been out of touch for years with the 99 percent who want a normal life without a national conflict or military reserve duty, and sees itself as the advance guard in a never-ending national-religious struggle. One supports political accommodation in hopes of economic stability and accelerated growth, but feels comfortable with the status quo; the other opposes political accommodation and knows how to exploit violent clashes to elicit legitimacy for its cause. Under the slogan "the business sector trumps the public sector in everything," one is actively striving to weaken the public services established in Israel over the previous century, reduce the state budget, privatize government services, and establish private schools and health services. Meanwhile, the other manages to avoid the fallout from neoliberal policies and enjoys enhanced state allocations for defense, bypass roads, subsidized education, and the financing of municipal services. One benefits from the fact that the government chose to cope with the crises engendered by the uprising, particularly the Second Intifada, with measures taken from the neoliberal toolbox, while the other sees the Palestinian uprising as justification for its claim that "there is no partner for peace."

And this, too: Some members of the economic one percent also profit from the enterprises of the political one percent – construction companies, defense contracts, security firms.

The state tries to remain in the good graces of both groups. It curries favor with one by offering cheap credit, cheap labor, low taxes, and toothless regulation; while it panders to the other by providing the comprehensive, daily protection of the strongest army in the Middle East. One is praised as the standard bearer of growth; the other is embraced as the latest incarnation of the Zionist pioneer spirit.

Needless to say, both one percent groups remain distant from each other, socially and politically. During the Rabin government, most of the economic one percenters were avid supporters of the Oslo Accords, while the political one percenters fought and incited against them, until an unknown emerged from that camp to assassinate the prime minister, Yitzhak Rabin.

Despite the differences and the distance between them, both top one-percent groups are part of one national entity. To understand how it is possible that within Israel, "startup nation" exists side-by-side with "the other Israel," to revive a term from the 1960s and 1970s, one must take all this into consideration. The answer to the question of why the gap is so vast between "startup nation" and the rest of Israel can be found in the ability of these two one-percent groups to shape the public agenda and prevent measures that would reduce inequality and bring the entire population of Israel, or most of it, within the borders of "startup nation."

The Occupation and the Policy of Fiscal Restraint

The Price of Economic Instability

The highest socioeconomic price paid by Israel for the ongoing occupation is the blow to the Israeli economy inflicted by every Palestinian uprising. Although the Palestinian economy pays an even higher price, the cost to Israel is significant, undermining its efforts to bring the economy to the level of western countries.

Palestinian resistance began soon after the 1967 war, but for two decades it engaged in limited clashes often staged abroad, such as plane hijackings. Within Israel proper, resistance activities were contained by a relatively small number of troops.

The price began to rise in the wake of the first major Palestinian uprising, which broke out in late 1987. Economist Eitan Berglas estimated that the impact of the First Intifada on the Israeli economy was slightly under two percent of GDP, while the impact on the Palestinian economy was closer to a quarter of their GDP. Nevertheless, noted Berglas, this difference in no way diminished the significance of the impact on the Israeli economy:

> *If you take our national budget, which is the economic plan for 1988, and see what is written there about per capita product growth – and that was before the Intifada – you will see that it states that GDP per capita will grow by two percent. If this estimate is correct, then now, in the wake [of the Intifada], we have a product decrease of two percent, meaning that GDP per capita will not grow this year. And there is an enormous difference between an economy in which the GDP per capita grows by two percent – which is not a large increase – and an economy in which there is no growth in GDP per capita. This has an*

> *impact on salaries as well as on other developments. It is a number that is not at all insignificant.*
>
> *But even worse is the fact that this two percent is not evenly spread over the various parts of the economy...Some parts may even profit from the situation. Israeli businesses that suffered from Palestinian competition will now enjoy the return of their Israeli customers. We see this happening in some service areas. In other areas, however, the damage will far exceed two percent...There are some areas in which the damage is enormous, and I will mention three. The most important, I believe, is tourism. We have still not felt the full blow [of the Intifada] in this industry, but those who do not refuse to see what lies right under their noses understand that the damage is great. In the textile industry, we have a problem, and in the construction industry we have a problem...*[1]

The economic impact of the First Intifada was short-lived, to some extent due to the arrival in Israel of a million Jewish immigrants from the former Soviet Union and Ethiopia, whose integration into Israel expanded economic activity.

The impact of the Second Intifada, which broke out in 2000 – concurrently with the global hi-tech crisis – continued until 2003. Their repercussions were severe and prolonged, as explicitly noted by the Bank of Israel:

> *The economy is in an ongoing recession of the type seen only three times previously in its history – 1952-53, 1966-67, and 1988-89...The salient characteristic of the current recession is its longevity...we are in...the longest recession of our history.*[2]

The deep recession of those years began with the global hi-tech crisis, which harmed Israeli exports, primarily, but soon the Intifada turned into the key factor:

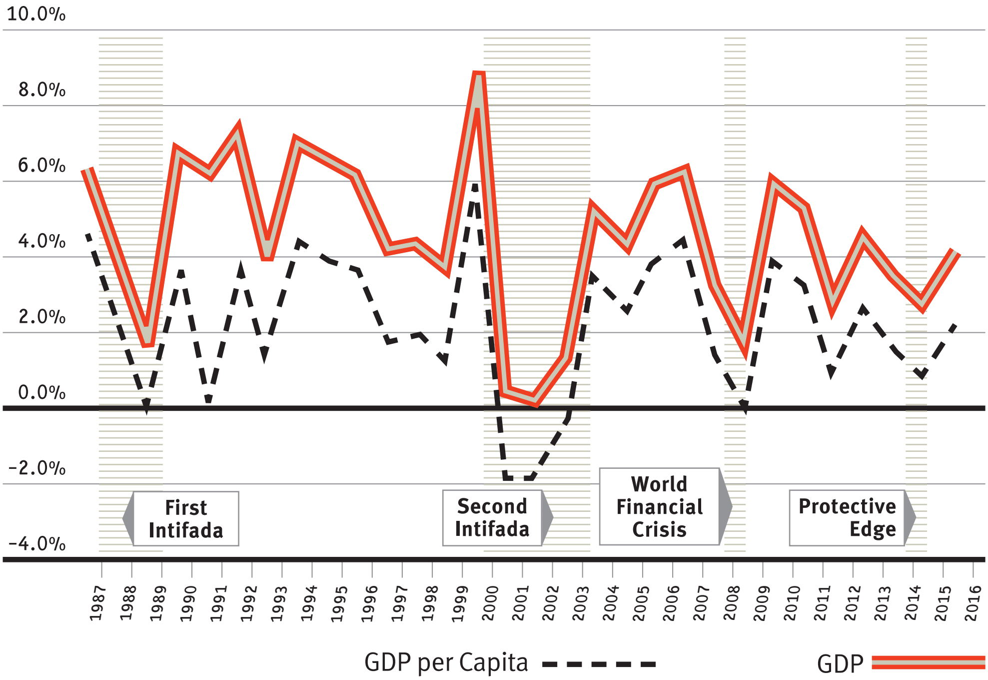
> *The recession is the result of two negative shocks – escalation of the armed conflict with the Palestinians [the Intifada] together with the slowdown in world trade and global slump in the hi-tech industry. Unlike 2001, when the reduced GDP caused by the Intifada was comparable to the loss from decreased demand for Israeli exports, in 2002 the Intifada was primarily responsible for the contraction of economic activity.*[3]

One reason for the severe economic repercussion of that intifada is that it took place in the heart of Israel and had a direct negative impact on business – commerce, tourism, transportation, and the hotel and restaurant industry. To quote the Bank of Israel, "... over time, the current struggle negatively affects residential centers and civilian employment, and alters life patterns."[4] A second reason is that the Intifada lasted several years.

The table below presents data for Israeli economic growth between 1987 and 2016, revealing the damage wrought by the two intifadas. The table also allows for a comparison between the damage of the intifadas and that caused by the global financial crisis of 2008. Clearly, the impact of the Second Intifada was much greater.

Figure 1: **GDP and GDP per Capita, 1987–2016**

Percentage change



Source: Adva Center analysis of data from the Central Database of the Central Bureau of Statistics (CBS), April 2017.

How can financial damage be calculated? The Bank of Israel publishes annual estimates. It noted, for example, that "...direct loss incurred from continuation of the Intifada in 2002 ranges between 3.1 and 3.8 percentage of GDP, equivalent to between NIS 14.6 and NIS 17.9 billion (at 2001 prices).[5]

These numbers reflect shrinking economic activity in 2002 compared to 2001. They do not, however, show the loss in potential growth, i.e., the fact that had it not been for the Intifada, the Israeli economy in 2002 could have expanded beyond what it had been in 2001. Economists Eckstein and Tsiddon analyzed the data from 2003 and concluded that had it not been for the Intifada, Israel's GDP per capita in 2003 could have been 10–15% higher than it actually was.[6] Business analysts BDI carried out similar research and concluded that the GDP per capita in Israel, which had been at the time $16,700 (NIS 89,651 at 2015 prices) would have risen to $18,500 (NIS 99,314 at 2015 prices); in other words, the Intifada caused a loss of GDP on average of $1,800 per person (NIS 9,663 at 2015 prices) – a significant blow to the standard of living.[7]

Economic Litmus Test of the Conflict: The Israeli Tourist Industry

Tourism is the economic branch most sensitive to the Israeli-Palestinian conflict, and the first to feel the tremors of every violent clash. Tourists avoid countries that have terrorist attacks on the streets of its large cities.

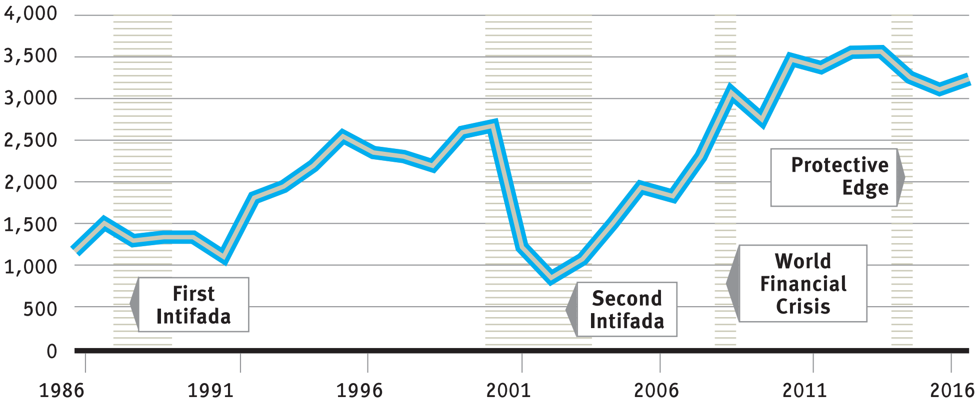
Although Israel and the Palestinian Authority are endowed with tourist sites no less attractive than those of its neighbors, the number of tourists entering Israel in 2015 (2.79 million, not including one-day visitors)[8] was significantly lower than the number of tourists entering Turkey, Morocco, or Saudi Arabia that year. It was even lower than the number of tourists entering Egypt or Tunisia that year, countries whose tourist industries were adversely affected by the "Arab spring."

When it comes to tourism, Israel resembles Lebanon and Algeria, which have had prolonged, internal conflicts. Even pre-crisis Syria registered a higher number of tourist entries than Israel.

The figures below tell the story: In the 1980s, between a million and a million and a half tourists visited Israel. The first Intifada cut into these figures. This was followed by almost a decade of steadily rising visitors to Israel, reaching a record high of just over 2.5 million. This ended abruptly with the Second Intifada, as tourist entries plunged to under one million a year in 2002–03. Only 6–7 years later did the number of visitors return to the pre-Intifada levels. Tourism resumed its rise until Operation Protective Edge in mid-July 2014, which was followed by a drop.[9] This lower level was maintained, to some extent because of the wave of knife-wielding attacks on civilians. Recovery waited until 2016.[10]

Figure 2: **Total Visitors to Israel, 1986–2016**

In thousants



Notes:

1. Visitors include tourists, day-visitors, and cruise passengers.
2. Data for 2016 cover January through November.

Source: CBS, *Statistical Abstract of Israel*, Table 23.1 for 2000–2015, and Table 4.1 for 1986–1995; CBS, *Statistical Abstract of Israel 2017*.

The Bank of Israel analyzed the impact of Operation Protective Edge on tourism:[11]

> *Among the various industries in the economy, tourism is adversely impacted most severely by military conflicts. All the conflicts had a clear negative impact on the industry, reflected in a decline in several indicators, including the number of tourist and visitor entries, the number of overnight hotel stays by tourists, the revenue of the food and hospitality services industry, and revenues of Israeli airlines. The source of the negative impact is tourism from abroad, and it derives from tourists responding rapidly and sharply to the deterioration in the security situation, while Israeli tourism is much less sensitive to that. The harm caused to tourism services exports is not only during the actual days of conflict, but also, and primarily, because the negative impact continues beyond them. Activity does not recover immediately, and returns to its level of the period preceding the fighting only after about a year. During times of hostilities, a decline is also*

seen in outgoing tourism, but this recovers rapidly and already returns to its pre-conflict level in the following quarter.

It is estimated that the loss suffered by tourism services exports in 2014 due to Operation Protective Edge reached NIS 2 billion, about 0.2 percent of annual GDP. However, it should be noted that the tourism industry in Israel is of greater importance than just its proportion of GDP, as its share of total jobs in the economy is larger, and it mainly employs workers who earn low wages and do not have many employment alternatives. A positive aspect is that despite the extended fighting and the temporary halt in operations of some foreign airlines at Ben-Gurion Airport, tourism was not negatively impacted to a greater extent than during the Second Lebanon War.

The Answer to Instability: Austerity Policies

The shock of the Second Intifada, compounded by the global hi-tech crisis of 2000, was manifested in the budgetary and financial[12] crisis that threatened the stability of the Israeli economy and the government's ability to afford growing expenditures. In reaction, the government enacted a series of budget cuts that primarily harmed the civilian ministries. At the same time, the Sharon-Netanyahu government embarked on a path of long-term fiscal austerity intended to convey a picture of long-term stability and fiscal responsibility, as well as to foster the image of a state with which one can do business – despite the political and military instability.

The policy of fiscal restraint, which has become a regular feature of Israeli government policymaking, resembles somewhat the fiscal austerity policy instituted several years later by European Union countries in response to the global financial crisis of 2008. The best-known element of this policy was the heavy pressure exerted by the European Union on Greece and other southern European countries that had large deficits.

The budget cuts in Israel were designed to reduce government debt, measured by the debt-to-GDP ratio. Israel has a long history of large debts, which peaked in the years following the Yom Kippur War with a rate of 300% of GDP, i.e., government debt amounted to three times the monetary value of all goods and services that the Israeli economy produced in one year. This debt stimulated adoption in 1985 of the Economic Emergency Stabilization Plan. As a result of this plan, the deficit gradually began to decrease, but in 1990 it was still 138.3% of GDP – a rate resembling that of Greece and other southern European countries that led to their "punishment" by the European Union.

In 2000, on the eve of the Second Intifada, the national debt was 80% of GDP, representing a significant decline over one decade. In the wake of the Intifada, however, the debt rose to 93.9% of GDP in 2004. This triggered a vigorous campaign by the government to reduce it, with the goal set at 60% of GDP as established by the European Union in the 1993 Maastricht Treaty. As can be seen in the table on p. 20, Israel is today (2016) very close to the Maastricht norm, with a debt-to-GDP ratio of 62.2%.

Reducing the deficit has clear positive ramifications: The lower the debt, the lower the interest that has to be paid by the Finance Ministry for loans. Within one decade,

The Lost Social Decade

One of the most significant outcomes of the Israeli–Palestinian conflict is its negative impact on the standard of living.

The indicator most commonly used across countries to measure standard of living is GDP per capita.

The figure below shows GDP per capita for the years 1995–2015 for the United States and Germany, countries that epitomize Israeli aspirations, and Ireland, a relatively small country with a population slightly smaller than Israel's. Also shown is the average GDP per capita in OECD countries.

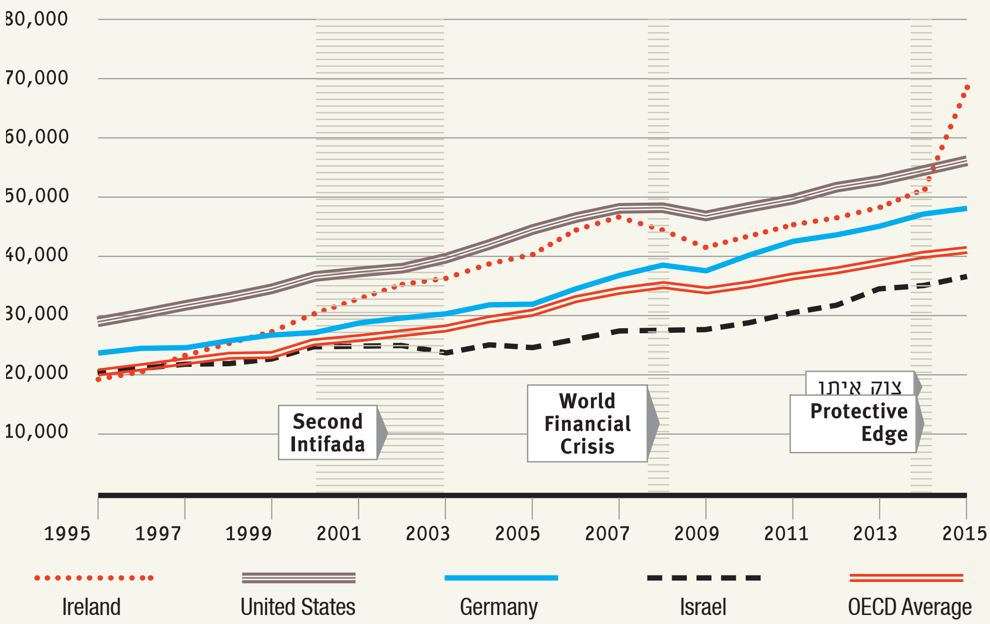
What is immediately striking in these numbers is the rising GDP per capita in all the countries. A closer look reveals that in the late 1990s, Israel's GDP per capita was almost identical to the OECD country average, and not very different from that of Germany. During the years of the Second Intifada, however, Israel's GDP per capita remained static for several years, while other countries pulled ahead. The Israeli GDP per capita returned to its pattern of growth in 2006, but meanwhile the gap had widened between Israel and the other countries. Although the global financial crisis of 2008 had a greater negative impact on European countries, Israel's GDP per capita remained lower than that of the countries in this comparison. Ireland, which has often served as a model for Israel, even showed a dramatic upturn.

from 2006 to 2015, Israel's interest payments fell from 5.09% of GDP – equivalent to about NIS 50 billion – to 3.33% of GDP – NIS 38.3 billion.[13] Theoretically, the savings in interest can be invested in schools, hospitals, and old-age allowances. In practice, however, it is more likely to be utilized to further reduce the deficit.

A fiscal austerity policy has negative consequences, primarily for countries that are not wealthy and require significant investment in infrastructure, economic development, and public services in order to reach a western standard of living. In such countries, deferring investment in order to maintain a low debt-to-GDP ratio means many more years of low investment and the sacrifice of a generation, perhaps several generations, of citizens who will have to make do with a low standard of living.

Israel, as we have seen, is fortunate in being, in part, a "startup nation," but this element exists side-by-side with "the other Israel," i.e., the periphery. To raise "the other

Figure 3: **GDP per Capita – Israel, OECD Average, and Selected Countries, in Dollars, 1995–2015**



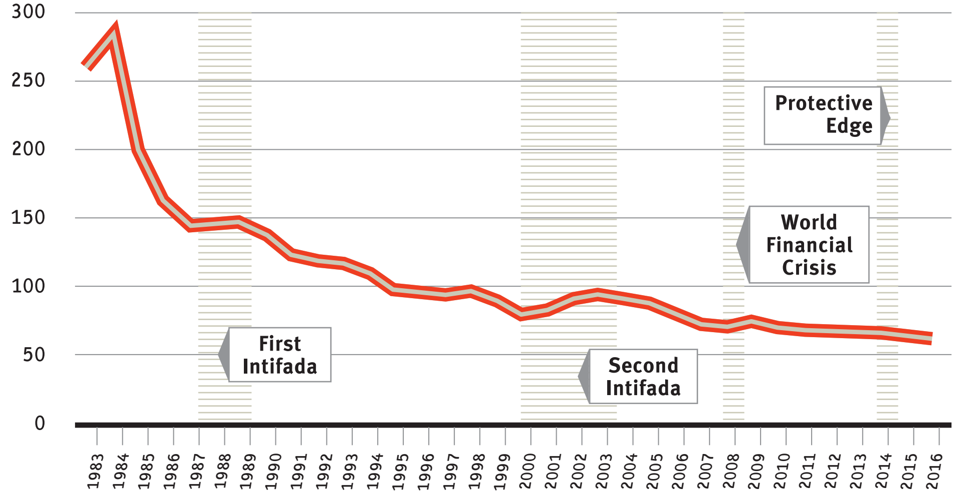
Source: OECD (2017), *Gross Domestic Product (GDP)* (indicator), Doi: 10.1787/dc2f7aec-en (accessed 29 March 2017).

