

PROFITS OR GLORY?

The Twenty-Eighth Elul of Arik Sharon

'*Rien pour la gloire!* Glory brings no profit! Peace everywhere and always! War depresses the quotations of the three and four per cents!' the France of the Bourse jobbers had inscribed on her banner.

Karl Marx, The Class Struggles in France

WHEN ARIEL SHARON and his 1,000-strong military escort marched to the Temple Mount/Noble Sanctuary in Jerusalem on 28 September 2000 (or 28 Elul 5760), triggering the second *intifada*, the former general was almost universally considered a political has-been.¹ Well into his seventies, he was then the acting chairman of a crisis-ridden, medium-sized political party (albeit the country's second largest), wherein he was overshadowed by the younger and more popular Benjamin Netanyahu. Only a few months later, Sharon won a landslide in the prime ministerial elections, and in 2003 led his party to a stunning victory that doubled its Knesset representation. How should we understand this transformation?

In *The Eighteenth Brumaire of Louis Bonaparte*, Marx demonstrates how, as he put it in the preface to the second edition, 'the *class struggle* in France created circumstances and relationships that made it possible for a grotesque mediocrity to play a hero's part'. Sharon is certainly not a grotesque mediocrity. He is a shrewd and cunning politician, and was one of Israel's most distinguished military field commanders. He has a clear strategic vision for his country, which he has pursued with skill and determination. Since his election in February 2001, he has proved himself a very effective leader, capable of transforming both Israeli and

Palestinian societies in ways that were considered impossible only a short time before. Nevertheless, the circumstances of Sharon's rise to power and the policies pursued by his government may be usefully illuminated by analogy with those of Louis Bonaparte in Marx's analysis. As I understand it, Marx's key argument is that the class struggle in France had been stalemated in the late 1840s and early 1850s, forcing the state, in the person of Louis Bonaparte, not only to govern France but to rule it as well.² The state then used its power to promote the economic programme of the French bourgeoisie while denying their liberal political and cultural aspirations. (It also engaged in an aggressive foreign policy that led to a disastrous defeat by Germany in 1870.) This phenomenon—a state which serves the economic interests of the business class, while trampling on its declared political and cultural agenda—is precisely what has been taking place in Israel since February 2001.

Phases of development

The most puzzling thing about Sharon's policies since he took office is not the fact that his government is engaged in a war of 'politicide' against the Palestinians.³ It is rather that it is simultaneously engaged in an economic onslaught against all but the very wealthiest Israelis. For most of its history Israel has pursued an aggressive policy towards the Palestinians and the surrounding Arab states—but, partly in order to mobilize effectively behind that policy, it also promoted a corporatist political-economic system, in which the profit motive was tempered

¹ For their very useful comments on an earlier draft of this essay, I would like to thank David Abraham, John Ehrenberg, Zeev Emmerich, Samuel Farber, Rami Kaplan, Gal Levy, Michael Shalev, Raphael Ventura, Victor Wolfenstein and, especially, Horit Herman Peled. Much of the historical information and analysis for the period before 2001 is drawn from Gershon Shafir and Yoav Peled, *Being Israeli: The Dynamics of Multiple Citizenship*, Cambridge 2002. The views expressed in the essay, and the errors left in it, are entirely my own.

² For a range of views on the question of state-class relations in *The Eighteenth Brumaire* see Bob Jessop, 'The Political Scene and the Politics of Representation: Periodizing Class Struggle and the State in *The Eighteenth Brumaire*'; Paul Wetherly, 'Making Sense of the "Relative Autonomy" of the State', both in Mark Cowling and James Martin, eds, *Marx's 'Eighteenth Brumaire': (Post)modern Interpretations*, London 2002, pp. 179–94 and 195–208, respectively.