Israel" to the level of "startup nation," large investments are needed – in infrastructure, industrial and technological development, upgrading of schools and the health system, and affordable housing. These cannot be attained without greater economic involvement on the part of the state.

Increasing state involvement is, of course, a gamble – like any investment, private or public. But it also carries hope not just to the citizens, but to the economy itself – the hope of a wealthier economy that is capable of easily bearing the burden of debt and even reducing it more rapidly.

As we will see below, the Second Intifada forced Israel to take a macro-economic course of action that froze the existing socioeconomic picture with its glaring disparities, large number of low-earning employees, and too many young people who cannot matriculate at a time when a B.A. degree is already inadequate for many jobs.

Figure 4: **Gross Public Debt, including Local Authorities**
Debt-to-GDP ratio, in percentages



138.3	123.7	119.6	118.3	110.2	98.9	96.6	95.1	96.4	90.3	80.1	84.4	91.1	93.9	92.2	88.9	81.0	73.9	71.9	74.6	70.7	68.8	68.3	67.0	66.0	64.1	62.2
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016

Source: Bank of Israel, Data Series Database, "The Deficit and the Public Debt," Table 6.A.3, April 2017.

As noted, the austerity policies are intended to convey a message of economic stability and fiscal responsibility to Israel's trading partners and to international financial institutions, and to cultivate the image of a state with which one can do business, despite political and military instability.

Credit rating agencies are institutions that assess the financial risk of doing business with a country. The three best known are Standard and Poor's, Moody's, and Fitch. Credit ratings serve investors who seek to evaluate the creditworthiness of a country (or of a corporation) with regard to its monetary commitments; this creditworthiness is in turn influenced by the country's political and security stability. A low credit rating translates into a higher interest rate on capital raised abroad by the Israeli government or by Israeli corporations.

Israel's credit rating is relatively low: Standard and Poor's placed Israel 30th on its credit ranking in 2015.[14] This is lower than Israel's place on two other scales: Its GDP per capita places it 22nd out of 34 members of the OECD; while the UN's Human Development Index, which includes social as well as financial indicators, places Israel 19th out of 187 countries (in 2013). The main reason for Israel's relatively low credit ranking is the instability in the region and, in particular, the Israeli-Palestinian conflict.

Israel is very sensitive to any development that could affect its credit rating. During the Second Intifada, Israel's finance ministers personally lobbied the credit agencies in New York and London not to lower Israel's credit rating. Also, during the Second Lebanon War and Operation Protective Edge, the government refrained from declaring a state of emergency – a declaration that would have meant assistance to Israeli families and businesses that suffered damage – out of fear that this would adversely affect Israel's credit rating.

The large, international credit ranking agencies note that they would consider raising Israel's rating if there were significant improvement in its security situation.[15] At the time of writing, Fitch affirmed Israel's credit rating as "A+" with a "stable" outlook.[16] It noted that Israel's credit standing is weakened by the geopolitical risks, first and foremost the Israeli-Palestinian conflict:

Fitch expects little progress in the peace process under the new government, and the Palestinian Authority joining the International Criminal Court... brings new risks. Some neighboring countries do not formally recognize Israel's existence and there are intermittent conflicts with military groups in surrounding countries and territories.[17]

Thus, the fiscal austerity policy is intended to serve as a counterweight to the political and security instability, as the ongoing decline in the national debt is a kind of collateral that can be submitted to the credit agencies when they assess the risk of default on Israeli government bonds.

Otherwise formulated, it can be said that the debt-reduction policies allow the Israeli government to act as if there were no urgency to reach a political accommodation with its Palestinian neighbors.

The table below shows the countries with the highest credit ratings in descending order, the highest rating being AAA. The original table shows over 200 countries and international institutions. This table includes only countries or institutions rated higher than Israel. Ratings include not just the main category (AAA, AA, etc.), but also the symbol + or – as well as an "outlook." (For example, Israel's main rating has been A+ since 2011; what has changed is its "outlook," currently termed "stable").[18]

Table 1: **Standard and Poor's Credit Ratings of Selected Countries, in Descending Order**

Country	Rating
Switzerland	AAA
Sweden	AAA
Singapore	AAA
Norway	AAA
Netherlands	AAA
Luxemburg	AAA
Lichtenstein	AAA
Hong Kong	AAA
Germany	AAA
Denmark	AAA

Country	Rating
Canada	AAA
Australia	AAA
United States	AA+
Finland	AA+
Austria	AA+
Britain	AA
South Korea	AA
Qatar	AA
New Zealand	AA
Kuwait	AA
France	AA

Country	Rating
European Union	AA
Abu Dhabi	AA
Taiwan	AA-
Estonia	AA-
Czech Republic	AA-
China	AA-
Chile	AA-
Slovakia	A+
Japan	A+
Israel	A+

Note: The ratings of the countries took place in different years, but those in the table were all rated within the past decade.
Source: Trading Economics http://www.tradingeconomics.com/israel/rating.

Numbers Say It All

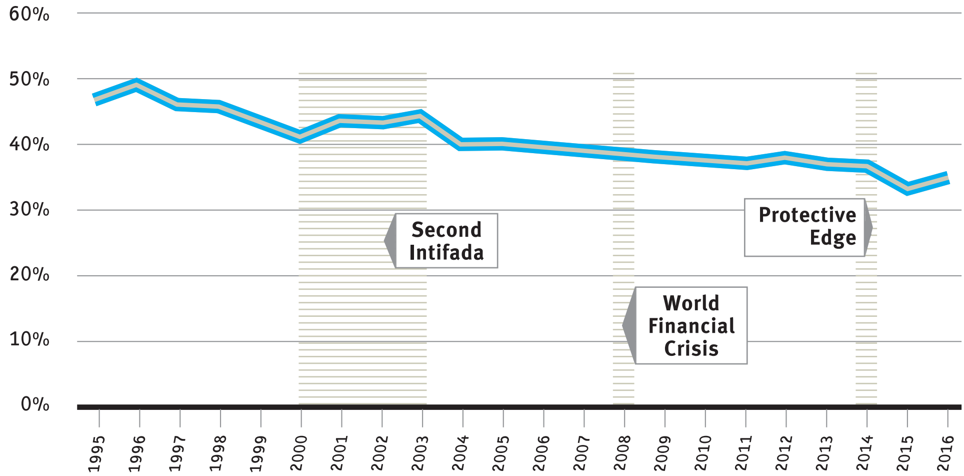
The two figures below sum up the policy of fiscal restraint and its consequences.

The first shows the steady decline in the size of Israel's state budget as a percentage of GDP: In the late 1990s, the state budget was 46–49% of GDP; in 2003, when most of the Intifada-period budget cuts were enacted, it was still 44% of GDP. It then dropped and continued to drop, until it reached 35% in 2016.

The second figure reveals the result: Social service spending by the Israeli government – the foremost economic tool enabling the state to achieve its social goals – is today among the lowest of OECD countries in GDP terms.

Thus, the economic crisis of the Intifada and the government's efforts to convey a picture of economic stability despite the political-security upheavals, have left a deep and long-lasting scar on Israel's social fabric.

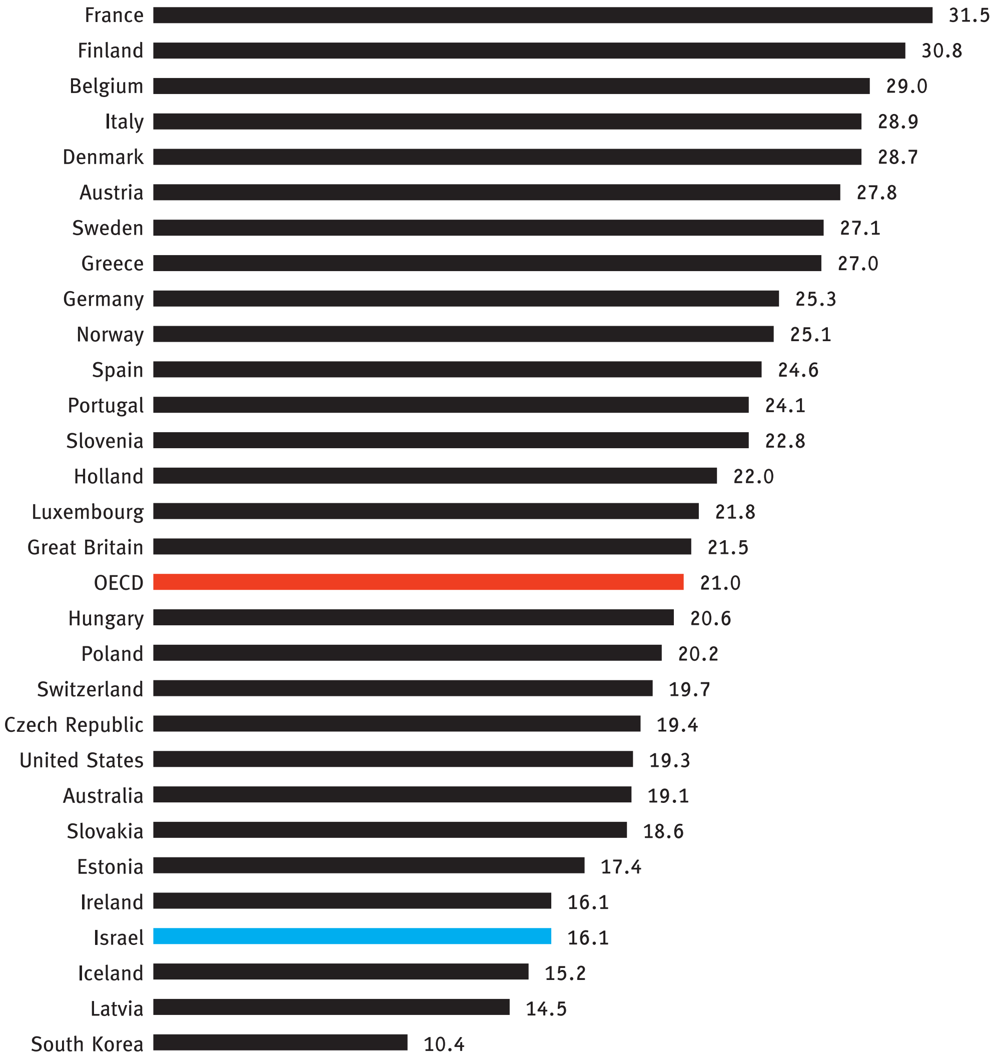
Figure 5: **State Budget as a Percentage of GDP, 1995–2016**



47	**49**	**46**	**46**	**43**	**41**	**44**	**43**	**44**	**40**	**40**	**40**	**39**	**38**	**38**	**37**	**37**	**38**	**37**	**36**	**33**	**35**
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016

Note: Budget data from 1995–2015 show actual expenditures. Data from 2016 reflect the budget bill for that year.
Sources: Adva Center analysis of Ministry of Finance, Accountant General, *Financial Report*, various years; CBS, Central Database, April 2017.

Figure 6: **Public Social Expenditures as a Percentage of GDP, 2016**



Note: The OECD defines social expenditures as cash benefits, direct in-kind (education, health), and tax breaks with social purposes. Benefits may be targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons. To be considered "social," programs have to involve either redistribution of resources across households or compulsory participation.

Source: OECD (2017), *Social spending* (indicator). Doi: 10.1787/7497563b-en (accessed on 24 April 2017).

Between Occupation and Neoliberalism: It Could Have Been Different

Faced with the economic and budget crisis of the Intifada period, the government reverted to "the spirit of 1985" – deep cuts in the social services and social safety net and, on the other hand, tax reductions for the highest income brackets. Such measures are identified with neoliberal policies.

As we saw, American neoliberalism "made aliyah" to Israel via the Economic Emergency Stabilization Plan of 1985. This plan was put in place with the agreement of the two largest political parties, Likud and Labor. Ever since, all Israeli governments have adopted a neoliberal approach, whether the party in power leaned left or right. All the governments advocated the privatization of government corporations and many public services. All the governments tried to force themselves into the tight-fitting corset of slimmer budget expenditures. So too for the social safety net: The erosion of unemployment benefits, for example, took place over the course of a decade prior to the outbreak of the Second Intifada.

Until the Second Intifada, however, no government had taken such extreme measures as those taken by Prime Minister Ariel Sharon and his finance minister Benjamin Netanyahu. It was the Second Intifada, then, that created the conditions for the austerity policies of the Sharon government, which took the historic opportunity that presented itself to install an ideological platform that had been waiting in the wings. Then Finance Minister Benjamin Netanyahu, who specialized in populist rhetoric, conferred upon this ideological platform some of his most memorable sound bites: He claimed, for example, that it was no longer possible for the skinny man – the business sector – to carry on his shoulders the burden of the fat man – the public sector (even though, as we shall see below, the government had just fattened up the private sector through favorable tax benefits, among other measures); and so too he called out, "Let them go out to work," referring to the recipients of income support (many of whom were already working).

It should be noted that given the conditions created by the Second Intifada, budget cuts of this type were not the only choice available to the government. One option, of course, was to conduct the military operations in a way that would not inflate the security budget excessively, if at all. After all, the IDF was not conducting a war against large, well-armed forces, nor was it called upon to gird itself against other regional threats. The military plan chosen by the government – that of reoccupying the entire West Bank – was not the only available option. But even if this military strategy was a given, other budget-cutting options were still available to the government, such as reducing the salaries of senior officials in the government, the local authorities, and the defense organizations; trimming the fat from the defense budget; or cutting the benefits of wealthy population groups, including the well-to-do settlements in the occupied territories.

Indeed, the most obvious measure would have been to raise taxes, especially income and corporate taxes. Instead, Finance Minister Benjamin Netanyahu made the absurd decision to lower taxes in unprecedented cuts. These reductions were particularly favorable to high-income earners – especially those in the top socioeconomic one percent: Taxpayers who were earning NIS 25,000 or more a month would be able to take home an additional NIS 2,000–5,000 monthly.[19] Analysis of this reduction reveals that in 2010, the three highest income deciles were to receive an additional total of NIS 6 billion in 2010 (at current prices); the highest decile alone was to receive an additional NIS 3.78 billion – in comparison with the NIS 1.7 billion more received by the lowest seven deciles together.[20]

One hand of this government gave a generous gift to the rich, while the other hand slashed allowances for those who could barely make a living, including those whose monthly income was no higher than the extra money the wealthy would now receive thanks to the tax cuts.

In parallel, the government decided to lower the corporate tax. This tax had already been significantly reduced following institution of the Economic Emergency Stabilization Plan: Between 1986 and 2001, the corporate tax rate plunged from 61% to 36%. It was further gradually lowered until it reached 25% in 2010 and 24% in 2017.[21]

Lowering taxes is routinely justified by economists: Lower taxes contribute to growth, on the assumption that more disposable income leads to more private consumption as well as more investment in the economy, which in turn creates new jobs. This explanation is consistent with the neoliberal approach that advocates the least possible taxation. But it also appears that in the context of the loss of confidence and instability that accompanied the Second Intifada, reduced taxes were also an attempt to prevent the golden-egg-laying hen from flying the Israeli coop – the hi-tech industry. The chair of the commission that recommended the cuts, CPA Yair Rabinowitz, noted that one of the main purposes of lowering taxes was "to keep human capital in Israel."[22]

Under ordinary circumstances, tax cuts are considered one possible tool for coping with a lethargic economy. In Israel, the cuts were made in the midst of the Second Intifada, which itself was the main cause for the economic slowdown. In such circumstances, the practical result of lowering taxes was to free Israel's wealthiest sector from the burden of funding the consequences of the Intifada. Not only was this group not bearing the burden, it even received a gift that sweetened the bitter pill of the Second Intifada for them...and for them only.

One should add that the wealthy were barely affected by the cutbacks in social services, as they could pay privately for these, now even more easily thanks to significantly reduced taxes. Access to these private services created a barrier between those who could afford to pay for them and those who could not. Thus, the budget cuts gave rise to quasi-private subsystems, such as schools and health clinics based on private funding. These subsystems erect a high and difficult barrier to hurdle for those aspiring to join "start-up nation."

The Occupation and Erosion of the Social Safety Net

The shock of the Second Intifada and the budget cuts adopted at the time underlie one of the most harmful reversals in the history of social policy in Israel. Massive cuts were made in 2002 and 2003 to the benefits paid out by the National Insurance Institute. These increased the number of Israelis living in poverty and weakened the support systems of low wage-earners, the unemployed, and large families. The cuts also compromised the independence of the National Insurance Institute itself; their Accountant General, for example, now became an employee of the Finance Ministry.

Israel's social security system evolved gradually over three decades. Following the founding of Israel, the state made welfare payments as an act of grace to the needy – identified as such by social workers. The social security system transformed this support from grace to a universal right not contingent upon a means test. This was decisive in turning Israel into a welfare state.

Israel's National Insurance Institute was founded in 1954, six years after Israel came into being. Three years later, the Institute began paying old-age pensions. Child allowances (initially for Jewish children only) were instituted in 1959 and became universal in 1994. Unemployment benefits began only in 1973. The two most recent major benefits – income support and chronic care benefits – were put in place in the 1980s (income support grants were enacted in 1980, and chronic care allowances began in 1988). Most benefits are funded by social security contributions and are supplemented by the Finance Ministry; income support grants, however, are funded entirely by the state treasury.

Israel's social safety net is comprehensive and universal, and it resembles in structure the safety nets of western Europe more than that of the United States. Its primary weakness is the low level of payments: In Israel, those who survive on social security payments alone are living in poverty. Compared with most developed countries, Israel's overall expenditure on social security is modest.

The cutbacks during the Second Intifada seriously eroded most of the benefits, and thereby undermined one of the foundation stones of the Israeli welfare state. They marked the state's retreat from its aspiration to enable members of a broad social stratum, distinguished by their poverty, to enter the mainstream of Israeli society.

The economic crisis began even before the Second Intifada with the bursting of the global hi-tech bubble. But while other countries recovered within a short time, Israel faced a more serious crisis as a result of its violent conflict with the Palestinians. GDP declined two years in a row and GDP per capita fell three years in a row. This contraction of economic activity caused a fall in state revenues from taxes, exactly when the treasury was being asked to spend large amounts on defense. The result was a major budget deficit: In 2003, "The state deficit reached...5.6 percent of GDP, the highest proportion since the Stabilization Plan of the mid–1980s."[23]

Thus, the government embarked upon an economic recovery plan whose goal was to reduce the deficit immediately and take steps "to stabilize the state budget in the long term."[24] The main thrust of the plan was a series of drastic cuts, and the primary casualties were the benefits of the National Insurance Institute.[25] Within one year, the incidence of poverty among families increased from 18% to 20%.

Between September 2001 and September 2004, the Israeli government carried out eight budget cuts totaling some NIS 60 billion (NIS 73 billion at 2016 prices).[26] These targeted, first and foremost, the social safety net and the education, health, welfare, and housing services.

The National Insurance Institute described the significance of these measures:

> *In 2002–2003, the government of Israel decided on a complete turnabout in its social policy, to mark its stamp on the welfare state in the country for many years to come. Under five different economic programs approved by the Knesset (Israel's Parliament), deep structural changes were introduced in the benefit system of the National Insurance Institute (NII), together with a significant reduction in the level of most benefits. The list of decrees hurting benefits that were implemented in 2002- 2003 and the ones expected in the coming years is lengthy, and affected all population groups...Deeply implanted perceptions of the welfare state, formulated over two to three*

> *decades – such as maintaining the standard of living of benefit recipients relative to that of the population at large – were abruptly abandoned, from one day to the next, without any comprehensive public discussion. The new policy has punctured the social security net of the country and wiped out hard-gained achievements of many years.*[27]

The government combined two methods to carry out cuts to the social safety net: First, it redefined fundamental components of several allowances – primarily income support, unemployment benefits, and child allowances – in a way that slashed these payments. More about this below.

Second, it caused the long-term erosion of almost all the benefits by changing the method for updating the amount of the allowance – from linking it to the average wage (the method used until 2001), to freezing the amount (until 2006), followed by linking it to the Consumer Price Index (CPI). These changes diminish the allowance over the long run, as during periods of growth the cost of living index generally rises more moderately than the average wage.

The cuts to social security were not applied equally to all benefits – disability and old-age pensions were affected less than unemployment benefits, income support, and child allowances. This is the case even though old-age and disability pensions were also linked to the CPI rather than the average wage, and old-age pensions were cut by 4%, except for persons on income support.[28] Demographically, however, the number of those receiving old-age and disability pensions has risen steadily, and therefore so has the spending on these benefits. Still, the payout on these two benefits remains low compared to western countries.

These cuts reflected an unprecedented, extreme version of the neoliberal policies embraced in 1985 with adoption of the Economic Emergency Stabilization Plan. And it should be repeated that, at least since 1985, all governments have taken the neoliberal path. But until the Second Intifada, no administration had taken such drastic measures as did the Sharon-Netanyahu governments, and it is doubtful that under normal circumstances any government would have proposed such measures, brought to the Knesset on short notice, and with a sense of emergency. It is hard to imagine such drastic, far-reaching changes being approved had it not been for the crisis atmosphere during some moments of the Intifada, particularly at the height of the attacks in buses, restaurants, and reception halls.

The conjunction of "state of emergency" and "potential budgetary and financial collapse" was enough to pass the measures. The fact that the first plan for cuts was titled "Operation Economic Defensive Shield" – named after the IDF operation to retake the Palestinian cities – indicates the dire mood at the time.

Below we review the main cuts – to income support, unemployment benefits, and child allowances.

Less Income Support and "Welfare to Work"

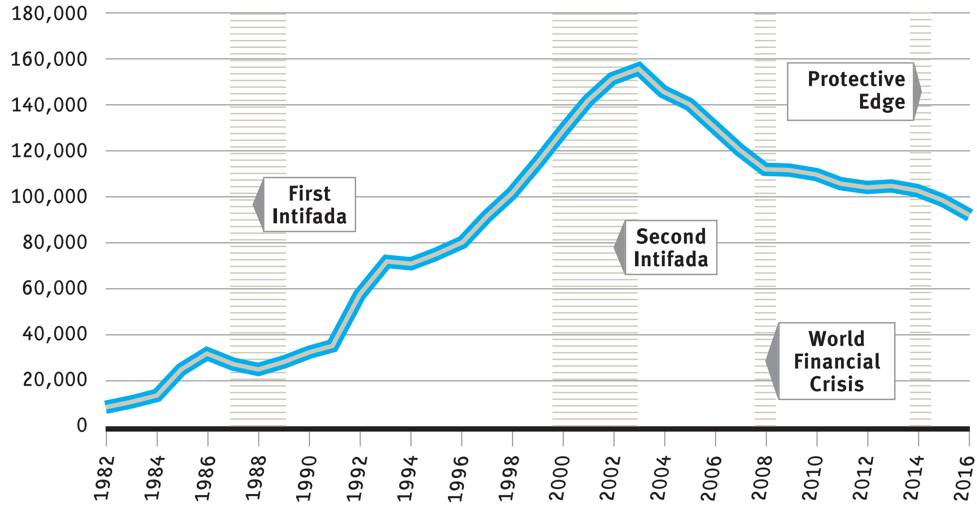
Income support grants were begun in 1980 and marked the final leave-taking from the "welfare" approach that had characterized Israel's early years. Unlike other benefits, which are funded by the National Insurance Institute and the Ministry of Finance, income support funding comes entirely from the state budget.

Spending on this benefit rapidly spiraled in the 1990s, to some extent due to the arrival in Israel of immigrants from the former Soviet Union and Ethiopia, who struggled to find jobs and earn a decent living. The number of recipients of this allowance rose in that decade from approximately 35,000 in 1991 to 151,000 in 2002. In parallel, the monthly stipend itself rose from an average of approximately NIS 2,000 in 1994 to NIS 2,700 in 2001 (at 2015 prices). In 2001, spending on this allowance reached a record high of NIS 4.6 billion (at 2015 prices).

As a result of the fiscal crisis wrought by the Second Intifada, the government decided to reduce its costs by tightening the criteria for eligibility, the amount of the stipend, and associated benefits.[29] In the wake of these cuts, the average monthly allowance dropped from approximately NIS 2,700 in 2001 to NIS 2,000 in 2004 (and currently remains at this level). The number of recipients fell from some 142,000 in 2001 to 92,000 in 2016, while the budgetary outlay dropped by about half – from NIS 4.6 billion in 2001 to NIS 2.3 billion in 2016 (at 2015 prices).

The following figure clearly shows that the Second Intifada was the turning point in the history of the income support allowance.

Figure 7: **Recipients of Income Support Benefits, 1982–2016**
Average per month



Note: The figures for 2016 are an estimate based on nine months (January to September).
Source: National Insurance Institute, *Statistical Monthly*, Table 4.1, various years [in Hebrew].

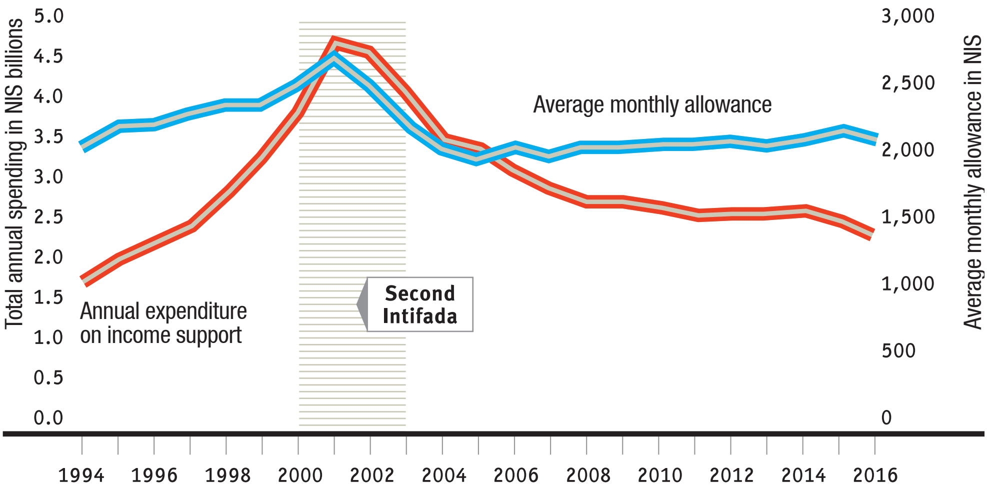
"Send Them out to Work": Welfare Reform

In addition to the drastic cut to income support benefits, the government put in place two programs imported from the United States, programs that had been controversial there and later were controversial in Israel: the "Wisconsin Plan" and "Negative Income Tax." The practical aim of these two programs, beyond the budgetary "savings," was to incentivize income support recipients to enter the job market.

The two programs were based on the American neoliberal policy of transitioning "from welfare to work," reflected in President Bill Clinton's commitment "to change the welfare system as we know it," or, in other words, to make the system less costly to the state. In Israel, the practical goal was to compel income support recipients to join the workforce. As noted by Zohar and Frenkel, "The economic crisis and the resulting economic plan of the Sharon government created the necessary window of opportunity for the Ministry of Finance and its head, Benjamin Netanyahu, to promote a 'back to work' plan as part of the overall policy in Israel of those years to shrink the social services and adopt an extremist neoliberal economic model."[30] Netanyahu promoted his plan

Figure 8: **Average Annual Expenditure on Income Support, in NIS Billions, and Average Monthly Allowance in NIS, 1994–2016**

At 2015 prices



Note: The figures for 2016 are an estimate based on nine months (January to September).
Sources: Adva Center analysis of data from the National Insurance Institute, *Statistical Monthly*, Table 4.4.2; National Insurance Institute, *Annual Report*, 2011–2015.

with the help of the phrase "Let them go out to work," as if all recipients of income support were lazy people who preferred to "drain the state coffers." In practice, a large number of them did work, but found it hard to make a living.

The MeHalev [Hebrew for "from the heart"] program, better known as the Wisconsin Plan, based on the 1992 "Wisconsin Works" program, was approved by the Israeli government in 2004 and launched in August 2005. It began as an experiment in which business firms, at state expense, operated employment centers in several regions, while enjoying the power of the government's Employment Service to conduct occupational testing for income support recipients and approve or deny eligibility for benefits.

The MeHalev program drew heavy criticism on many levels – because state authority was being privatized, because the program created financial incentives for companies to deny benefits, and because of the low quality of the training and job placements. Changes were made and the program was rebranded "Orot Leta'asuka" ["lights for employment"].[31] This program was finally eliminated in 2011 for various reasons, including its legal expiration a year earlier. In 2014, an experimental program, Ma'agalei

Ta'asuka ["employment circles"], was launched. This was a pilot program operated by the Government Employment Service, and to be implemented throughout Israel. According to an ongoing process evaluation of the program, although it led to significant "savings" in the payment of benefits, it brought no real change of income to participating family heads.[32]

In retrospect, the history of the "welfare to work" policy reinforces the argument of this paper that the reason the government took these measures as part of the economic recovery plan was to reduce the state budget in the wake of the economic crisis caused by the Second Intifada, not as a rational, thought-out change of direction to integrate Israel's poor into the job market. As Leah Achdut and Michel Strawczynski wrote, "... the question is whether the government has been steadfast in its efforts to encourage employment and ensure that jobs pay a decent salary, thereby improving the situation that had existed prior to 2003. And has the government acted consistently in this long-term process? Based on the analysis [of the National Insurance Institute], the answer to these questions is 'no'."[33]

"Send Them out to Work": Negative Income Tax

The public campaign against recipients of income support – "Send them out to work" – also gave birth to the "negative income tax" plan implemented in 2008. This consists of a grant paid by the Tax Authority to low wage-earners in an effort to encourage them to rely on work, even at a low wage, rather than income support payments. The negative income tax plan was imported to Israel from the United States and Britain: Initially implemented in several parts of Israel, it was fully applied in 2012 to all wage earners and self-employed persons. The grant itself is very low – between NIS 20 and NIS 720 a month (for a single parent family with three children). Unlike Britain, where the grant is paid weekly, in Israel it is paid retroactively in the subsequent tax year.

In 2014, some 255,000 people were eligible for this annual grant (based on their income in 2013), and the average annual amount paid was NIS 3,729. The grant was claimed by 64% of those eligible. The total expenditure on income support grants that year was NIS 1 billion.[34]

Income Support Benefits Today

Fallout from the cuts made to income support payments during the Second Intifada can be felt to this day. The report of the Israel Committee for the War Against Poverty ("the Alalouf Committee"), appointed in 2013 by the Welfare Minister, reveals that some key economic institutions of the state – the Bank of Israel, Ministry of Finance, and Ministry of Economy and Industry – continue to advocate a reduction in income support in favor of programs that they believe create incentives for work. Income support, they contend, creates a "poverty trap": When it is high, recipients have no incentive to get a job, as wages will often be less, or not significantly more, than the allowance.[35] However, the majority of the committee members stated that, "...**the significant reduction in benefit levels in the eyes of many caused real harm to the program's primary objective – the provision of a reasonable, minimum standard of living. The effects of that change were seen in terms the large gap that was created in the level of benefit paid (especially to families with children) and the income level defined as the poverty line.**" The committee's recommendations were to expand income support, improve the means test, and reduce cuts to the allowance because of work income.[36] These recommendations were not implemented by the government.

Gutting Unemployment Insurance

Unemployment benefits were first paid in Israel in 1973. In the decades following the founding of the state, when the Israeli economy was teetering and large numbers were jobless, particularly in the immigrant communities, unemployment benefits were not yet in place.

The decade prior to the Second Intifada also saw high unemployment rates, as hundreds of thousands of immigrants arrived from the former Soviet Union and Ethiopia. In 2001, recipients of unemployment benefits reached a record high of some 105,000. Between 1994 and 2001, spending by the National Insurance Institute on unemployment benefits doubled or more, from NIS 1.9 billion to NIS 4.6 billion a year, on average. In those years, a moderate 54% increase was recorded in the amount of the average unemployment benefit paid per day, from NIS 120 to NIS 185 (at 2015 prices).

The extreme government response to the crisis of the Second Intifada put an end to this. In 2002–2003, unemployment benefits were cut by 4%, eligibility for these benefits during vocational training was severely limited, the qualification period that confers eligibility was doubled, and the entitlement period to the benefit was shortened, particularly for persons younger than 25. In 2007, the eligibility requirements for discharged soldiers were made more stringent, now requiring a qualification period, and the number of those eligible from this category dropped to zero in 2010.[37] Between 2001 and 2006, the amount of the daily unemployment benefit was frozen; in 2006, the freeze was lifted, but the benefit was now linked to the Consumer Price Index, rather than the average wage, as the CPI generally rises more slowly.

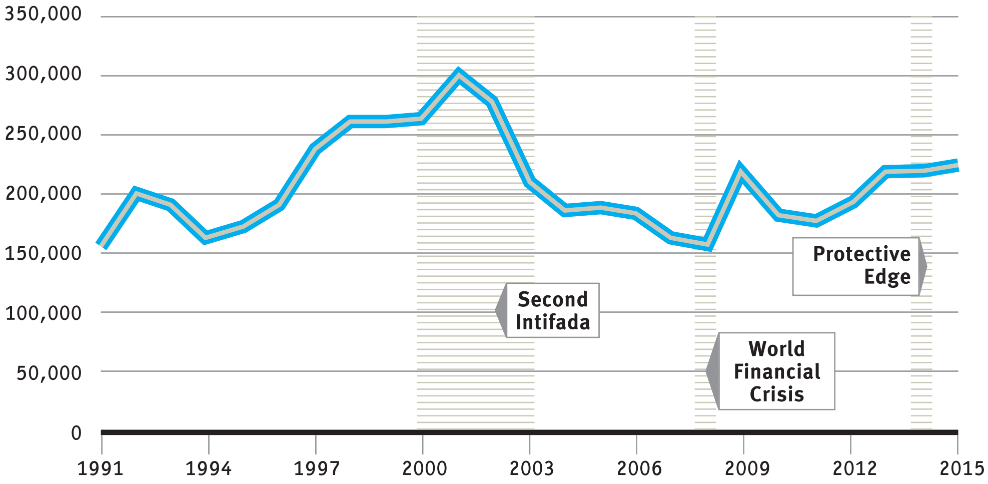
As a result, average annual expenditures on unemployment benefits fell from NIS 4.3 billion to NIS 2 billion between 2002 and 2008 (at 2015 prices). In parallel, the number of recipients declined from approximately 277,418 to 156,450.[38] Furthermore, unemployed Israelis were now significantly worse off compared to their counterparts in OECD countries. While 45% of the jobless in Israel collected unemployment benefits in 2001 (similar to the OECD average that year), only 30% of the Israeli jobless were recipients of these benefits in 2011, ten years later, while 50% of the jobless in OECD countries, on average, received them.[39] Spending on unemployment benefits in Israel – 0.3% of GDP – is still lower than that of other OECD countries – 0.9% of GDP, on average (2013 data).

As researcher Esther Toledano of the National Insurance Institute noted, "In the two previous decades, the policies regarding unemployment benefits significantly undermined the goal of unemployment insurance: As with every insurance system, unemployment insurance constitutes a necessary safety net for consumption smoothing and to help the unemployed find their earning potential by searching for a job that suits their skills. These goals are well reflected in the original law, but have been almost entirely erased since the legislative changes in 2003."[40]

The figures below show the turnaround in unemployment benefits that took place due to the Second Intifada, primarily the drastic fall in the number of recipients. This decline accounts for the fact that although the amount of the benefit changed little in the years that followed, total government spending on unemployment benefits decreased sharply. In 2008–2009, the years of the global economic crisis, the eligibility conditions for the benefit were temporarily eased, hence the temporary rise in the number of recipients and the total spending on unemployment benefits.[41]

Figure 9: **Recipients of Unemployment Benefits 1991–2015**

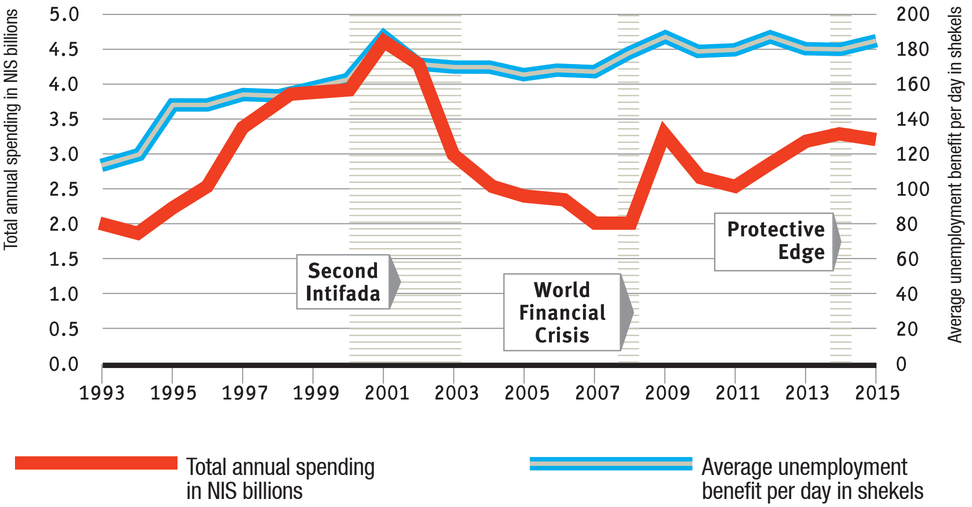
Monthly average



Source: Chantal Wasserstein (2016), *Recipients of Unemployment Benefits in 2015*, National Insurance Institute [in Hebrew].

Figure 10: **Annual Spending on Unemployment Benefits, in NIS Billions, and Average Unemployment Benefit per Day, in NIS, 1993–2015**

At 2015 prices



Sources: National Insurance Institute, *Statistical Monthly*, Table 15.2, various years; Esther Toledano, *Recipients of Unemployment Benefits in 2003*; Chantal Wasserstein, *Recipients of Unemployment Benefits in 2015*.

Cuts to Child Allowances

Child allowances were first paid in Israel in 1959, but for four decades, only Jewish Israelis were entitled. Only in 1994 did this allowance become universal and cover the families of Arab citizens of Israel. The addition of the Arab population and the arrival to Israel of hundreds of thousands of immigrants from the former Soviet Union and Ethiopia led to a significant rise in the number of those eligible in the 1990s, hence, a marked increase in the total spending on child allowances. In the decade between 1991/92 and 2001/01, the number of families receiving this benefit doubled, from approximately 400,000 to 900,000, and the average yearly outlay on child allowances tripled – from approximately NIS 3 billion to NIS 9 billion (at 2015 prices). This expenditure grew even more following enactment in 2000 of the Large Families Law ("the Halpert Law"), which significantly increased the allowance from the fifth child and up.

The allowance greatly helped large families, particularly Arab and Haredi (ultra-Orthodox) families, but its cost raised eyebrows in the Finance Ministry. Their opportunity to lower the cost arrived with the budget crisis that accompanied the Second Intifada. In 2002, the government cut the allowance by 12%, and took off an additional 4% one year later. In a further step, the government froze the updating of the allowance.[42] The most significant reduction came in 2003, when the child allowance was set at NIS 144 per child regardless of the number of children in the family, a decision that ended the privileging of large families. These cuts, which, above all, hurt the population sectors that were already beset by high poverty rates, further added to the ranks of the poor.[43]

The child allowance never returned to the levels prior to the Second Intifada, despite small changes, the most recent in 2016 when the Knesset approved a savings plan of NIS 50 a month for every child, which can be withdrawn when the child reaches the age of 18.

These cuts meant a loss of hundreds of shekels a month to families with children. Low income families were hurt twice – by the cut to income support and the cut to child allowances.

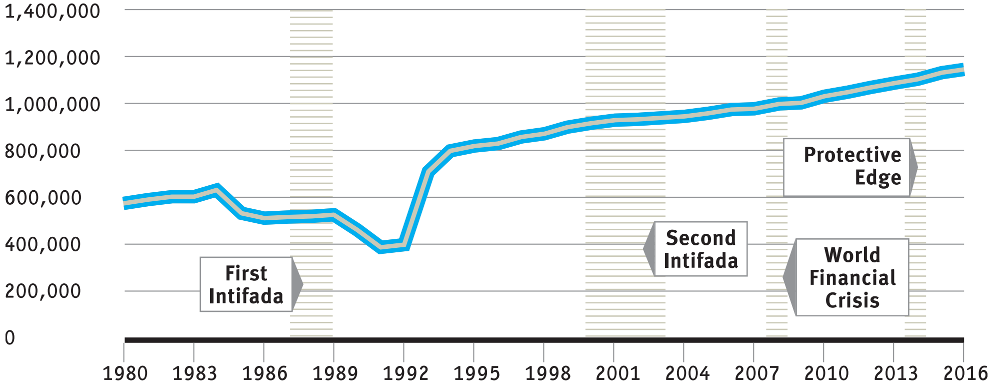
According to National Insurance Institute figures, Israel ranks near the bottom on child allowances, in comparison with European countries – only Spain and Portugal have lower average child allowances as a percentage of GDP per capita.[44]

Child allowances in Israel are still significantly lower than the average of OECD countries.[45] And this is while the poverty rate among children in Israel is among the highest of developed countries – 24.9% compared with an average of 12.9% among OECD countries.[46]

The figures below show the turning point in the history of child allowances – the increase that began in the 1990s in the number of those eligible and the total outlay for it, and the subsequent decline in child allowance spending following the cuts of the Second Intifada years.