³ Baruch Kimmerling, *Politicide: Ariel Sharon's War Against the Palestinians*, London 2003. See also his 'From Barak to the Roadmap', NLR 23, September–October 2003.

by national considerations.⁴ Forged in the context of settler struggle with the Palestinians, the Israeli state—highly intrusive but formally democratic—was intensively engaged in the control and deployment of societal resources, both directly and through the umbrella labour organization, Histadrut. A pillar of pre-statehood Zionist colonization, the Histadrut also possessed an economic empire encompassing, at its height, agricultural, manufacturing, construction, marketing, transportation and financial concerns, as well as a whole network of social-service organizations. Until the 1990s this conglomerate controlled about 25 per cent of the economy and employed around a quarter of the labour force. A roughly equal share of the economy, plus virtually all land, was owned directly by the state. During the four-and-a-half decades of Labour rule (1933–77), this construct played a crucial role in maintaining the privileged position, and political and cultural hegemony, of a large segment of the veteran Labour Zionist *ashkenazi* community.

Ironically, it was this privileged sector that first began pressuring the state to liberalize the economy. By the mid 60s, the initial phase of Israel's post-1948 economic development—rapid growth, fuelled by massive immigration and gift capital, in the form of German reparations and donations from world Jewry—had been exhausted. A 'crisis of full employment' had developed, threatening to undermine state and Histadrut control over the labour market. The state responded with a two-pronged move: it sharply reduced its own expenditures, primarily in the construction of public housing; and, for the first time, opened the 'Jewish' labour market to Palestinian citizens. The spending cuts plunged the Israeli economy into the worst recession in its history—still known in Israel as 'The Recession'—but a swift recovery took place following the territorial conquests of the 1967 war.⁵

⁴ Avi Shlaim, *The Iron Wall*, New York 2001; Michael Shalev, *Labour and the Political Economy in Israel*, Oxford 1992.

⁵ Michael Shalev, 'Labour, State and Crisis', *Industrial Relations*, vol. 23, no. 3, 1984, pp. 362–86; 'Liberalization and the Transformation of the Political Economy', in Gershon Shafir and Yoav Peled, eds, *The New Israel: Peacemaking and Liberalization*, Boulder, CO 2000, p. 132. The close temporal connection between the recession and the 1967 war calls for careful analysis of the latter's origins. Despite Israel's 30-year archive law, the relevant documents have not been declassified, which perhaps explains the neglect of the subject in revisionist Israeli historiography to date. For a very preliminary attempt, see Yagil Levy and Yoav Peled, 'The Utopian Crisis of the Israeli State', in Russell Stone and Walter Zenner, eds, *Critical Essays on Israeli Social Issues and Scholarship*, Albany, NY 1994, pp. 201–26.

The 1967 war and occupation of the Palestinian territories inaugurated the second phase of Israel's economic development. Not only were the domestic market and labour pool expanded significantly, with the addition of one million Palestinians, but the French arms embargo, imposed on the eve of the war, gave rise to Israel's military-industrial complex. The mostly state- or Histadrut-owned arms industries became the engine pulling the Israeli economy behind them, employing 25 per cent of the manufacturing labour force in the peak year of 1982–83. Though they benefited greatly from the increase in the global arms trade in the 70s and 80s, they were primarily sustained by Israeli defence expenditures, which skyrocketed after the 1973 war with the onset of significant us military aid.⁶

Onset of liberalization

In 1977, for the first time ever, Labour lost the general election to Likud, as fifteen of its Knesset seats were taken by the Democratic Movement for Change, a new party representing the emergent managerial strata. The development signalled the transformation of this layer from an essentially rentier bureaucratic class, living off its control of state-managed capital transfers, to a bourgeois class in a truer sense, engaged in a relatively fast and successful process of capital accumulation.⁷

Once in office Likud launched an economic liberalization programme designed to dismantle the corporatist structure that had been the mainstay of Labour's rule. The Histadrut refused to co-operate in imposing wage cuts and downsizing the public sector, and Likud's policy brought the economy to the brink of hyper-inflation: 450 per cent a year in 1985. One consequence, intended or otherwise, of the high inflation rate was to weaken the statist institutions, among them the arms industry. In 1985 a Labour–Likud national unity government succeeded in disciplining the Histadrut and instituted the Emergency Economic Stabilization Plan, which halted monetary inflation and laid the groundwork for the successful liberalization of the economy. The structural elements of the reform constituted 'a frontal attack on mechanisms that had previously protected societal interests, directly or indirectly, at the expense of the state:

⁶ Jonathan Nitzan and Shimshon Bichler, 'Going Global: Differential Accumulation and the Great U-Turn in South Africa and Israel', *Review of Radical Political Economics*, vol. 33, no. 1, 2001, pp. 45–7; Shalev, 'Liberalization', p. 132.