Figure 11: **Families Receiving a Child Allowance, 1980–2016**

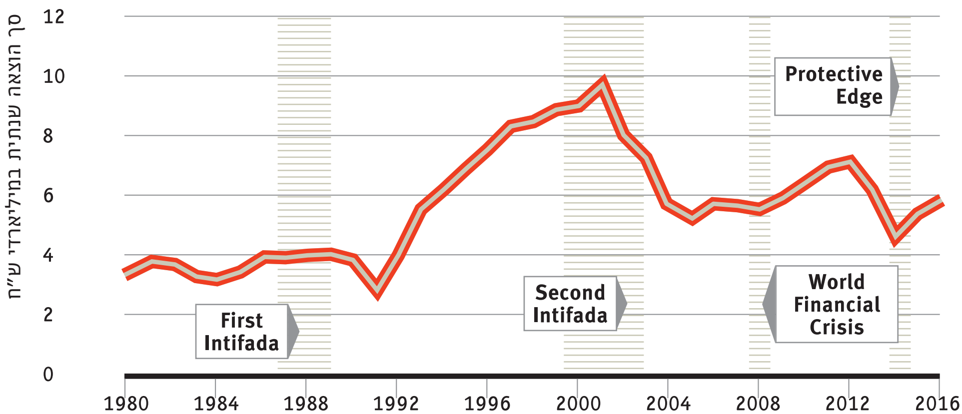
Average monthly total



Note: In the years 1985–1992, some families received child allowances based on a means test.
Source: National Insurance Institute, *Statistical Monthly*, Table 6.2.1.

Figure 12: **Annual Expenditure on Child Allowances, 1980–2016**

In NIS billions at 2015 prices



Note: Does not include the increment for IDF veterans, which was cancelled in January 1997.
Sources: National Insurance Institute, *Statistical Monthly*, Table 6.1, various years; National Insurance Institute, *Annual Survey* 2015 and 2011.

Since the Second Intifada, the Social Safety Net has been Less Effective in Reducing Poverty

The goal of the social security system is to extricate families and individuals from poverty. The deep cuts to income replacement benefits and child allowances, together with the erosion in the value of the old-age and disability pensions, seriously harmed people living in poverty. Since the Second Intifada, the ability of the various allowances to reduce the dimensions of poverty has been continuously compromised: In 2002, immediately preceding the regime of cutbacks, the benefits managed to raise 46.6% of Israelis above the poverty line – Israelis who would have been below it had they to survive only on their work income. This percentage is in decline, and was 34.6% in 2015.[47]

The Second Intifada and the fiscal austerity policies that ensued significantly undermined the main role of the social safety net – to help Israelis who fell below the poverty line due to the failure of the labor market to provide them with a decent living.

Figure 13: **Poverty Rate among Families Before and After Transfer Payments and Direct Taxes, 1998–2015**

In percentages

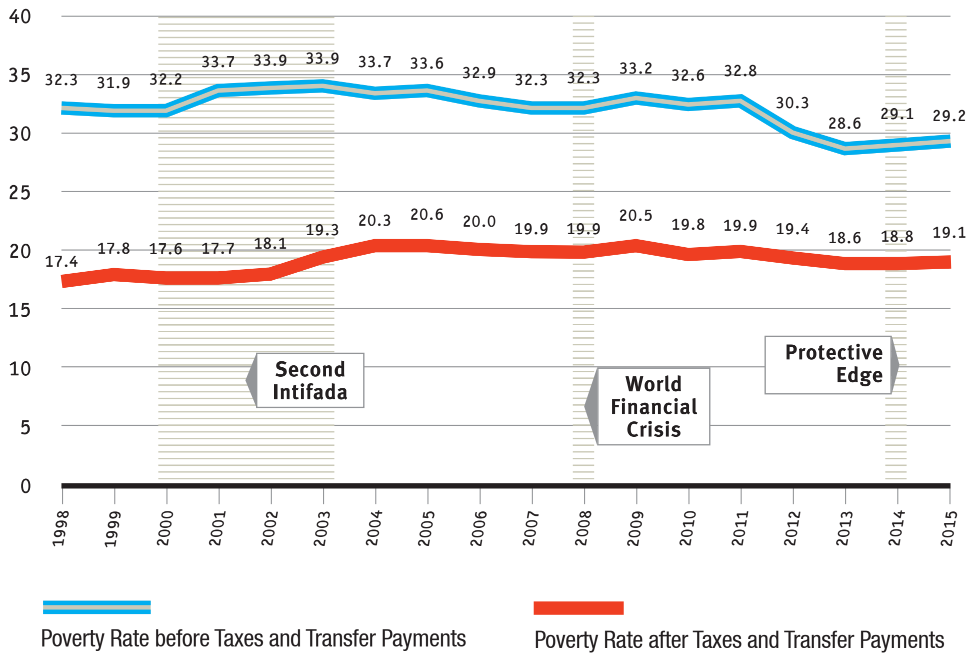
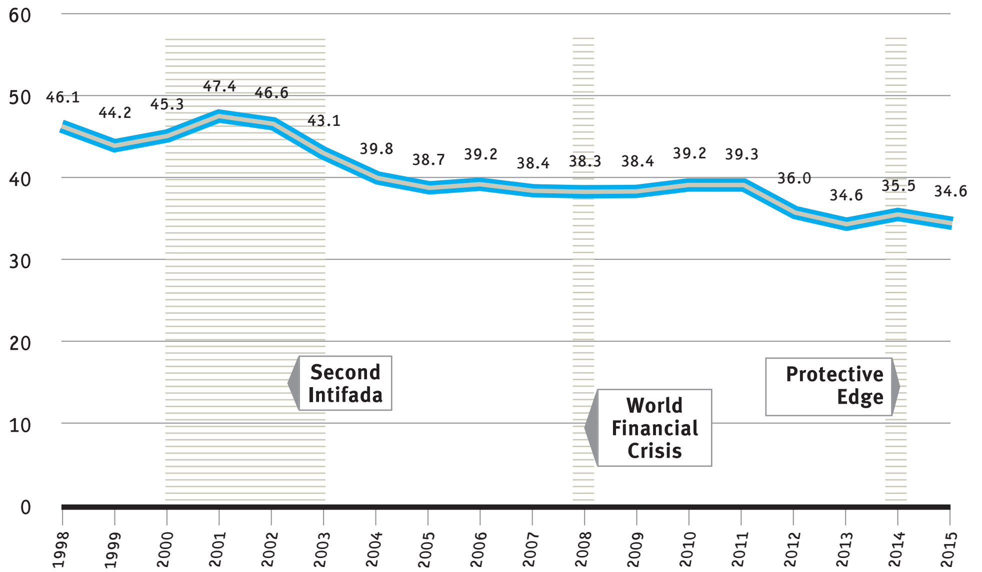


Figure 14: **Decrease in Poverty Rate due to Transfer Payments and Direct Taxes, 1998–2015**

In percentages



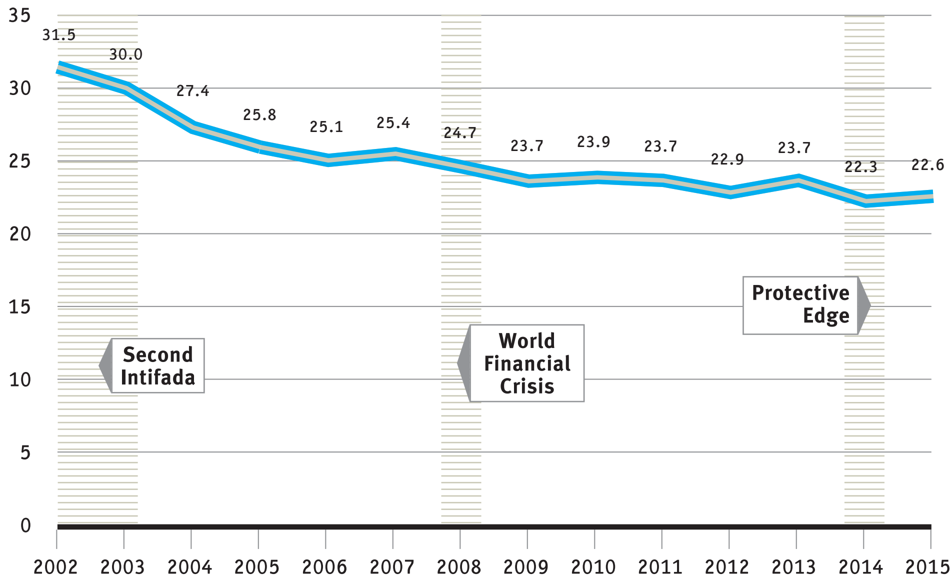
Source: National Insurance Institute, *Dimensions of Poverty and Social Gaps*, Jerusalem, various years.

Changes in Social Welfare Policy Increased Inequality

The cuts to the social welfare system were instituted, as noted, at the same time as the reduction in direct taxes, which primarily benefited those in the highest income brackets. This combination – harming low-income earners while rewarding high earners – exacerbated inequality in Israel. The graph below reveals growing inequality as measured by the Gini coefficient, which ranges from zero to one: Zero indicates absolute equality and one is a situation in which all income is concentrated in the hands of one person. In 2002, the combination of social security benefits and taxes contributed to a reduction of 31.5% in inequality after transfer payments and direct taxes; in 2015, following cuts in benefits and taxes, this reduction amounted to only 22.6%.

Figure 15: **Decrease in the Gini Coefficient of Inequality in Income Distribution among Families Due to Transfer Payments and Direct Taxes, 2002–2015**

In percentages



Source: National Insurance Institute (December 2016), *Dimensions of Poverty and Social Gaps: Annual Report 2015*.

The Occupation and Development Policy Based on Cheap Labor and Low Productivity: The Case of the Construction Industry

Race to the Bottom of the Israeli Workforce

The "people without a land" did not actually wind up in a "land without people," of course. Indeed, many Arab residents of this land found jobs in Zionist enterprises – the moshavim (collective farms), orchards, and construction sites – offering cheap labor to the pioneers from eastern Europe. And many of the pioneers responded by calling for the exclusion of Palestinians from the Zionist workforce under slogans promoting "Hebrew labor." After the 1948 war, most Palestinians remained on the other side of the Green Line, while those who stayed and became Israeli citizens found themselves confined to their towns under the military regime that lasted until 1966.

During the course of those first two decades, Israeli economic policy concentrated on integrating hundreds of thousands of new Jewish immigrants, primarily from Arab countries, into the workforce. When the agricultural sector reached saturation, attention shifted to industry, and an entire generation of Mizrahim underwent a process of proletarization. Emphasis was placed on improving the productivity of the workers through education and vocational training. Palestinian citizens of Israel who managed to enter the Jewish labor market worked for low wages, primarily in agriculture or construction.

The 1967 war opened the gates to Palestinians from the occupied territories, but whether they should be allowed entry to Israel was the subject of debate in the Israeli establishment. A committee of economists headed by Prof. Michael Bruno, later Governor of the Bank of Israel and Chief Economist of the World Bank, recommended that the government allow free movement of goods between the occupied territories and Israel, but not free movement of factors of production, especially not workers. Nevertheless, noted the committee, in a situation of full employment, permits for select groups of workers should be considered.[48] About a year later, recommendations were submitted to the government from the Directors-Generals Committee headed by Ya'akov Arnon, Director-General of the Finance Ministry at the time, for coping with the problem of unemployment in the occupied territories. The committee's first recommendation was to allow the establishment in the territories of enterprises owned by Palestinians; as a second choice, the committee recommended the approval of enterprises in the territories that would be owned by Israeli entrepreneurs; entry to Israel of Palestinian workers was only a third choice.[49] However, then Defense Minister Moshe Dayan, who in practice was in command of the Israeli control mechanisms in the occupied territories, ruled in favor of allowing Palestinians to enter Israel for work. Israeli farmers and building contractors quickly took advantage of this to lower their labor costs.

In the 1970s and 1980s, Palestinian workers from the occupied territories could enter Israel freely. By 1987 and 1988, they comprised close to 40% of the Palestinian workforce of the territories. In 1987 within Israel, Palestinians comprised 49% of construction workers and 45% of agricultural workers.[50]

Both Israelis and Palestinians generally viewed favorably the employment of Palestinian workers in Israel. On the Israeli side, many assumed that Israel profited from this arrangement because Palestinians' salaries were lower than those of their Israeli counterparts, greasing the wheels of the Israeli economy, particularly specific branches of it, at a low-cost growth. Israelis also assumed that Palestinians profited from the arrangement as well because their wages in Israel – low by Israeli standards – were high in Palestinian terms and helped raise the standard of living in the territories and fuel private investment, particularly in housing. In 2013, the wages of Palestinians working in Israel constituted some 12% of the total Palestinian GDP.[51]

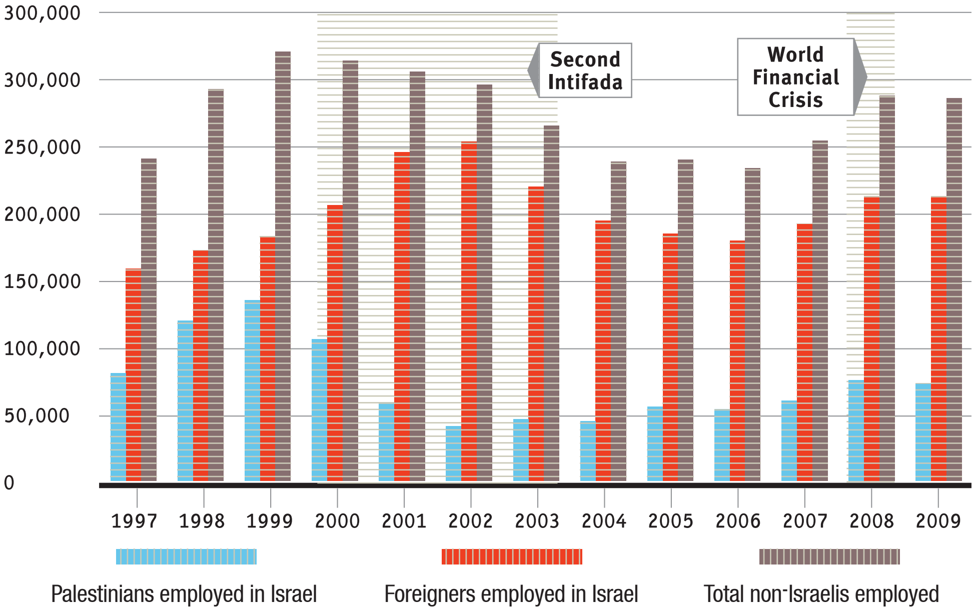
From a long-range perspective, however, this arrangement has harmed both economies. It undermined the ability of the Palestinians to develop and maintain an independent economy and exacted a high price from the Israeli economy – pushing low-educated workers, particularly Arab citizens of Israel, out of the labor market; introducing deleterious employment norms that infiltrated Israeli firms; and foregoing potential hi-tech investment into industries such as construction and farming, which were labor intensive, employing Palestinians.

In 1991, during the First Intifada, Israel imposed a "closure" on the occupied territories, instituting a system of entry permits and prohibiting overnight stays in Israel. By 1993, only 22% of the Palestinian labor force was working in Israel,[52] as the gates to Israeli jobs again seemed to slam shut to non-Israelis. Israeli farmers and building contractors, however, had become accustomed to a business model based on cheap, unskilled labor and applied heavy pressure on the government to replace the Palestinians with "foreign" workers, i.e., workers from more distant countries.[53] Subsequently the gates to the Israeli labor market were thrown wide open: The number of work permits for foreign workers reached a record high of 106,000 in 1996.[54] Ever since, Israel has maneuvered between the Palestinian and the foreign labor markets: During times of high security tension, it limits the work permits issued to Palestinians and increases the number to foreign workers, and vice versa.

Following the First Intifada and Israel's open-door policy to workers from other countries, the number of Palestinian employees in Israel declined. In 2000, at the end of which the Second Intifada erupted, these workers comprised some 19% of the total Palestinian workforce. With the outbreak of the Second Intifada, this fell to 8–9%. Upon conclusion of the Second Intifada, the numbers grew, but never reached the level of 2000.

In 2015, the most recent year for which there are complete figures, 112,300 Palestinian workers were employed by Israelis, of whom 22,400 worked in settlements; 63,000 of this total had a work permit and 36,400 did not. An additional 12,900 held an Israeli ID card (they were apparently East Jerusalem residents) or a foreign passport. Palestinians employed by Israelis constituted some 12% of the Palestinian workforce that year.[55] More than 60% of the Palestinians who work in Israel or the settlements are employed in construction.

Figure 16: **Non-Israeli Employees in the Israeli Labor Market, 1997–2009**



Sources: Palestinian Central Bureau of Statistics, *Labor Force Surveys, 1995–2009*; CBS, *Labor Force Surveys, 1997–2009*; Sami Miaari, Ola Nabwani, and Nabil Khattab (2011), "Trends in Wage Gaps between Arabs and Jews, 1997–2009," Van Leer Jerusalem Institute, p. 25.

Table 2: **Palestinian Workers in Israel and the Settlements by Economic Branch, 2015**

Total Palestinians employed in Israel or the settlements in percentages and absolute numbers

	Percentage	Number
Agriculture, fishing, and hunting	8.9	9,995
Mining, quarrying, and manufacturing	13.0	14,599
Construction	63.6	71,423
Commerce, restaurants, and hotels	9.9	11,117
Transportation, storage, and communication	1.9	2,134
Services and other branches	2.7	3,032
Total	100	112,300

Source: Palestinian Central Bureau of Statistics, *Labor Force Survey 2015*, Table 22, p. 85.

Labor – Cheap and Disenfranchised

Palestinian laborers are paid significantly less than their Israeli counterparts, and the cost of employing them is significantly lower even than "foreign" workers from abroad.

The Committee for Regulating the Employment of Palestinian Workers ("the Eckstein Committee") published comparative data in 2011 showing the cost of employing Israeli, Palestinian, and foreign workers based on employer reports to the Payments Division of the Ministry of the Interior. The data reveal that the gross monthly cost to the employer for hiring a Palestinian worker was less than half the cost of employing a foreign worker (either in construction or agriculture), and just under half the cost of employing an Israeli in these jobs. The differences in hourly costs were smaller.[56]

Legally, Palestinian workers in Israel and the settlements have the right to the same working conditions to which Israeli employees are entitled by law and collective wage agreements such as those in the construction industry. Employers, for example, deduct pension and social benefits from an employee's wages and add their own contributions, and these are then transferred to the Payments Division.[57] Many employers, however, pay their workers in cash and avoid paying for social benefits.[58] Even when employers submit these payments in full to the Payments Division, much of the money accrued never reaches the workers because of malfunctioning of the Division itself.[59] The Ministry of Economy and Industry does not enforce Israeli labor laws vis-à-vis Palestinian workers, who cannot easily appeal to Israeli courts.[60]

Employment arrangements create dependence of the Palestinian workers on their Israeli employers, primarily because the work permits are issued to the employer. And this dependence creates conditions ripe for exploitation: Some employers, for example, charge workers a fee of NIS 1,500–2,500 a month for hiring them, which leaves a large portion of the salary in the hands of the employer.[61]

In March 2016, the government decided to encourage the hiring of Palestinian employees as part of its efforts to promote economic cooperation with the Palestinian Authority. In December 2016, it further decided to change some of the arrangements for approving and regulating permits. It also recommended establishment of a task force to examine the terms of employment and payment to Palestinian workers.[62]

Impact on the Israeli Workforce

The entry of Palestinian workers from the territories occupied in 1967 into the Israeli workforce harmed, first and foremost, Palestinians who had become citizens of Israel in 1948.

During the first two decades of Israel's existence, its Arab citizens had been under military rule, ending just one year before the Six Day War (1967). Military rule greatly narrowed their job options. Only a few years earlier the Histadrut had changed its name from "the Federation of Hebrew Workers" to the "General Labor Federation" (though Arab workers were accepted as members of specific trade unions in the 1950s). In other words, only in 1967 did Arab citizens of Israel take their first steps toward organized labor with protected rights.

The influx of workers from the occupied territories, given their terms of employment, created a "race to the bottom" between Palestinians from both sides of the Green Line. The competition for jobs helped entrench adverse norms of employment – contract workers, day work, and non-payment of social benefits. This was particularly true of the two main industries that employed both groups – construction and agriculture.[63]

Research by the Bank of Israel reveals that "Foreign and Palestinian workers often compete for the same jobs with Israel's Arab citizens. This is especially true of male workers in construction, agriculture, and certain branches of manufacturing. The substitutability of these groups has been evident in construction, where Israeli Arabs were largely replaced by foreign workers during the 1990s but enjoyed a partial 'comeback' in the 2000s with the decline in the number of foreign and Palestinian workers permitted to work in Israel."[64]

Note that the construction industry has for years been the main employer of Arab citizens of Israel. According to the Bank of Israel, 26% of all male Arab citizens were employed in construction in 2011.[65] This very high percentage reflects, among others, the fact that only a minority of Arab youth manage to acquire a college education.

The influx of Palestinian and foreign workers into the Israeli labor market impacted the participation of Arab citizens of Israel in the labor force. Economist Cohen Goldner found that from 1998 to 2006, the proportion of foreign and Palestinian workers holding jobs in the construction industry significantly affected the employment opportunities of

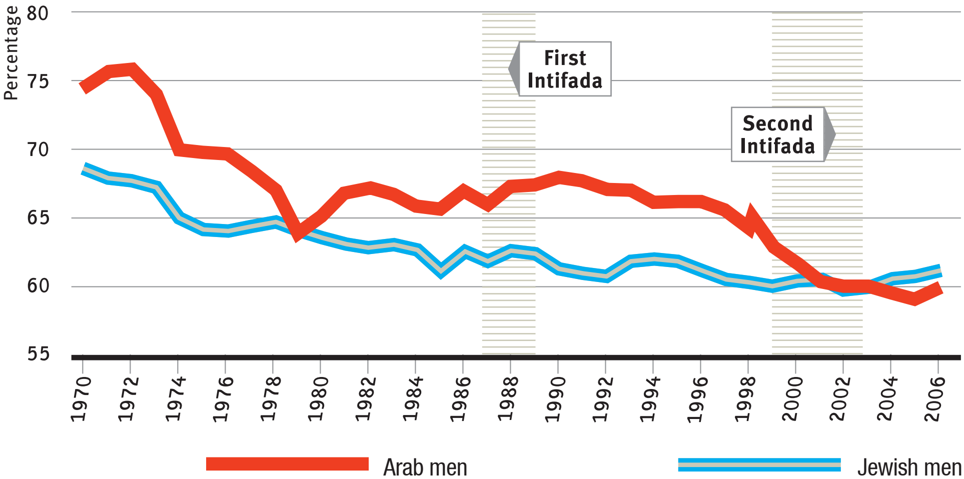
Arab citizens of Israel.[66] Earlier research by Gottlieb and Cohen reveals similar findings for the years 1990–2000: The likelihood that Israeli workers – Jewish and Arab men with little education - being pushed out of a job in agriculture or construction was significantly higher than in any other economic branch.[67]

From 1970 to 2006, participation in the Israeli workforce declined among both Jewish and Arab workers. But, as evident in the figure below, the decline of Arab men was greater – from 75% in the early 1970s to 60% in 2006.

With respect to Jewish workers, foreign workers competing for jobs in agriculture affected their employment opportunities as well, particularly those who did not complete twelve years of schooling.

Figure 17: **Participation of Men in the Workforce, by Nationality, 1970–2006**

In percentages



Source: Eran Yashiv and Nitsa Kasir (2010), "Patterns of Participation of Israeli Arabs in the Labor Market," Bank of Israel, Survey 84, p. 1 [in Hebrew].

Access to Palestinian workers also lowers the wages of Arab citizens of Israel. Miaari, Nabwani, and Khattab[68] examined wage disparities between Jewish and Arab workers between 1997 and 2009 and found not only a high level of discrimination in the salaries of Arab workers, but also that their wages changed along with changing economic conditions, including the Intifada and the influx of foreign workers. Thus, they note, wage gaps between Jews and Arabs diminished in 2000–2004, the years of the Second Intifada, as a result of the reduced employment of non-Israelis; wage gaps returned to previous levels when the Intifada ended. Earlier research also indicates a rise in the demand for and wages of Arab citizens of Israel following the outbreak of the First Intifada in 1987 and during the Second Intifada.[69]

It should be said that jobs in farming and construction became virtually irrelevant for Jewish workers – except as supervisors or managers – due to toxic employment norms, the lack of labor-law enforcement by the state or trade unions, and low wages. Efforts over the years to encourage Jews to work in construction and agriculture have not met with success.

The Occupation Helps Entrench Low-Paying Jobs

One might contend that even if competition for jobs with Palestinian workers had a negative effect on Israelis employed in construction and agriculture, the Israeli economy benefited as a whole. Here, too, however, there is room for doubt. Although Israeli building contractors and farmers profited from employing Palestinian workers, had it not been for the Six Day War, the state and employers might have done more to increase productivity by investing in mechanization and technology, as well as in the education and vocational training of workers. Had they done so, the entire Israeli economy would have been upgraded by enhanced productivity and better compensation, allowing for a higher standard of living. The entry into Israel of Palestinian workers, and later workers imported from abroad, had the opposite effect.

An interesting study by the British researcher Bartram sheds light on this.[70] Bertram compared employment policies in the construction industry for foreign workers in Japan in the 1970s and Israel in the 1990s. During these periods, both countries were wealthier and more developed than neighboring countries. In this sense, both could be expected to have a large percentage of foreign workers, on the assumption that highly developed economies "require" unskilled labor.[71] Israel, as noted, did employ hundreds of thousands of foreign workers in those years, who replaced Palestinian workers. Japan in the 1970s, on the other hand, refrained from importing Korean, Philippino, or Chinese workers. According to Bartram, the Japanese government strove constantly to increase the productivity of local workers by adopting capital-intensive manufacturing processes. Since high-productivity manufacturing generally requires more highly skilled workers and is based on a stable and well-paid workforce, the local labor market becomes more attractive to the country's own citizens.[72]

Bartram attributes Israel’s economic policy to decision-making that is short-sighted, weak on research and planning, and susceptible to private interests – a subtle reference to the Israeli building contractors and farmers who were close to the Rabin government.[73]

Israeli researchers and public commissions that studied the construction industry also concluded that access to cheap labor halted technological development of the industry. Although construction technologies in Israel have improved over the past decade, Israel significantly lags behind other developed countries in construction speed and the technological sophistication of methods and materials. Economist Zvi Eckstein noted that in many countries, industrialization led to increased productivity and higher wages, while in Israel growth in the construction industry is slow compared to overall economic growth and worker output.[74]

Summing Up

The employment policy of hiring cheap foreign labor, beginning with the entry of Palestinian workers to Israel, may be one reason for the split-track of Israeli economic development since 1967: One track of the economy is capital-intensive, based on science and technology, and employs a skilled, educated and relatively highly paid workforce. Another, larger track involves low levels of capital, science, and technology, and employs low-skilled workers at poor salaries. Early in this document, we called these two parts "startup nation" and" the other Israel." In the absence of state investment in upgrading low-wage workers (by investing in education and vocational training or by enforcing labor laws, for example) and given the profitability of employing low-skilled workers in some sectors of the economy, the two tracks will continue to diverge and the gap between them, only widen. And this impedes significant expansion of the capital-intensive, science and technology track of the economy, holding Israel back from becoming not just a center for research and development racing to sell its products to multinationals, but also a center for production and marketing.

In the short run, the employment in Israel of Palestinian workers served both economies – Israeli employers received cheap, accessible labor while the Palestinian economy enjoyed the infusion of wages earned by those working in Israel, wages that constituted 12.3% of the GDP of the Palestinian Authority in 2013.[75] In the long run, however, this arrangement hurts both sides: It hinders development of an independent Palestinian economy[76] while harming the Israeli labor market. One price that comes up again and again in committee reports and research is that the employment of Palestinian laborers at low wages ends up driving poorly educated Israelis, most of them Arab citizens of Israel, out of the workforce.[77] The moment an industry becomes identified with foreign workers or Palestinians, its status falls and Israelis refuse to work in it.

A second price is the lag in technological development of industries that employ cheap labor: Technological development requires deep-pocket investment, and it usually bears fruit only in the long term. Employers, particularly building contractors and farmers, prefer short-term profits over long-term investments. The government's efforts to expedite construction and lower the prices of housing and agricultural produce, also lead to a focus on short-term policies while ignoring repercussions on the labor market.

A third price is the development and entrenchment of harmful employment norms in the absence of labor law enforcement and trade union protection. These practices foster a sense of discrimination and alienation among Palestinian workers and seep into the working conditions of Israeli workers, both Arab and Jewish, in these fields.

For many years, Israel had been a land of low wages – both before the establishment of the state of Israel and during the first decades of its existence. In the 1980s, with the development of technologically and scientifically based industries, above all the defense industry, the stratum of highly skilled workers employed at high wages began to grow. In those years, the hope was that all of Israel would move in the direction of a hi-tech economy, which would require investment in education and training of the entire population. The influx into the Israeli economy of tens of thousands of Palestinians, and later hundreds of thousands of foreign workers, cooled the desire to upgrade the training and education of the entire population and widened the gaps that already existed between startup nation and the rest of Israel.

The Occupation and Unequal Development: Development Towns

The occupation transformed the priorities of the government regarding the towns and villages in Israel as Jewish settlements were being established in the Palestinian territories occupied in 1967.

The initiative for the settlement enterprise began just a few years after Israel terminated – but did not complete – a much larger national settlement and housing project: the absorption of over a million Jews who arrived in the first decades after establishment of the state. Between 1948 and the early 1960s, nearly 300 immigrant communities were established in Israel (largely upon the sites of Palestinian villages that had been destroyed in 1948) along with almost thirty development towns.[78] In addition, dozens of new neighborhoods in towns throughout Israel were constructed to replace the transit camps that had been the first home of many new immigrants.

In 1967, most of the immigrant towns were not yet stable and well-established. The settlement and housing projects of the 1950s and 1960s were carried out under extremely difficult conditions: The population in need of housing was very large, even larger than the population of Israel at the time of its founding in 1948. Moreover, the immigrants arrived in large and frequent waves, and housing arrangements had to be made under stressful conditions. Above all, the country's financial resources in those years were far more modest than its resources after 1967. The funds channeled to the immigrant communities were more meager than those invested during the same period in the veteran communities. Furthermore, due to the pressure of ongoing events, new communities were established even before there was time to develop an economic infrastructure or sources of employment.

It is therefore not surprising that the development towns, originally designed to be urban centers that would provide services to the surrounding agricultural communities, found it hard to compete with the veteran settlements, which were well connected with Israeli's political and economic powerbases. Rather than the kibbutzim and moshavim depending on the development towns, as the theory said they would, the development towns became dependent on them. Throughout most of the 1950s, high unemployment plagued both the new immigrant communities and the development towns, and the occasional public works projects did not do much to alleviate the distress, as these jobs were sporadic and poorly paid.[79] In addition, the housing built for new immigrants was of a lower standard than that built for Israel's veteran citizens, and this became a key component of the social inequality that developed in Israel. The apartments in development towns were relatively small, and they were built with an inferior level of detail and finish; the buildings were also poorly maintained.[80]

One of the most vulnerable aspects of many new immigrant communities was their fragile economic base. Many development towns depended on one or two large factories for the livelihoods of their residents. These factories generally offered low-paying, assembly-line jobs that did not contribute to the economic development of the region. Some, particularly the textile factories that were to become symbols of the development towns, were already anachronistic when they were built, and it was clear even then that they would not usher in the equivalent of the industrial revolution pioneered by the textile industry in England in the 18th and 19th centuries.

The 1967 war underscored just how outdated the labor-intensive factories of the development towns were. Immediately after the war, the government embarked upon a new project – creation of a massive military-industrial complex (MIC) as part of its effort to take advantage of the military victory and establish Israel as a regional superpower. This ambition also found other outlets: increasing the size of the army, enlarging the defense budget, and retaining the occupied territories – primarily the Palestinian territory – through the establishment of military bases and a network of civilian settlements.

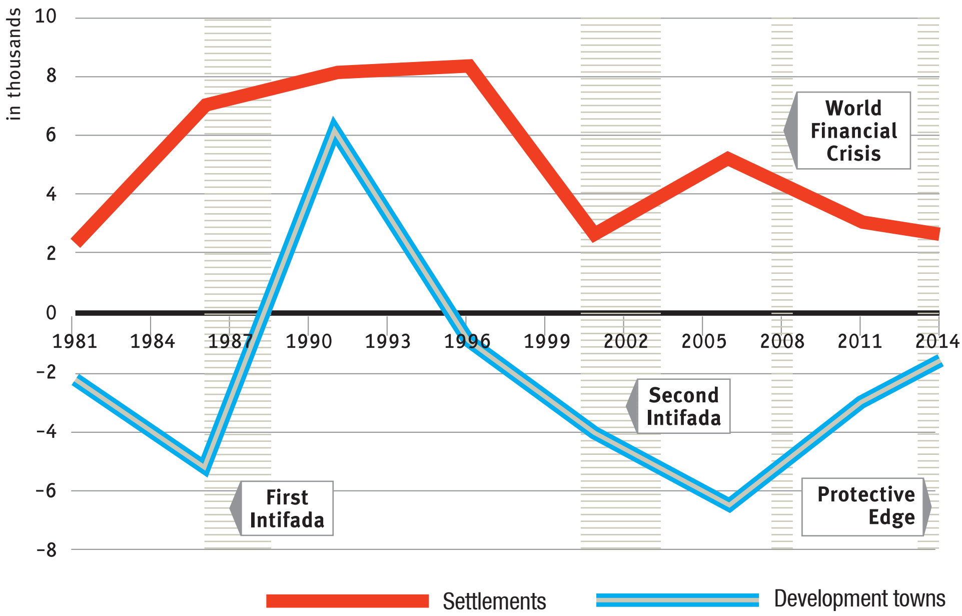
After 1967, the MIC evolved on a much more solid and better funded foundation than the industries in the development towns. The government invested a large portion of its budget in the MIC, at times one-quarter to one-third of the defense budget. These funds were supplemented by generous assistance from the United States, which had begun to view Israel as a regional strategic partner.[81] The MIC, based on knowledge-intensive work, made use of advanced scientific and technological research, and hired educated workers at high salaries – a core of several thousand engineers and scientists, joined by technicians, computer experts, military officers, discharged soldiers from specialized units, and workers skilled in small assembly line production. A network of ancillary services thrived on the MIC – financial, accounting, marketing, publicity, and other services. Eventually, the MIC paved the way for the flagship of Israel's contemporary economy – the hi-tech industry.

The development, production, and marketing centers of the MIC, as well as its ancillary services, were established in the center of the country. The labor-intensive industries established in the 1950s and 1960s were now referred to as "traditional industries" – despite the fact that only 15–20 years had passed between their establishment and the start of massive investment in the MIC. While the MIC and the hi-tech industry that followed both flourished, the textile factories in development towns languished, becoming "corporate welfare cases" often dependent on the political good will of the government, which would intervene from time to time to prevent their closure.[82]

Within a single decade – from the mid–1950s to 1967 – of relatively high government spending on housing and employment in the development towns, the direction changed, and the towns entered an extended period of low investment and economic stagnation. In the 1970s and 1980s, when settlement construction in the Palestinian territories was in high gear, the development towns were experiencing negative migration: Over a long period, the number of departing residents outnumbered new, incoming residents. From the 1960s to the end of the 1980s, most development towns lost residents, and others were barely able to maintain a balance between those coming and those going, with only a few exceptions – Arad, Karmiel, Eilat, and Ashdod.[83] The economic stagnation and negative migration continued until the large wave of immigrants from the former Soviet Union and Ethiopia began to arrive in 1989, when the populations of the development towns begin to revive.[84] However, the distance between centrally located communities and what became known as the "periphery" did not diminish. The 1990s were the golden age of hi-tech, but only for the center of the country.

The figure below shows the immigration-migration balance of development towns in comparison with settlements: During the 1980s, the development towns had negative migration – the number of those leaving exceeded those coming – while the migration balance of the settlements was positive and on the rise. In the 1990s, the immigration to development towns turned positive, thanks to tens of thousands of immigrants from the former Soviet Union, reaching a high point in 1991. Migration eventually became negative again, reaching a nadir in 2006, where it remained until 2014. In the settlements, on the other hand, the immigration-migration balance was positive throughout the years, although the balance of newcomers over those who left decreased during the Second Intifada and remained low thereafter.

Figure 18: **Internal Migration Balance in Settlements and Development Towns (in thousands), 1981–2014**



Note: Until the disengagement in 2004, the settlement population includes residents of the Gaza Strip;
Source: CBS, annual reports and surveys of local authorities, various years.

Returning to the impact of the 1967 war, the hostilities were followed by a huge surge in Israel's resources and, accordingly, an enormous increase in its expenditures. Had this spending been directed to the development towns, the new moshavim, and the poor neighborhoods of the big cities, it could have helped renew and upgrade housing, diversify sources of employment, expand roads and rail transport, and improve the level of education and professional training. In other words, the new, expanded resources could have brought the immigrant absorption project of the 1950s and 1960s to a successful conclusion, and introduced the Israelis who arrived in those years into the new development opportunities of hi-tech. However, the resources made available by the 1967 war were channeled into new projects, among them settlements in the occupied territories.

Although Israel in 1967 had not yet fully processed the territories and population groups that had come under its wing in 1948, it now decided to digest the new territories and populations conquered in 1967. Just as the government had invested new resources in the military-industrial complex and sidelined the industries of the 1950s and 1960s, so too it took on the project of building settlements in the newly occupied territories, abandoning the development towns to the periphery. The settlements outstripped the development towns (just as the MIC had outstripped the "traditional" industries) in several senses:

First, beginning in 1977, the settlements became a national project of the first order designed to allow the Likud Party to go down in history for taking control of the entire historical Land of Israel. In his election campaign that year, Menahem Begin promised to build "numerous Alon Morehs" – the settlement near Nablus established in 1974 by Gush Emunim and approved by the Rabin government after lengthy deliberations. In fulfillment of Begin's pledge, it was ironically David Levy (from the development town of Beit Shean and Minister of Construction and Housing in the Begin, Shamir, and National Unity cabinets) together with Moshe Katzav (from the development town of Kiryat Malakhi and Deputy Minister of Construction and Housing in the Begin and Shamir cabinets) who found themselves conducting the campaign to construct housing in the settlements. While the settlements were helping Gush Emunim and its supporters position themselves strategically on the Israeli political scene, David Levy and Moshe Katsav – along with other local Mizrahi politicians – achieved prominence individually, but did not create an effective political force to prevent the Mizrahi working class from being marginalized. That emerged only later, in the late 1980s, led by the Shas Party, which had reconciled itself to the marginalization, and focused on the social safety net, rather than employment and wages.

The settlements were built according to the new, middle-class standards of the 1970s – single-family dwellings with gardens and spacious public facilities nearby.[85] Meanwhile, the Likud offered something far less generous to its Mizrahi voters, who had played a key role in the Likud's rise to power in 1977 – Project Renewal. This urban renewal program was designed to renovate apartment buildings in urban areas and development towns, which by 1967 were already showing signs of dilapidation. While settlement construction was supported by government money, Project Renewal depended on donations from Jewish communities abroad.[86] While the settlement budgets were generous and remain stable to this very day, the Project Renewal budget slowly dwindled.[87] While government funding helped empower settlers and turn their organizations into a potent political force, Project Renewal was managed by the national and local governments, giving residents only minimal representation.[88] And while the settlements succeeded in empowering a defined social group and bringing it solidly into the middle class, Project Renewal was unable to upgrade residents of working-class neighborhoods and development towns.

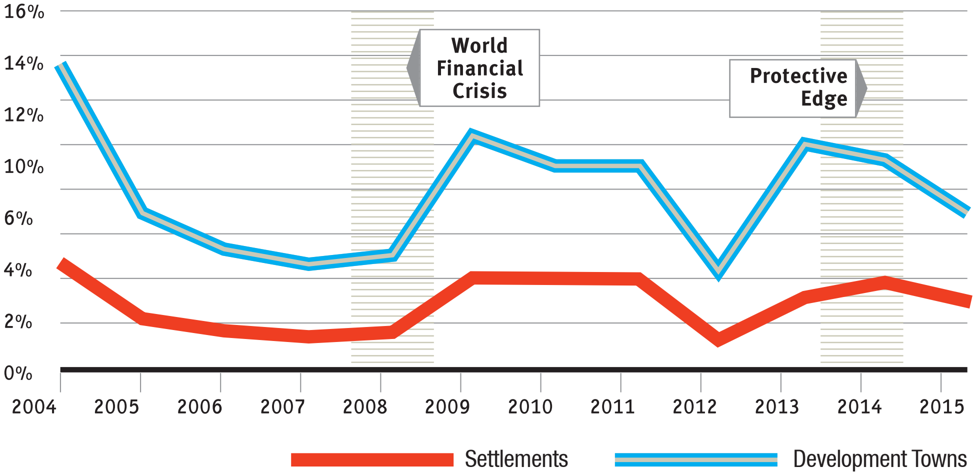
It should be noted that several urban settlements, such as Ma'ale Adumim and Givat Ze'ev, were also designed to provide solutions to the housing distress of the mostly Mizrahi residents of Jerusalem neighborhoods such as Patt and the Katamonim. These are considered "quality-of-life" settlements, distinguished politically from the "ideological" settlements. Similarly, the large Haredi (ultra-Orthodox) settlements – Modi'in Illit and Beitar Illit – built to alleviate crowded Haredi neighborhoods – have been referred to as the "no-alternative settlers".[89]

Two results of all the above are illustrated in the two figures below. The first reveals the ongoing instability, to this day, of the development towns and their high unemployment rates. Throughout the period 2004–2015, the unemployment rate in these towns exceeded the national average as well as the average in the settlements. In 2004, one year after the end of the Second Intifada, unemployment in the development towns was 14% – significantly higher than the national average – while unemployment in the settlements was under 5%. The financial crisis of 2008 again raised the unemployment rate in development towns to 10%, while in the settlements it was 4%. In 2013, the gap further widened, with the unemployment in development towns rising to 10% while in the settlements it was a low 2%.