⁷ Shalev, *Labour and the Political Economy*.

devaluations, protectionism, wage indexation, unlinked public lending, and diffuse investment incentives'.⁸ Cutbacks to the latter, including subsidies to the giant state- and Histadrut-owned corporations, severely affected Israel's military-industrial complex, which had already suffered from a drastic reduction in military procurement following the 1979 peace treaty with Egypt. This process culminated in the 1989 cancellation of Israel's most ambitious arms production project, the Lavi jet fighter, after the first Bush Administration halted US support.

The privatization or closure of Histadrut or nationally owned companies signified a fundamental change in the role of the state in Israeli society. While many private businesses (not to mention their workers) also suffered, liberalization—shifting resources from the state to the market—was essential for the formation of the new capitalist class. The 1985 reforms allowed an Israeli capital market, largely free of state direction, to emerge for the first time. The productive resources of the shrinking military-industrial complex became the basis for Israel's privately owned, export-oriented hi-tech industry, which would serve as the new engine of the economy for the 1990s.

When a Labour majority returned to power in 1992, a momentous struggle developed between its neo-liberal wing—aided by the smaller, more uniformly liberal Meretz—and its welfarist wing, with its power base in the Histadrut. The aim of the neo-liberal Labourites, headed by Hayim Ramon and Yossi Beilin,⁹ was to dismantle both the Histadrut and the remains of the public-sector economy in general. By the 1990s privatizations had stripped the Histadrut of most of its productive resources, and its health-care system—known as *Kupat Cholim*, or sick fund—always its main vehicle for attracting membership, was now its most significant asset. At its peak the *Kupat Cholim* provided healthcare services to 70 per cent of the population, with the rest mostly covered by similar, smaller health-maintenance organizations, generally associated with various political parties.

As Rabin's Public Health Minister, Ramon first attempted to nationalize the entire health-care system via the State Health Insurance Law, but

⁸ Shalev, 'Liberalization', p. 133.

⁹ In March 2004 Beilin was elected leader of Yahad, the successor party to Meretz. Beilin was not only an early promoter of neo-liberalism but also the architect of the Oslo Accords and the moving spirit behind the symbolic Geneva Accord signed in December 2003.

was blocked by opposition from Labour's Histadrut wing. After a failed attempt by his allies to take over the Histadrut through Labour, Ramon quit the party and in 1994 ran successfully for Secretary General of the Histadrut at the head of an ad hoc coalition that also included Shas and Meretz. The State Health Insurance Law was duly passed, and Ramon returned to the government as Minister of the Interior. On January 1, 1995, the state took over the health-care system, shifting its financial basis from voluntary membership fees to a health tax. In an American context, this might have meant a major expansion of the welfare state. In Israel, however, in spite of the universalization of coverage it entailed, it signified a major step towards the privatization of the health-care system.

Historically, the health-care system operated on a deficit-financing basis, with the state covering the shortfall at the end of each year. As of 1995 the *Kupot Cholim* have been required to operate within strict government-set budget limits. They have also been forced to compete with each other, diverting resources to advertising and catering to younger, more affluent social groups. The result has been increased social costs and the deterioration of services—and a rapid expansion of private-sector providers for those who can afford to supplement declining state provision. The 1995 Law also barred sick funds from making membership conditional on affiliation to any other organization; with the link between the Histadrut and its *Kupat Cholim* severed, the former has lost two thirds of its membership—from 1.6 million members in 1994 to 600,000 in 1998—and has had to be reconstituted solely as a trade-union federation.