The better economic situation of the settlements is also reflected in a higher average wage. From 1999 to 2013, the average wage in the settlements was higher than that in the development towns. Indeed, in the years following the global economic crisis of 2008, the gap only increased: In 2006 it was 18.5%, but had grown to 22% in 2013.

Figure 19: **Unemployment Rate in Development Towns and Settlements, 2004–2015**

In percentage of the workforce



Notes:
1. Figures are not available for the settlements in regional councils.
2. Figures for many localities are not available for 2009–2011.
3. The 2004–2005 data reflect job seekers (approximately equal to the unemployment rate) in July rather than December.

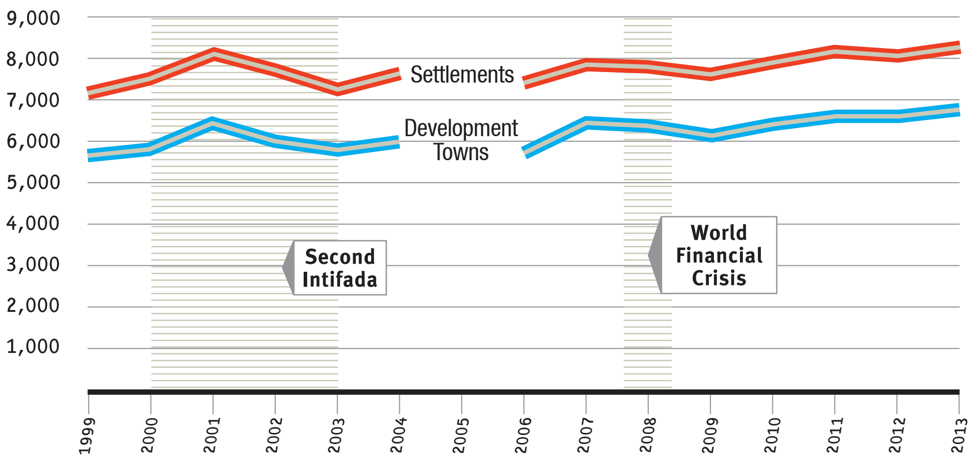
Source: Employment Service, monthly reports – selected data for localities having a population greater than 2,000.

Table 3: **Average Monthly Wage in Settlements and Development Towns, 1999–2013**

	Settlements	Development Towns
1999	7,157	5,605
2000	7,502	5,864
2001	8,051	6,394
2002	7,712	6,053
2003	7,231	5,766
2004	7,625	5,974
2005	NA	NA
2006	7,370	5,745
2007	7,828	6,410
2008	7,793	6,363
2009	7,598	6,147
2010	7,850	6,388
2011	8,148	6,520
2012	8,092	6,579
2013	8,237	6,722

Notes: Data unavailable for 2005.
Source: CBS, surveys of local authorities.

Figure 20



Furthermore, while it is true that the settlements were established near – and at times in the midst of – a hostile Palestinian population, they were not, like the development towns, on the "periphery." Most were located near metropolitan Jerusalem or Tel Aviv, which allowed the settlers to find jobs and earn salaries commensurate with the standard of living in the central region. Indeed, the government paved a special road network for them that greatly reduced travel time between the settlements and Jerusalem or Tel Aviv; this was at a time when the transportation system did not make it possible for Negev or Galilee residents to commute to jobs in the center of the country. These two factors – proximity to the big cities and the road network – drew middle-class families to the settlements[90] and helped lower income families improve their socioeconomic status.

Following their glory days in the 1980s and 1990s, when the mayors of several development towns had become political heavyweights – Knesset members and ministers – they were shunted to the political periphery as the political fortunes of the settlers began to rise.

From the outset, development town mayors had faced a formidable task. David Levy from Beit Shean, Moshe Katzav from Kiryat Malakhi, Meir Sheetrit from Yavne, Prosper Azran from Kiryat Shmona, Rafi Edri from Hatzor HaGlilit, Rafi Ellul from Mazkeret Batya, David Magen from Kiryat Gat – these and others were regarded as interlopers in the political arena when they first entered national politics. After the Likud victory in the 1977 election, which was largely decided by the votes of development town residents, they gained in stature. David Levy, a former construction worker, became the political voice of the development towns and of Mizrahim in general: He and his colleagues were swept into the Knesset on the waves of social protest of the Mizrahi voters.

Many politicians from development towns found themselves in a political trap. They had run for office in order to represent the interests of the development towns and the Mizrahi public, but once elected, they had to abandon the "sectoral" stance and appear to be serving the public at large, and certainly the Likud public, in order to make their way to the center of the political stage. David Levy, for example, supported the political positions taken by Ariel Sharon and Yitzhak Moda'i, and was recruited by the extremist Likud hawks, yet in the race for Likud Party head in 1983, he lost to Yitzhak Shamir, an icon of the Likud's veteran Ashkenazi leadership. In the Labor Party, Amir Peretz assumed a leadership role representing the development towns and Mizrahim and promoting a social justice agenda, but he chose (or was forced to choose) the defense ministry over the finance ministry, and was sucked into the politics of the conflict, losing the ability to impact on the socioeconomic arena, which had preoccupied him as chair of the Histadrut and MK. Meir Sheetrit is remembered primarily for his roles as minister of finance, transportation, and justice while in the Likud, and as the interior minister who promoted the biometric database while in the Kadima party. Sheetrit lost to Rubi Rivlin when he ran for the presidency. Other examples are Rafi Edri from Hatzor HaGlilit, who served in the 12th Knesset from the Labor Party as minister of the environment and minister without portfolio; and David Magen from Kiryat Gat, who served as a Likud MK, deputy finance minister, and chair of the Knesset Foreign Affairs and Security Committee. Magen joined David Levy to form the Gesher List, which ultimately merged with the Likud in the campaign for the 14th Knesset.

Social activist Naama Lazimi points to two additional factors that diminished the influence of Knesset members from development towns: One was passage of a law in 1998 that prohibited a mayor from serving also as a Knesset member, which shrank the representation of these towns in the Knesset and weakened the local leadership. Another factor that diminished the development town leadership was the wave of "quality-of-life communities" established inside the Green Line by upper middle class young couples from the big cities. The quality-of-life communities attracted the more resilient residents of the development towns and the center of the country. Government investment in these communities and the settlements, buttressed by the political power of the populations living there, widened the gap between them and the development towns, perpetuating the neediness and dependence of the latter.[91]

The settlement leaders, unlike those from development towns, were no strangers to national power politics. They came from the ranks of the National Religious Party, an Ashkenazi Zionist party that was partner to the dominant Zionist institutions of the pre-state period and thereafter a coalition member of most Israeli governments. Until the establishment of Gush Emunim, however, the National Religious Party youth had not been major players in the Zionist saga. It was Labor Party youth, as pioneers and fighters, who held center stage in the "heroic" period of Zionist history; and they were joined by the Etzel and Lehi fighters during the 1948 war. Now, however, Gush Emunim's settlement activities gave the National Religious Party youth the lead role.[92] The settler leaders, moreover, were warmly embraced by the Labor Party[93] – a short time after Golda Meir refused to meet with the leaders of the Israeli Black Panthers, a movement of young Mizrahim who had grown up in the immigrant neighborhoods and development towns, asserting that they were "not nice." The settler leaders were perceived by many Israeli leaders – particularly those who espoused the "Greater Israel" idea – as the new pioneers and standard bearers of the Zionist movement.

With regard to the political constellation, as the Knesset leadership of the periphery waned, the star rose of those in support of the settlements, both the Jewish Home Party with National-Religious settlers at their core and the hawkish wing of the Likud, which was intimately linked to the settlement enterprise.

In 2009, as the National Religious Party dissolved into the Jewish Home Party under Naftali Bennet, former head of the Council of Judea and Samaria, this party became even more strongly identified with the settlers within it: Key party players are former members of the Jewish underground and settlers themselves. In the 2013 election, Jewish Home won twelve seats, an achievement last accomplished by the National Religious Party in 1977. This was made possible due to the voter shift from the Likud-Beitenu to the Jewish Home.[94]

At the same time, the settler lobby within the Likud was growing stronger. An estimated ten thousand settlers joined the Likud, including well known activists such as Moshe Feiglin, Gershon Mesika, and Shevach Stern. In 2012, Feiglin even ran for the chairpersonship of the Likud and captured a quarter of the votes.[95]

The political heyday of the development towns was in the 13th and 14th Knessets (1992–1999), when 12 MKs came from these towns. The balance shifted as of the 15th Knesset (1999–2003), and the number of MKs from development towns steadily fell to a nadir of four in the 19th Knesset (2013–2015). In this Knesset, elected after the social protest actions, social and economic issues were more at the forefront than in any election campaign since 1977, and yet development towns played a marginal role in the new focus on social issues.

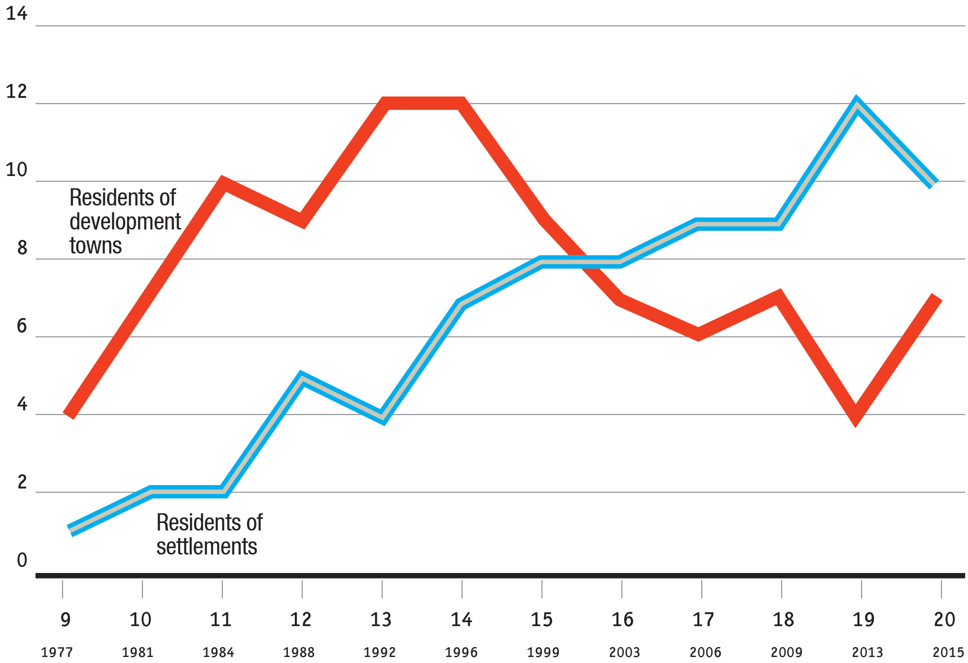
In parallel, the number of MKs living in settlements beyond the Green Line steadily rose, from one in the 9th Knesset (1977–1981) to a record twelve in the 19th. Similar findings appear in research that deals with the political representation of the center and the periphery in Israel.[96]

The bias in the Knesset in favor of settlements over development towns is even more pronounced than their numerical representation. First, not all MKs from development towns see themselves as representing this sector. In the current Knesset, although Yifat Shasha-Biton from Kulanu and David Azulai from Shas reside in development towns, and some of the bills they tabled relate to disadvantaged populations, their Knesset activity does not necessarily relate to development town matters. And although Meir Sheetrit entered the Knesset based on his mayoral activity in Yavne and is identified with development towns, over the course of time he began to focus on national political and legal matters. In the 18th Knesset, Ze'ev Boim from Kadima and Zion Pinyan from the Likud, both residents of development towns, did not stand out as representatives of those towns.

On the other hand, some Knesset members who are not from development towns worked on their behalf as part of their political agenda of reducing inequality between the center and the periphery, or between Mizrahi and Ashkenazim.

By the same token, working to promote settlements may be found among MKs who do not themselves reside there, but are part of the settlers' lobby. Some prominent examples of this from the most recent Knessets are Naftali Bennet himself, who headed the Council of Judea and Samaria, but lives in Ra'anana, and Tzipi Hotovely, Zeev Elkin, Yuli Edelstein, and Yariv Levin from the Likud, all committed to strengthening the settlements, although they do not live there. This is also true of members of the National Religious Party and its successor, the Jewish Home – Zevulun Hammer, Haim Druckman, and Ayelet Shaked.

Figure 21: **Knesset Members Who Live in Development Towns and Settlements, from the 9th to the 20th Knesset**



Notes:

1. Residence at the time of election to the Knesset and/or during the term of office.
2. "Development towns" are defined according to the Central Bureau of Statistics from 1996 and include: Afula, Akko, Arad, Beit Shean, Beit Shemesh, Karmiel, Dimona, Eilat, Hatzor HaGlilit, Kiryat Gat, Kiryat Malakhi, Kiryat Shmona, Ma'alot-Tarshiha, Migdal HaEmek, Mitzpe Ramon, Nazareth Illit, Netivot, Ofakim, Safed, Sderot, Shlomi, Tiberias, Yavne, Yeruham, and Yokneam Illit.
3. "Settlements" include all Jewish localities beyond the Green Line.

The Occupation and Unequal Development: Industrial Parks in Arab Towns

The Price Paid by Israel's Arab Population: Sluggish Economic Development

In terms of Israel's economic development, the price for the ongoing conflict has been borne, above all, by the Arab population of Israel, which lags behind the Jewish population in every aspect of economic development and standard of living.

Arab towns are the poorest and least powerful local authorities in Israel: Over the years, they have endured loss of their land, lack of town plans to enable development, exclusion from national development plans, poor employment options, inadequate services, problematic supply of water and electricity, and more. Arab towns are in need of massive government assistance. Since the establishment of Israel, not a single Arab locality was established, with the exception of seven Bedouin townships in the south, created to allow the state to take control of much larger Bedouin tracts of land. The area of jurisdiction of Arab local authorities in Israel is only 2.5% the area of the country.[97]

Significant reform was undertaken by the administration of Yitzhak Rabin, reflected in ongoing efforts to raise the municipal budgets of Arab localities to the level of Jewish municipal budgets, but given the long years of discrimination and neglect, what is needed is long-term affirmative action.

Core to the relations between Israel and its Arab citizens is the issue of land. Israeli governments relate to land from the perspective of the long-running conflict between the two national movements: Immediately after the 1948 war, Israel rushed to take control of land belonging to refugees and expropriated most of the lands of Palestinian villages that remained within Israel's jurisdiction; after 1967, the state embarked upon settling Israelis in the territories that had been occupied, and conferred upon the settlements the status of national priority areas. Within the Green Line, Israel promoted a series of plans to "Judaize" various areas and block the expansion of Arab locales: The "hilltop plan" in the Galilee, Sharon's Seven Stars Plan in the center of the country, and the community settlements and solitary farms in the south are clear examples.

Industrial Parks in Arab Towns

This brings us to the question of the economic development of Arab towns, particularly industrial zones. Many Arab towns have no land reserves for constructing industrial or commercial parks or public buildings, and the low self-generated income of these towns prevents them from investing in productive infrastructure on their own. In the absence of such infrastructure, self-generated income will continue to be low.

According to figures that appear in a government decision from December 2014, the average income per resident from municipal taxes on industrial parks in Jewish local authorities is NIS 359 – eight times higher than the average income in non-Jewish local authorities, which is only NIS 45 per resident. The government decision also notes that 6.18 sq.m. is the average area designated for industry in Jewish towns per resident, while the equivalent in Arab towns is 1.01 sq.m.[98]

For many years, Israeli governments have encouraged investment in economic development and employment in "national priority areas" by the Encouragement of Capital Investments Law of 1959. Arab locales were included in this policy only in 1990, and investments have proceeded at a very slow pace.

In 1992, the Administration of Industrial Areas (AIA) was established in the Ministry of Economy and Industry (formerly the Ministry of Industry, Trade and Labor) and given a mandate to establish, develop, and market industrial parks in national priority areas. The AIA was responsible for developing infrastructure in these areas and was also supposed to make an effort to promote the integration of Arab municipalities into existing joint Jewish-Arab industrial parks.

Although well-to-do municipalities have the wherewithal to establish industrial and commercial parks using their own resources, most Arab local authorities are poor, hence industrial and commercial zones in Arab locales are developed entirely through the government track via the AIA. Establishing and expanding joint Jewish-Arab industrial parks through this track affords economic advantages to both – central government subsidization of infrastructure and public areas, as well as assistance in planning, marketing, and developing the park.

According to figures issued by the Ministry of Economy and Industry, from establishment of the AIA in 1992 until 2011, efforts were made and monies allocated to establish 136 industrial parks in national priority areas, most in the periphery. Twenty-six of these (19%) were designated for Arab, Druze, and Circassian localities. Israel's total investment in the development and establishment of industrial parks in the framework of the AIA between 1995 and 2008 was approximately NIS 3.4 billion (at 2009 prices). The proportion of state investment in the industrial parks designated for Arabs, out of the total investment in industrial parks in national priority areas, was about 11%.[99] This is very low relative to their percentage in the population (20%), particularly considering the long history of under-development.

In 2001, the AIA adopted a model of joint regional development of industrial parks for Arab and Jewish localities, but this model has led to the neglect of park construction in Arab local authorities.[100] The nonprofit Sikkuy claims that because of the decision to focus on regional parks, most Jewish authorities today have local parks, while more than half the Arab authorities have none. [101]

Furthermore, the model of adding Arab municipalities to regional parks has turned out to be problematic due to the mistrust between Arabs and Jews in Israel and the concern of Jewish authorities that cooperation with Arabs will lead to negative branding of the joint industrial park and a subsequent loss of income. These problems led to creation of a track in which the state provides compensation to Jewish municipalities for income lost due to adding Arab municipalities to a joint park venture (!). But even this benefit did not lead to a breakthrough: A State Comptroller audit revealed that from 2005 to 2012, only seven applications from Arab municipalities to join five shared industrial parks were approved. Of these, five Arab local authorities actually joined four parks during this period, most as unequal partners in the management or proceeds of the municipal taxes collected.[102]

Research by Sikkuy points to the importance of involving the central government in the process of adding Arab local authorities to the joint endeavors. In the case of adding the town of al-Shagur to the Bar Lev Industrial Park and Rahat to the Idan HaNegev Industrial Park, the involvement of the Ministry for the Development of the Negev and the Galilee significantly shortened the process and enabled agreement between the municipalities that was balanced and fair.[103]

A study by the non-profit Adalah of ministry decisions related to Arab society revealed that the inequitable development of industrial zones has continued in recent years. Their data indicate that 328 tenders were published in the period 2009–2014 for the construction of industrial and commercial parks in Jewish local authorities, but only 13 in Arab local authorities.[104]

Figures on the website of the Administration of Industrial Areas reveal that there are currently 5 joint, Arab-Jewish industrial parks; 22 industrial parks in Arab localities; 46 regional and local industrial parks in Jewish local authorities; and 15 industrial parks in settlements beyond the Green Line. The small number of industrial parks in Arab localities is particularly striking considering the rapid, government-supported construction of industrial parks in settlements.

It should be noted that in Government Decision 922 (Five-Year Plan for the Arab Sector 2016–2020), an attempt is being made to close the gaps in development budgets allocated for industrial parks: This decision stipulates that 42.5% of the budget for development and marketing in 2018–2020 by the AIA is to be allocated to industrial parks that generate income to Arab, Druze, and Circassian locales, after which the budget is to be allocated at the very least in accordance with their percentage of the general population of Israel.

This is a welcome decision, but fairly limited in terms of the resources needed to bring the Arab local authorities into the 21st century after fifty years of under-development.