Economic liberalization was accompanied by political reform. Intra-party primary elections, and personal election of the prime minister by the entire electorate—making the prime minister a semi-president, us-style—were introduced. The effect was to weaken the major political parties and, paradoxically, the prime minister as well, and to increase the influence of large donors who could help finance electoral campaigns.¹⁰ Two Basic Laws, enjoying constitutional status, were enacted: 'Human Dignity and Freedom', and 'Freedom of Occupation'. These allowed, for the first time, judicial review of primary legislation by the Supreme

¹⁰ All three PMs elected under that system—Netanyahu, Barak and Sharon—became involved in campaign contribution scandals.

Court—signifying a major power shift from the elected legislature to the non-elected judiciary. The Bank of Israel was given the authority to determine interest rates, which, in the context of a newly evolved capital market, made it a powerful actor in the determination of economic policy.¹¹

Executives for peace

Economic liberalization and political reform were not sufficient, however, to ensure that the Israeli bourgeoisie would benefit from the processes of globalization. The Arab–Israeli conflict had stymied both foreign investment in Israel and the operations of Israeli businesses abroad. Global brand names—in fast food, Japanese autos, retail and financial services—were absent from the Israeli market. For over twenty years the Occupied Territories had provided a partial substitute for the international market and a clandestine outlet to the Arab world, circumventing the Arab boycott. With the outbreak of the first *intifada* in 1987, however, the economic benefits of the Occupation—a cheap and reliable labour force and captive market—began to be outweighed by its costs.

With the profits of the Occupation and the war economy generally now in decline (defence spending had fallen from over 30 per cent of GDP in the early 70s to 8 per cent in the early 90s), and with the global market now offering much greater gains than state tutelage, growing segments of Israel's emergent bourgeoisie had both 'push' and 'pull' reasons for supporting a territorial agreement with the Palestinians. In the complacent words of two leading neo-classical Israeli economists, 'there cannot be a better companion to *aliya* [Jewish immigration] in boosting long-lasting growth and economic prosperity than genuine peace in the Middle East'.¹²

In 1991 the first Bush Administration, freshly triumphant in the Gulf War and preparing to convene the Madrid Middle East peace conference, made provision of the \$10 billion loan guarantees requested by Yitzhak Shamir's Likud government to help settle immigrants from the former USSR contingent upon the complete cessation of Israeli settlement

¹¹ Ran Hirschl, 'The Great Economic-Juridical Shift: The Legal Arena and the Transformation of Israel's Economic Order', in Shafir and Peled, *The New Israel: Peacemaking and Liberalization*, Boulder, CO 2000, pp. 189–215.

¹² Assaf Razin and Efraim Sadka, *The Economy of Modern Israel: Malaise and Promise*, Chicago 1993.

activity in the Occupied Territories. Shamir's refusal to accede to this demand became a major issue in the 1992 election campaign, which ended in a Labour victory and Yitzhak Rabin's return as premier. During the campaign—the first ever to turn explicitly on the fate of the Occupied Territories—prominent business people flocked to support the 'peace' candidate, Rabin. A week before the elections Dov Lautman, CEO of the leading textile company Delta Galil Industries, former president of the Israeli Manufacturers' Association and a major figure in the business community, declared that the primary obstacle to foreign investment in the Israeli economy was regional instability. Only the combination of a proper economic policy with progress in the peace talks, he argued, could make Israel attractive to overseas investors.¹³ In November 1992 Lautman added the Arab boycott to his list of conditions that hurt Israel economically, urging the government and the business community to make its abolition a top policy priority. The same point was also made by Dan Gillerman, President of the Association of Chambers of Commerce, who claimed that the boycott had cost the Israeli economy \$44 billion.¹⁴ In January 1993 Lautman went a step further and declared that a breakthrough in the stalled Madrid peace talks would signal a turning point for the Israeli economy. As soon as news of the agreement reached in Oslo in September 1993 was leaked to the press, Israel's business leaders took out a paid advertisement in the main liberal daily, *Haaretz*, on the eve of the Jewish New Year, calling on Rabin and Foreign Minister Shimon Peres to 'bring peace for the sake of good years'.