Table 4: **Tenders Issued to Establish Industrial Parks in Jewish and Arab Localities**

	Jewish and mixed localities		Arab localities
	Total	Of which, settlements	
2013	44	7	–
2014	36	–	–
2015	18	–	2
2016	49	5	9
Total	**147**	**12**	**11**

Sources: Adalah: The Legal Center for Arab Minority Rights in Israel (28 April 2015), *Deliberate Obstacles, Not Failures. Adalah's Response to the State Comptroller's Report on the Housing Crisis in Israel*; Adalah: The Legal Center for Arab Minority Rights in Israel (March 2014), *Tenders Published by the Israel Land Authority and the Ministry of Construction in 2013: The Policy of Discrimination and Disenfranchisement Continues*; Adalah: The Legal Center for Arab Minority Rights in Israel (29 March 2016), *Analysis of Tenders Published by the Israel Land Authority and the Ministry of Construction in 2015*; Figures for 2016 were received on 6 April 2017 courtesy of Adalah: The Legal Center for Arab Minority Rights in Israel.

Table 5: **Active Industrial Parks in the Governmental Track, February 2017**

	Arab localities within the Green Line	**Jewish localities within the Green Line & Golan Heights**	**Settlements**	**Joint industrial parks**
Localities with industrial parks	Segev Shalom Ar'ara BaNegev Sakhnin Shfaram Neve Midbar (abu Quraynat) Abu Snan Baqa al-Gharbiyye Iksal Julis Rahat Umm al-Fahem Bu'eina Nujeidat Hura Kfar Kanna Tamra Yarka Majar Eilabun Ilut Kisra Sumei Rame Sajur Al-Kasom-Tarabin	Tziporit Noam Bar Lev Yizrael Afula Karmiel Gilboa Tzvaim Katzrin Sha'ar HaNegev Sapirim Goren Timorim Ofakim Shhoret Nazareth Illit Avshalom Bnei Yehuda Misgav North Beersheba Dimona Omer Sagi Yeruham Eilat Mitzpe Ramon Ramat Negev Beer Tuvia Hatzor HaGlilit Yesod Hamaala Ad Halom Kfar Tavor Mabu'im Merhavim Migdal HaEmek Mishor Rotem Nahariyya Netivot Merkaz Sapir Afula Arad Kiryat Malakhi Kiryat Shmona Dimona Safed Kiryat Gat Sderot Shlomi	Barkan Adumim Ariel Sha'ar Binyamin Shahak Shaked Meitarim Bar-On-Kedumim Jerusalem-Atarot Beitar Illit Efrat Emmanuel Gush Etzion Kiryat Arba Shilo Alfei Menashe	**Ramat Dalton** (Safed Regional Council, Mevuot Hermon Regional Council, Merom HaGalil, Gush Halav) **Idan HaNegev** (Rahat, Lehavim, Bnei Shimon) **Kidmat Galil** (Regional Council Lower Galilee, Tiberias, Tur'an) **Tzahar** (Tuba Zangria, Safed, Hazor Haglilit, Rosh Pina, Regional Council Galil Elyon) **Mavo Carmel** (Yokneam, Daliat el-Carmel, Ossifiya)
Total	**22**	**46**	**15**	**5**

Note: An industrial park is considered "active" as soon as the marketing to entrepreneurs begins. The parks in the Bedouin villages of Tarabin and Abu Krinat are at the beginning of the marketing stage and to date most of their land is not being utilized

Source: Website of the Ministry of Economy, Industrial Areas Administration http://economy.gov.il/Industry/DevelopmentZoneIndustryPromotion/ZoneIndustryInfo/Pages/deafult.aspx

The Occupation and Unequal Development: Disparities in Transfers to Municipal Budgets

The power of the top political one percent – the "ideological" settlers – is quite evident in the Israeli government's policy on funding municipal budgets.

In this section, we compare government funding in four categories of municipalities: settlements,[105] development towns,[106] Arab localities,[107] and affluent communities, most in the "Forum of 15."[108] These groupings allow for some important insights into government policies.

In Israel, most central government contributions to municipal budgets fall into two categories: **Service grants** are made to help local authorities fund what are basically state services provided by the municipality – primarily education and social welfare. And **balance grants** are made to low-income local authorities to enable them to provide regular municipal services, such as infrastructure and street cleaning.

Over the past 25 years, as will be seen below, many changes have taken place in the amount spent by the central government on municipal budgets and the distribution of monies to various types of localities. Three trends are particularly evident:

First, central government funding of Arab municipal budgets has gradually increased, particularly the service grants. This is a very significant correction after many long years of discrimination. The balance grants to Arab localities have also increased, but more moderately, as all balance grants were slashed during the Second Intifada. Despite these increases, the development budgets of Arab municipalities are still markedly lower than those in the other groups of localities, indicating a low level of self-generated income as well a failure to qualify for development loans.

Second, development towns have long endured a reputation as major recipients of government support. The service grants to these communities, however, are lower than those to the settlements or the Arab localities, and indeed comparable to those of the Forum of 15 towns, which are affluent. Even the balance grants to development towns are lower per capita than those allocated to settlements or Arab localities. As for development expenditures, development towns spend less than the others, except Arab localities.

Third, throughout the period reviewed here, settlements in the occupied territories have enjoyed the most government funding of all the categories. Even after separating out the Haredi settlements, whose residents constitute a quarter of all settlers, the funding for non-Haredi settlements remains significantly higher than all the other localities in all respects – service grants, balance grants, and development spending.

Government Service Grants

We begin with service grants: In 2015, the government disbursed approximately NIS 17 billion in service grants, constituting 30% of the regular budget of municipalities in Israel.

The importance of the service grant differs from one municipality to another. In the affluent towns known as the Forum of 15, service grants constituted only 23.5% of the regular budget, which is from the outset much larger thanks to considerable self-generated income. This compares with 37% of the regular budget in the settlements, Haredi and non-Haredi. In the Arab localities, service grants constitute 50% of the municipality's regular budget – a much larger portion than the others, reflecting the low income of these municipalities. As noted, service grants to the Arab localities have significantly increased: In 1991, they constituted only 31% of the regular budget.

Government priorities become clearer upon examination of the service grants per capita. In 1991, the settlements were accorded the largest service grant per capita – NIS 1,811. This exceeded the amount per capita that went to development towns (NIS 1,542) or Arab localities (only NIS 741). Forum-of–15 towns received just over the amount allocated to Arab localities, but these towns, of course, are the wealthiest in Israel and enjoy considerable self-generated income.

Since 1991, service grant disbursements have risen. Arab localities experienced the greatest increase – from NIS 741 per capita in 1991 to NIS 2,586 per capita in 2015 – 3.5 times more. In fact, government service grants per capita rose more to Arab localities than to the settlements between 2010 and 2015 – NIS 2,586 for Arab municipalities versus NIS 2,482 for settlements. In all matters related to Arab localities, however, it should be borne in mind that the increased government budget represents a correction after decades of discrimination, while the high funding of settlements represents a long-standing policy of preferential treatment.

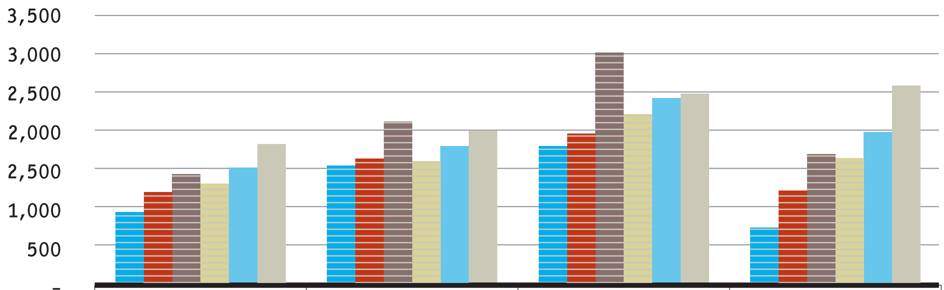
Throughout the period under discussion, the settler population changed markedly with the establishment and/or expansion of Haredi settlements near the Green Line – Beitar Illit, Modi’in Illit, and Emmanuel (for which data are available only from 1997). This population has grown dramatically faster than the population of the non-Haredi settlements, particularly the so-called "ideological settlements" – referred to as the "political one percent" at the beginning of this document. From 2001 to 2015, as the population of non-Haredi settlements grew by a factor of 1.6 (from 167,300 to 264,400), the population of Haredi settlements tripled (from 39,200 to 116,800). This demographic growth also changes the calculation of funding per capita, of course, as can be seen in the figure below: As the number of settlers rises – particularly evident in the growth of the Haredi settlements – per capita funding from the central government declines, until the funding to Arab municipalities roughly equals that to settlements, evident at the beginning of the decade.

A comparison between the Haredi and non-Haredi settlements reveals that in 2015, the non-Haredi settlements received a service grant from the central government that was 2.1 times higher than that received by their Haredi counterparts – NIS 2,953 per capita versus NIS 1,415 per capita, respectively. The main reason for the difference is that in Haredi settlements, the government service grants – to a large extent designated for education – are not transferred to the municipality, but sent directly to two large Haredi school networks – the "Independent" network belonging to the Agudat Yisrael political party and the Ma’ayan HaTorah Education network belonging to the Shas party.

And there is another reason: Haredi schools that do not belong to either school network are classified as "Recognized Education that is not Official," and thereby subsidized at a lower rate – between 55% and 75% of the regular subsidy – which decreases the size of the service grant.

Figure 22: **Income Per Capita from Service Grants in the Regular Municipal Budget, 1991–2015**

NIS, at constant prices for 2016 • In ascending order from 2015



	Forum of 15	Development towns	Settlements	Arab localities
1991	944	1,542	1,811	741
1995	1,210	1,640	1,969	1,223
2000	1,439	2,113	3,015	1,695
2005	1,308	1,609	2,215	1,649
2010	1,520	1,808	2,425	1,985
2015	1,809	1,990	2,482	2,586

Notes:
1. Includes service grants and special grants; does not include balance grants and/or one-time, deficit-reduction transfers.
2. Service grants include central government transfers for education, culture, welfare, health, religion, immigrant absorption, environmental protection, etc.

Sources: Adva Center analysis of CBS, *Local Authorities in Israel*, data files; Ministry of the Interior, *Audited Financial Data of the Local Authorities*, various years.

Figure 23: **Income Per Capita from Service Grants in the Regular Municipal Budget, 1991-2015**

NIS, at constant prices for 2016

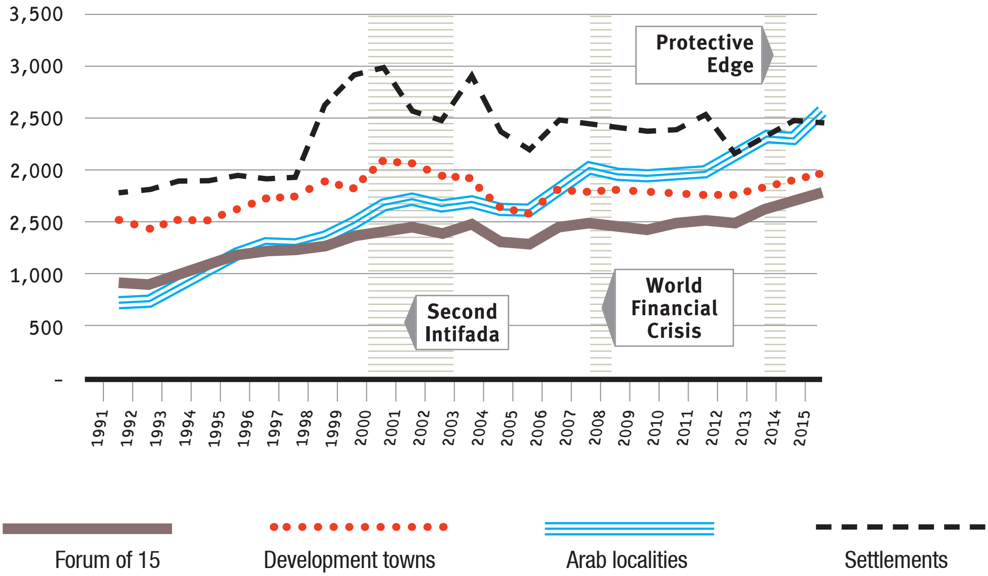


Table 6: **Income Per Capita from Service Grants in the Regular Municipal Budget, 1997–2015**

NIS, at constant prices for 2016

	1997	2001	2006	2012	2015
Haredi settlements	780	1,015	922	1,141	1,415
Forum of 15	1,259	1,486	1,478	1,523	1,809
Development towns	1,777	2,093	1,833	1,793	1,990
Arab localities	1,311	1,747	1,822	2,184	2,586
Non-Haredi settlements	2,119	2,999	2,980	2,609	2,953

Notes:

1. Includes service grants and special grants; does not include balance grants and/or one-time, deficit-reduction transfers.
2. Service grants include central government transfers for education, culture, welfare, health, religion, immigrant absorption, environmental protection, etc.

Sources: Adva Center analysis of CBS, *Local Authorities in Israel*, data files; Ministry of the Interior, *Audited Financial Data of the Local Authorities*, various years.

Government Balance Grants

In addition to the service grants provided to municipalities for their provision of government services, the central government has for years helped municipalities whose self-generated income is limited. The main budget line here is the general grant known as a "balance grant," intended to ensure that low-income municipalities will have the wherewithal to provide minimal basic municipal services.[109] Local authorities with substantial self-generated income do not need a balance grant; at some historical moment, there were fifteen such localities, whence the name "Forum of 15."

Between 1991 and 2000, the government budget for balance grants increased from approximately NIS 2.4 billion to NIS 3.9 billion. One year later, the state was already deep into the crisis of the Second Intifada and had taken measures, including drastic budget cuts, which also affected the balance grants. As a result, the balance grant budget in 2015 amounted to approximately NIS 2.6 billion – a third less than what it had been on the eve of the Second Intifada. Virtually the entire increase to this budget in the 1990s was erased (Table 7).

This cut adversely affected all three categories of municipalities that receive balance grants – Arab, development towns, and settlements: In the Arab localities, balance grants dropped from approximately NIS 1.2 billion in 2000 to NIS 1.0 billion in 2015; in the development towns, from NIS 0.7 billion to NIS 0.5 billion; and in the non-Haredi settlements from NIS 383 million to NIS 260 million. Only in the Haredi settlements did the balance grants remain at the same level as in 2001 – although the amounts were and remain quite small – just over NIS 70 million (Table 7).

The calculation per capita of the balance grants reveals greater complexity:

In the 1990s, the Arab localities enjoyed a rise of approximately 100% in the balance grant, from NIS 741 per capita in 1991 to NIS 1,502 per capita in 2000. The subsequent cut in the government grants budget deeply hurt them, however, and in 2015, the balance grant amounted to NIS 932 per capita.

The balance grants to the development towns had declined even before the drastic budget cutting during the Second Intifada, but then became even more severe: In 1995, the balance grants reached a high of NIS 1,505 per capita; in 2015, this had dropped to NIS 659 per capita (Figure 24).

Throughout the years surveyed here, the settlements enjoyed a particularly high balance grant per capita. In 1997, the first year for which we have complete data also for Haredi settlements, the balance grant for all the settlements per capita was almost double that of the development towns and Arab localities, and the difference between the Haredi and non-Haredi settlements was minimal. As of 2001, the gap began to grow between them, and in 2015, the balance grant per capita for the non-Haredi settlements was NIS 985, i.e., 56% more than the NIS 630 per capita in the Haredi settlements (Table 8).

Table 7: **Income from Balance Grants in the Regular Budget of the Local Authorities, 1991–2015**

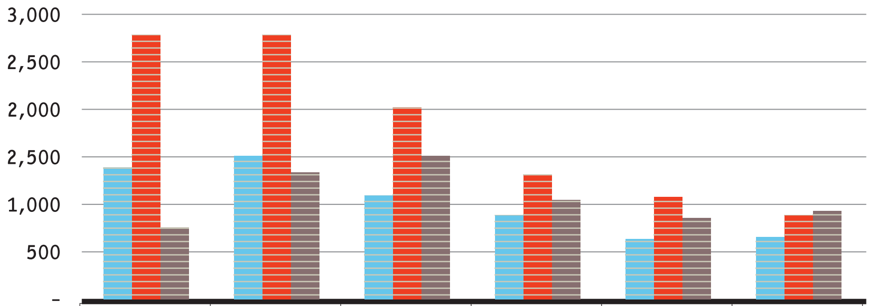
NIS millions at 2016 prices

	1991	1995	2000	2005	2010	2015
All local authorities in Israel	2,399	3,964	3,916	2,874	2,418	2,661
Development towns	682	881	723	623	466	491
Arab localities	425	908	1,224	993	920	1,027
Haredi settlements	N.A.	53 (1997)	71 (2001)	76 (2006)	72 (2012)	74 (2015)
Non-Haredi settlements	N.A.	345 (1997)	383 (2001)	255 (2006)	261 (2012)	260 (2015)

Note: Towns in the Forum of 15 do not receive balance grants from the central government.
Sources: Adva Center analysis of CBS, *Statistical Abstract of Israel*, various years; CBS, *Local Authorities in Israel*, data files.

Figure 24: **Income from Balance Grants Per Capita in the Regular Municipal Budget, 1991–2015**

NIS at constant 2016 prices • In ascending order from 2015

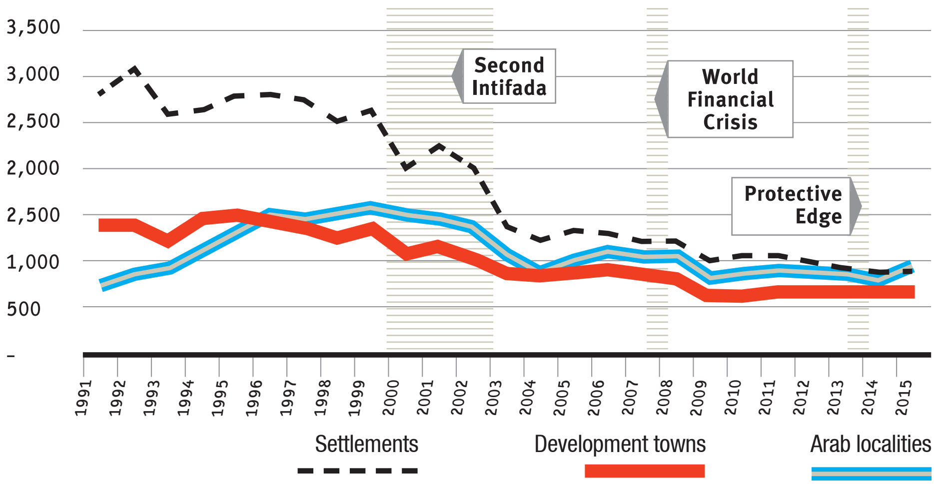


	1991	1995	2000	2005	2010	2015
Development towns	1,396	1,505	1,094	883	632	659
Settlements	2,804	2,784	2,018	1,317	1,082	897
Arab localities	741	1,328	1,502	1,054	871	932

Note: Towns in the Forum of 15 do not receive balance grants from the central government.
Sources: Adva Center analysis of CBS, *Local Authorities in Israel*, data files; Ministry of the Interior, *Audited Financial Data of the Local Authorities*, various years.

Figure 25: **Income from Balance Grants Per Capita in the Regular Municipal Budget, 1991–2015**

NIS at constant 2016 prices



Note: Towns in the Forum of 15 do not receive balance grants from the central government.
Sources: Adva Center analysis of CBS, *Local Authorities in Israel*, data files; Ministry of the Interior, *Audited Financial Data of the Local Authorities*, various years.

Table 8: **Income from Balance Grants Per Capita in the Regular Municipal Budget, Selected Years**
NIS at constant 2016 prices

	1997	2001	2006	2012	2015
Haredi settlements	2,516	1,813	1,147	715	630
Development towns	1,374	1,141	910	666	659
Arab localities	1,457	1,453	1,106	880	932
Non-Haredi settlements	2,620	2,292	1,323	1,101	985

Sources: Adva Center analysis of CBS, *Local Authorities in Israel*, data files; Ministry of the Interior, *Audited Financial Data of the Local Authorities*, various years.

Municipal Spending on Development

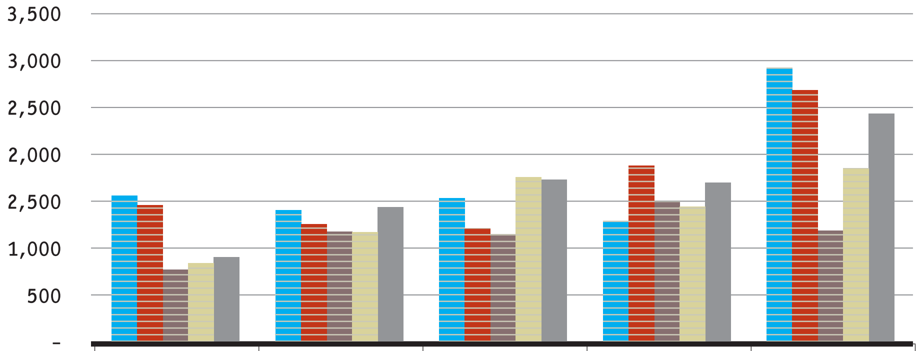
Another sign of the financial health of a local authority is its development budget. This budget is designed to fund the construction of public buildings and roads, infrastructure, the acquisition of equipment, machines, and property, and more. The development budget enables the local authority to develop and upgrade the quality of life of its residents. Local authorities raise their development budgets from various sources – the central government, bank loans, credit from contractors, the sale of property, etc.