The most prominent business figure 'serving in the cause of peace'—his own formulation in a 1995 interview with Gershon Shafir and myself—was Benny Gaon. Gaon had presided over the privatization of Koor, the Histadrut's flagship industrial corporation, which became Israel's first multinational holding company; he continued to serve as its CEO for a number of years afterwards, becoming a multi-millionaire in the process. Under Gaon's leadership Koor pioneered attempts to set up joint Israeli–Arab business ventures, both before and after the Oslo agreement. At

¹³ Lautman made these remarks at the 1992 Jerusalem Business Conference, an important annual business gathering. In the interest of full disclosure, Lautman is also Chairman of the Board of Trustees of Tel Aviv University, my place of employment.

¹⁴ Gillerman was appointed UN ambassador by Sharon, and is currently defending his policies in that forum. This is a pointed illustration of the shift of the Israeli bourgeoisie away from a negotiated peace, to be discussed below.

the 1994 Jerusalem Business Conference Gaon called on Israel's leading corporations 'to take the risk, and invite foreign capital for joint investment projects' that could exploit the unique Middle East combination of Israeli know-how, the Gulf states' financial resources and the cheap labour available in the non-oil producing Arab countries.

The economic calculations of Gaon and his colleagues proved to be correct, although the 'new Middle East' envisioned by their coteries of politicians, journalists and academics never materialized. After the Oslo agreement, many foreign markets that had been closed to Israeli firms, in the Middle East and beyond, had opened up, leading to unprecedented economic prosperity in the 1990s. By the same token, foreign direct investment in the Israeli economy, virtually non-existent before 1993, reached \$1.5–2 billion a year by the middle of the decade.¹⁵ Symbolic of the nexus between the Israeli peace camp and neoliberalization, in 1993 Omri Padan, a founding member of Peace Now, was granted the first McDonald's concession in Israel.

Mizrachi opposition

In stark contrast to the business agenda, however, the Jewish working class opposed both the Oslo process and neoliberalization, for a combination of economic and cultural reasons. The rapidly increasing income inequality since the mid-80s had hit this layer hard. The tax and transfer payments that had somewhat mitigated its effects were coming under attack from the acolytes of liberalization, as were social services in general. Education and health care, in particular, had deteriorated significantly for those who could not afford private supplements to state provision.

Opposition to marketization was not, however, articulated in economic terms, but rather in cultural and political ones. There were three main reasons for this. Firstly, since 1977, there have been few differences between Israel's major political parties on the issue of economic liberalization—it will be recalled that a Likud–Labour government launched the 1985 Stabilization Plan, and that it was Labour that had broken the back of the Histadrut. With no political, social or intellectual forces offering an alternative economic analysis, opposition to neoliberalism could be expressed

¹⁵ Michael Shalev, 'Have Globalization and Liberalization "Normalized" Israel's Political Economy?', *Israel Affairs*, vol. 5, nos. 2–3, 1999, pp. 121–55.

only in a moral register—almost inevitably, in the Israeli context, couched in terms of ethno-national Jewish solidarity.

Secondly, the significant overlap of class and ethnicity—with *ashkenazim* comprising the bulk of the middle and upper classes, and *mizrachim* and Palestinians most of the working class—has played an important role. Although clearly marginalized relative to other Jews, in Israeli society as a whole the *mizrachim* have formed not a peripheral but a semi-peripheral group, located in an intermediary position between *ashkenazim* and Palestinians. The *mizrachim* have sought to ally themselves with the Jewish state and the *ashkenazim* who control it, rather than with the Palestinians, with whom they share many economic and cultural characteristics—conceptualizing their marginalization in cultural and ethnic rather than class terms.