On a per capita basis, Arab municipalities are the least able to rely on their own resources for development: Their municipal spending per capita on development in 2015 was only NIS 908, compared to NIS 1,432 per capita in the development towns and NIS 1,704 per capita in the Haredi settlements. The highest amount per capita was spent in the non-Haredi settlements – NIS 2,432.

The figure below shows the extent of the harm inflicted by the budget cuts during the Second Intifada period: In the Arab localities, municipal spending per capita on development was virtually cut in half. Even the settlements were adversely affected, although their spending was (and remains) almost double that of the Arab localities and even higher than the towns in the Forum of 15.

Figure 26: **Municipal Development Budget Expenditures Per Capita, 1997–2015**

NIS at constant 2016 prices • In ascending order from 2015



	Arab localities	Development towns	Forum of 15	Haredi settlements	Non–Haredi settlements
1997	1,552	1,398	1,533	1,289	2,926
2001	1,449	1,257	1,222	1,880	2,682
2006	781	1,176	1,153	1,498	1,186
2012	847	1,170	1,765	1,452	1,857
2015	908	1,432	1,736	1,704	2,432

Note: In the absence of complete data for every year, representative years were selected for presentation.
Sources: Adva Center analysis of CBS, *Local Authorities in Israel*, data files; Ministry of the Interior, *Audited Financial Data of the Local Authorities*, various years.

The Occupation: The Military Cost

The clearest and most recognizable price of the occupation is the cost of maintaining it, i.e., military costs.

Since the First Intifada, control and policing of the Palestinian territories have become Israel's primary ongoing military mission. Despite the asymmetry between the sides, the Palestinian militant organizations have managed to provoke the IDF to respond with massive interventions entailing large expenditures.

The full scope of these expenditures cannot be ascertained, primarily because the Defense Ministry budget, unlike that of other ministries, is not made public in its entirety. Even if this budget were made public, it would probably not be possible to establish which budget lines apply directly and exclusively to events on the Palestinian front and which relate to other matters.

The amounts below rely on data that the Ministry of Finance once published regarding budget supplements to the Defense Ministry for "increased activity in the territories." The data appear in the *Key Elements of the Budget* books published by the Finance Ministry. Unfortunately, these figures were not made public by the Finance Ministry from 2011 through 2016, even though during this period – in 2012 – Operation Pillar of Defense took place – a large-scale military intervention. The military cost of Operation Pillar of Defense was estimated at NIS 2 billion by economists Wolfson and Strawczynski.[110] The NIS 7 billion price tag for Operation Protective Edge in 2014 was published by the Ministry of Finance only in 2017. These amounts appear in the table below.

It should be said at once that these sums do not reflect the entire cost of "increased activity in the territories." It is more likely that they reflect only the official supplements that the Defense Ministry succeeded in eliciting from the Finance Ministry as part of ongoing budget negotiations. But even if the sums presented in the table are only partial, they add up to an enormous total. Over the course of three decades of Palestinian uprisings, between 1988 and 2010 and 2015, the supplements (reported by the Ministry of Finance) allocated to the armed forces for "increased activity in the territories" totaled NIS 56.2 billion (at 2016 prices).

This is a formidable sum. It is larger than the 2017 allocation for the Ministry of Education – NIS 52.5 billion. It is identical to government spending on transportation infrastructure (roads, trains) over the years 2011–2015. It exceeds the budget approved for the transportation infrastructure in 2016–2017 – NIS 32.6 billion.

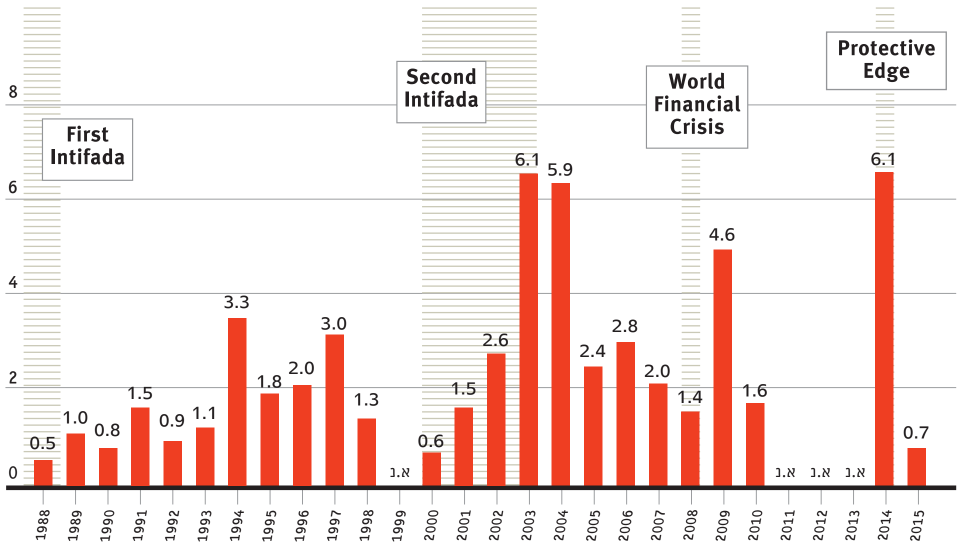
This amount could have financed the construction of 75,000 units of public housing (based on the price published by the Ministry of Housing for purchasing a public housing unit). Alternatively, It could have paid for a 50% increase in old-age pensions for five years.

One can see in the table below that during most years, the supplement to the defense budget was relatively small. In two periods, however, it was much more significant: One was after the Oslo Accords, when the Defense Ministry received a supplement to fund redeployment of the IDF in the territories, including the paving of bypass roads. During this period, supplements ranged between 4% and 8% of the defense budget. The second period was during the Second Intifada; here, the supplements were 12% of the defense budget (which had, in the meantime, grown significantly).

For most years, very few details are made public to explain the supplements for "increased activity in the territories." In 1997, however, we find more detail, which reveals something of the range of expenses incurred due to IDF control over the territories.

Figure 27: **Supplements to the Defense Budget for IDF Activity in the Palestinian Territories, 1988–2015**

NIS billions at 2016 prices



Notes:

1. Supplements for the Second Lebanon War are not included.
2. In 1999 supplements to the defense budget were not recorded for IDF activity in the Palestinian territories. From 2011, the Finance Ministry ceased publishing information about these supplements, except for mention of the Operation Protective Edge supplement in the *Key Elements of the Budget* books for 2017–2018.
3. Supplements over these years were made for a variety of purposes: general increases to the police and the Defense Ministry during the First Intifada; reserve duty; redeployment in the territories due to the Oslo Accords; stepped-up security for public transportation; Wye agreement obligations; separation fence costs; seam zone barrier costs; aid for the war against terrorism; supplement for the "ebb and flow events" (the initial term for the Second Intifada); support for security forces; supplement for activity coordination in the territories; funding of the disengagement and redeployment around the Gaza Strip; security systems for the Israeli localities bordering the Gaza Strip; funding of Operation Cast Lead; funding of Operation Protective Edge, etc.
4. The supplements do not include costs incurred for compensation for damages; bypass roads (except those for redeployment due to the Oslo Accords); the Iron Dome defense system (this may be incorporated into the aforementioned costs, but is not specifically mentioned); reserve duty; and maintaining a standing army.

Source: Adva Center analysis of the Ministry of Finance, *Key Elements of the Budget*, various years; Ministry of Finance, *Budget Bill, Key Elements of the Budget*, 2007 and 2008.

Supplements to the 2007 Defense Budget for "increased activity in the territories"

NIS 470 million for the disengagement and defense redeployment outside the Gaza Strip;

NIS 935 million for the seam zone (total spending on this in 2003–2007 was NIS 6.4 billion);

NIS 285 million for security systems installed in the localities bordering the Gaza Strip;

The Conflict Widens: From the Occupied Territories to Jordan and from Jordan to Lebanon

The data above refer to defense expenditures related to events in Judea, Samaria, and the Gaza Strip. However, the conflict between Israel and the Palestinians is not confined to these areas. After 1967, the Palestinian fighting organizations were concentrated in the Kingdom of Jordan, from where they were expelled after the events of "Black September" in 1971. Most went to Lebanon, where they developed a political, economic, military, and cultural infrastructure from which military activity against Israel was initiated. Indeed, Israel's border with Lebanon became a battle zone, which ultimately led to two invasions of Lebanon by the IDF with the goal of uprooting the Palestinian combatant organizations. The first invasion, known as Operation Litani, came in 1978 when the IDF operated in southern Lebanon for several weeks. Four years later, in 1982, the IDF launched "Peace for the Galilee," a much larger operation that led to a prolonged 18 years of IDF presence in Lebanon: During the first three years, the IDF occupied broad swathes of southern Lebanon; after 1985, it redeployed to a smaller area defined as the "security zone." The IDF's final evacuation from Lebanon was in 2000, but even before – in 1993 and 1995 – the IDF conducted two brief operations there – "Accountability" and "Grapes of Wrath," targeting the Hezbollah.

Operation Peace for the Galilee was presented as a campaign against the Palestinian military in southern Lebanon and, indeed, the operation led to the expulsion of Yasser Arafat and his fighters from Beirut. However, Peace in the Galilee also had a broader goal, which was to ensure Israeli control in Lebanon through the proxy of pro-Israeli elements and organizations in the country.[111] The IDF invasion triggered a vigorous local resistance movement, the Hezbollah, which became the IDF's main military adversary for many years. Thus, in the case of Lebanon, it is hard to distinguish between the cost of fighting the Palestinians and the cost of battling other targets.

Specialized IDF Units for Clashing with the Palestinians

Palestinian resistance is not reflected solely in the rounds of battle; it is almost a daily occurrence. This led the IDF to establish special units for engaging with the Palestinians. The journalist Amir Oren described the change as follows:

> *It took a mere eight companies – paratroopers, Golani, and Border Police. They secured the open, fragile borders of Israel…right up to the May 1967 alert and the subsequent Six-Day War. That was the entire ground force the IDF was asked to commit to maintaining security along the confrontation lines with Jordan, Egypt, Syria, and Lebanon. There was no fenced, electronic obstacle line covered by air power…*
>
> *Ninety-two is more than eleven times eight – and 92 companies is the force the army needed after the Six-Day War to guard the new lines and patrol the territories…That was before…the intifada of the 1980s and then again with the fighting under way since September 2000. The differences between ongoing security arrangements and basic security arrangements – deterring Arab regimes with their well-armored and airborne armies, or alternatively, decisively defeating them in war – have been blurred. The Arab effort to shove Israel out with one blow, like the Yom Kippur War, has been replaced with an aggregated and aggravating series of terror strikes.*[112]

Today, the IDF deploys an array of military forces to police the Palestinian territories. It operates two divisions in the Southern Command and the Central Command: The Judea and Samaria Division includes five territorial brigades and the Gaza Division includes two territorial brigades. As part of the IDF deployment in the Palestinian territories, units were also created especially for these territories, such as *Duvdevan* and *Shimshon*, as well as designated patrol units in the Border Police. The Ministry of Defense does not publish data about the cost of creating and deploying these units.

To these must be added the regular infantry units, which alternate with each other in carrying out ongoing policing in the territories.

Beyond the large military units currently involved in holding onto the Palestinian territories, the Ministry of Defense also funds the defense systems of the settlements. These costs include payments for the salaries and vehicles of ongoing security coordinators, armoring of vehicles, personnel protection (weapons and bulletproof vests), fencing, emergency road construction, and outdoor lighting systems.[113]

The Conflict Drew the Internal Security Apparatus into its Vortex

Israel's security-related expenditures to enable control over the Palestinian territories, which had in the past been confined primarily to the Ministry of Defense, today also encompass the Ministry of Internal Security, known better by its former name – the Police Ministry. The Israel Police engage in the classic functions of any country – maintaining public order, traffic control, crime fighting, etc. But, in addition, the police have also become an important component of Israel's defense system, particularly after some Palestinian groups began to engage in terrorism against Israeli civilians on buses and in public places inside the country. The Ministry of Internal Security has one of the most active units guarding the borders of the state and exerting Israeli control over the Palestinian territories – the Border Police. Finally, the Ministry of Internal Security is also responsible for the Israel Prison Service, which oversees the incarceration of Palestinian prisoners.

The centrality of the Israeli-Palestinian conflict to the work of the Ministry of Internal Security is evidenced by how the missions of this ministry are defined. The budget proposal for the Ministry of Internal Security for 2015–2016 listed the key activities of the ministry: Number one on the list was "enhancing the sense of personal security among citizens of the state, while ensuring public order and enforcement of the law."[114]

The Israel Police are the main body within the Ministry of Internal Security. The police have three fields of responsibility, in the following order: (1) internal security; (2) ensuring public order; and (3) crime fighting. Examining the detailed definition of the first item, internal security, one finds that the fight against Palestinian terrorism is one of the main functions of the police, as follows:[115]

1. Preventing and thwarting terrorist acts of hostile organizations by patrols, searches, and efforts to increase public awareness.
2. Responding to calls from civilians about suspicious objects, investigating these items, and defusing explosive devices;
3. Deployment in terrorist incidents – rescue, evacuation of casualties, searching for additional explosive devices, distancing bystanders;
4. Diverting traffic to side roads, arrest of suspects, etc.;
5. Arranging security procedures in cities, local councils, and rural communities;
6. Organizing volunteers of the Civil Guard for routine and emergency guarding functions;
7. Responsibility for security of educational institutions;
8. Responsibility for security of public transportation systems.

To these must be added the Border Police, a police unit whose entire raison d'être is to contain Palestinian resistance activity within the Palestinian territories. The Border Police were originally founded in the 1950s to prevent the infiltration of Palestinian refugees back into Israel. Today, they operate within the occupied territories and along the Green Line. The budget book describes the Border Police as "the professional, dedicated operational arm of the police to carry out police tasks in the fight against terrorism, special acts of terrorism, activities to restore public order, and dispersal of demonstrations."[116]

Between 1994 and 2015, a period throughout which there were many Palestinian terrorist acts within Israel proper, the Ministry of Defense budget increased by some 50%, while the Ministry of Internal Security budget spiraled by 350%. As can be seen in the figure and table below, the share of the Ministry of Internal Security in the state budget (the regular budget, not including debt repayment or interest) doubled, while the share of the Ministry of Defense in the state budget shrank slightly. The Ministry of Internal Security, and under its former name of the Police Ministry, was drawn into the vortex of the Palestinian-Israeli conflict, instead of focusing on the traditional functions of the police – traffic control, safety on the city streets, and protecting civilian property.

Figure 28: **Growth of the Budgets of the Ministry of Defense and the Ministry of Internal Security, 1994–2015**

1994 index = 100

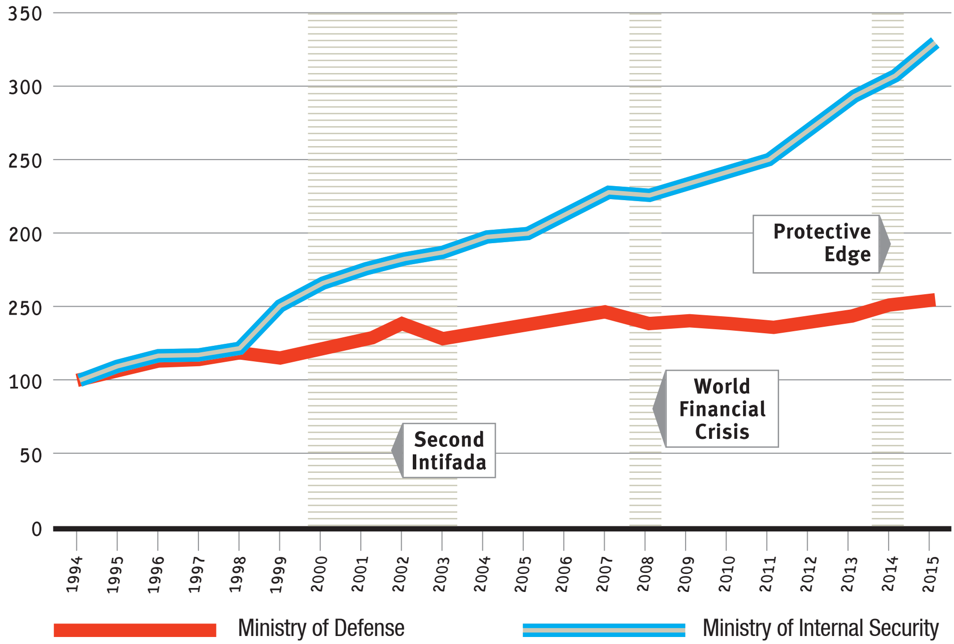


Table 9: **Proportion of the Ministry of Defense and Ministry of Internal Security Budgets in the (Regular) State Budget**

	Ministry of Internal Security Budget	Ministry of Defense Budget
1994	2.4%	24.2%
1995	2.5%	24.3%
1996	2.5%	24.4%
1997	2.6%	24.8%
1998	2.6%	24.8%
1999	3.2%	23.9%
2000	3.3%	24.1%
2001	3.3%	24.1%
2002	3.5%	25.9%
2003	3.6%	24.4%
2004	3.8%	24.7%
2005	3.7%	25.0%
2006	3.8%	25.4%
2007	4.0%	25.4%
2008	4.0%	24.6%
2009	4.1%	24.3%
2010	4.2%	24.1%
2011	4.3%	23.2%
2012	4.4%	22.8%
2013	4.6%	22.3%
2014	4.6%	22.9%
2015	4.8%	22.5%

Source: Adva Center analysis of data from Ministry of Finance, Accountant General, *Financial Report*, various years.

The Day After

The Israeli-Palestinian conflict, manifested as the occupation since 1967, has had severe negative repercussions on Israeli society and economy. The conflict is responsible for the economic instability and the need – exacerbated during the Second Intifada – to adopt a policy of fiscal austerity in order to foster the image of a stable and responsible economy, despite the conflict and the violent confrontations.

The occupation deepens the roots of inequality in Israel, whether because large sectors of the economy have become dependent on cheap, unskilled labor, or because of the low investment in social services, or because the social safety net has been seriously eroded.

The state has not called upon the well-established stratum of "start-up nation" to contribute to the national effort commensurate with its ability; on the contrary, this stratum of Israeli society benefits from significant tax breaks. It is the middle class and below who must bear the burden of reduced public services and the consequences of the diminished social safety net.

Two powerful groups, each within its own sphere and unconnected with each other, shape the public agenda in a way that hinders the general population from joining "start-up nation": The political top one percent works to prevent a political settlement that would include a Palestinian state, thereby contributing to perpetuation of the occupation, the conflict, and ultimately economic instability; and the economic top one percent works relentlessly to empower its own privileged class even when this thwarts the advancement of other Israelis. The political one percent sees the Palestinian uprising as corroboration of its claim that there is no partner for peace on the other side. The economic one percent enjoys the fact that the government chooses to cope with the effects of the uprisings, particularly the Second Intifada, using methods drawn from the neoliberal toolbox.

It is foolish to think that millions of Palestinians can be subjugated without it having an impact on life within Israel. Public discussion of the conflict focuses on issues of morality and democracy. This document seeks to place on the agenda the fact that the ongoing conflict undermines the standard of living of most Israelis, and deepens the inequalities among us.

On the day after, many will be asking: Why did we ever do this to ourselves?

Endnotes

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106 **Development towns** – The Central Bureau of Statistics lists 25 "development localities": Ofakim, Eilat, Beit Shean, Beit Shemesh, Dimona, Hatzor HaGlilit, Tiberias, Yavne, Yeruham, Yokneam Illit, Karmiel, Migdal HaEmek, Ma'alot Tarshiha, Mitzpe Ramon, Nazareth Illit, Netivot, Akko, Afula, Arad, Safed, Kiryat Gat, Kiryat Malakhi, Kiryat Shmona, Shlomi, and Sderot (CBS, Labor Force Survey 1998, p. 37).
107 **Arab localities** – cities, local councils, and regional councils whose residents are Arab (excluding mixed Jewish and Arab localities). Unrecognized Bedouin villages are not included because they have no local authority and do not receive an allocation from the central government. Including them in the per capita calculation would have lowered it for Arab localities. Also not included were Arab localities that did not submit an audited financial report on time to the Ministry of the Interior.

108 **Forum of 15** – local authorities that do not receive a balance grant from the state. Members of the Forum of 15 are Ashdod, Beersheba, Givatayim, Herzliya, Hadera, Holon, Haifa, Kfar Saba, Netanya, Petah Tikva, Rishon Letziyon, Rehovot, Ramat Gan, Ra'anana, and Tel Aviv-Jaffa.

109 In addition to the general grant, the local authorities also benefit from grants to reduce the deficit and balance loans. These grants are not included in the analysis above.

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