Lastly, neoliberalization had cultural consequences that were viewed as a threat to traditional Jewish values. All four elements of the traditional relationship between the state and religious Jews in Israel—monopoly of Rabbinic courts in matters of family law, observance of the Sabbath and of *kashrut* (dietary law) in the public sphere, and the exemption of *yeshivah* students from military service—were challenged by liberal, secular Jews, who found important allies in the Supreme Court and in the one million immigrants from the former USSR, many of whom are not Jewish by orthodox religious definition. In addition, women's rights, tolerance for diverse sexual lifestyles, cultural Americanization and the growing political assertiveness of Israel's Palestinian citizens, all contributed to the anxiety of more traditional social groups, many of them working-class *mizrachim*.

For working-class and lower-middle-class *mizrachim*, then, neoliberalization has meant not only economic decline, in both relative and absolute terms, but also reduced social services and a frontal assault on their cultural values. The (Jewish) state, which has traditionally treated them as second-class citizens compared to the *ashkenazim*, has assumed growing importance for them both as bulwark against the ravages of the market and as affirmation of their privileged status as Jews. They have clung ever more strongly to their ethno-national identity, infusing it with an increasing religious content and making it a platform from which to demand the protection and extension of their social-citizenship rights. Correctly identifying the proposed territorial settlement with the

Palestinians as the capstone of neoliberalization, they came to view it with ever greater hostility.

Mizrachi attitudes towards the Palestinians, and the Oslo process in general, were also shaped by intense competition with them in the labour market, from the early 60s to the mid-90s.¹⁶ This gave rise to fear and hostility towards the Palestinians, and a desire among many *mizrachim* to exclude them from society altogether and/or seriously limit the rights of those who are Israeli citizens. With the Oslo Accords, a number of labour-intensive industrial plants relocated to Egypt, Jordan and other countries, depriving several 'development towns' with predominantly working-class *mizrachi* populations of their primary source of employment. By 1998, for instance, Lautman's Delta had moved 50 per cent of its production out of Israel; the same year was the most profitable in the company's history so far. The gap between the positive 'peace dividend' garnered by capital and the negative dividend suffered by labour naturally affected the newly unemployed workers' perceptions of the peace process. As one commentator put it:

While the middle and upper classes in Israel are zestfully attracted by the Peace Process and by the globalist logic of 'McWorld', the lower classes remain behind as social victims of globalization, and they react by identifying the Peace Process with their societal adversaries, and by adherence to 'localist', ultra-nationalistic and fundamentalist 'Jihad' orientations.¹⁷

Rise of Shas

So far, the only successful attempt to mobilize the *mizrachi* working class politically in the context of neoliberalization has also been couched in cultural-religious terms. Established in 1984, Shas appealed to lower-class *mizrachim* with, on the one hand, calls for the restoration of traditional Jewish values such as patriarchy, charity and religious observance—allegedly defiled by secular *ashkenazi* Zionism—and on the other, a rhetoric of social justice, backed up by an array of social-service institutions of its own, including an autonomous educational

¹⁶ After the Oslo Accords, non-citizen Palestinian workers were gradually removed from the Israeli labour market and replaced with workers from around the world.

¹⁷ Uri Ram, "The Promised Land of Business Opportunities": Liberal Post-Zionism in the Global Age', in Shafir and Peled, *The New Israel*, p. 230

system. The success of this political formula over the years has been impressive. Drawing most of its voters from the ranks of Likud, Shas went from four Knesset seats in 1984 to seventeen in 1999, compared to Likud's nineteen. Only in the 2003 general elections, with Likud doubling its strength, was Shas's representation reduced to eleven MKs.¹⁸ Until Sharon's current coalition, formed in 2003, Shas had participated in every Israeli government since it first entered the Knesset in 1984.

Despite its rhetoric, however, Shas has never presented an alternative to the prevailing neoliberal vision, and has consistently voted, after some bargaining, for every economic liberalization measure passed by the government. Welfare, however, was a different matter. Here, Shas's presence in the cabinet, and the electoral threat it posed to Likud, had a mitigating effect on its coalition partners' assaults, at least in terms of guaranteeing redistributive taxes and transfers. Welfare expenditures as a percentage of GNP remained stable, and even rose, throughout the period of liberalization—a situation lamented by the journalistic and academic spokespeople of the Israeli elite, which had developed an almost pathological hatred of Shas.¹⁹

Shas was also able to frustrate the other major point of the bourgeoisie's programme, a territorial settlement with the Palestinians. For the first fifteen years of its existence, Shas assumed a relatively moderate position with regard to the conflict, and was widely credited with helping to pass the Oslo Accords in the Knesset. But although this attitude reflected the political preferences of much of the party elite—most importantly its spiritual and political leaders, Ovadia Yosef and Arie Deri—it was almost diametrically opposed to the views of the vast majority of its voters, the most 'hawkish' sector of the Israeli public.²⁰ Since 1999, with the Oslo

¹⁸ These results are not all comparable, because the 1996 and 1999 elections were conducted under the semi-presidential system, in which the prime minister was elected directly. This, paradoxically, benefited the small ideological parties at the expense of the larger catch-all ones.

¹⁹ When Ehud Barak arrived in Tel Aviv's main square to celebrate his victory in the 1999 elections he was greeted by a frenzied mob of middle-class *ashkenazim* yelling, 'Anyone but Shas!'

²⁰ In an attitude survey of Jewish Israelis conducted at the beginning of 2002, 89 per cent of those indicating they would have voted Shas had an election been held on that day were opposed to a settlement with the Palestinians based on the 2000 Clinton plan, as against 60 per cent of all respondents. More than 60 per cent of Shas voters were in favour of the 'transfer' (expulsion) of non-citizen Palestinians,

process in crisis and with the economic conditions of its constituents continuing to deteriorate, the party's attitude towards the Palestinians has been aligned with that of its constituency.²¹

Culture wars

The social stalemate of the Oslo period found vivid political expression in the relations between Shas and Meretz in Barak's coalition government of 1999–2001. In class, ethnic and ideological terms Meretz was a mirror image of Shas: the primary promoter of a territorial settlement with the Palestinians, it had a constituency of secular middle and upper-middle-class *ashkenazim*. Its origins lay in the merger of two political tendencies within Labour Zionism, one liberal and civil rights-oriented, the other nominally socialist and kibbutz-based. Despite its social-democratic rhetoric and the left-of-centre preferences of its voters, once in power Meretz ministers worked assiduously to privatize every public service they could lay their hands on—primarily the telecommunications and educational systems.

Though Meretz and Shas had both joined forces with the neoliberal Labourites in their 1994 takeover of the Histadrut, in Barak's 1999 coalition the two parties engaged in an interminable and futile struggle over the Ministry of Education's budget and jurisdiction over Shas's school system. Thus, during the final years of the Oslo process, the two most clearly class-based parties in Jewish Israeli society fought each other over issues of culture and identity politics. In June 2000 Meretz, which had ten Knesset seats at the time, was forced out of the government. A

compared to slightly less than 46 per cent of all respondents. *Mizrachim* supported 'transfer' at a somewhat higher rate of 48 per cent, and *ashkenazim*—around a half of whom are recent immigrants from the former USSR who tend to have strongly nationalist views—at a lower rate of about 42 per cent. More than 50 per cent of Shas voters, as compared to 30 per cent of all respondents, supported the 'transfer' of citizen Palestinians. See Asher Arian, *Israeli Public Opinion on National Security* 2002, Tel Aviv 2002; the Shas data do not appear in Arian's published report and were kindly supplied to me by one of his collaborators, Raphael Ventura. Michael Shalev and Gal Levy report similar findings about Shas voters' attitudes towards the Palestinians in their analysis of the 2003 elections, 'The Winners and Losers of 2003: Ideology, Social Structure and Political Change', in Asher Arian and Michal Shamir, eds, *The Elections in Israel: 2003*, Albany, NY, forthcoming.

²¹ Sami Shalom Chetrit, *The Mizrahi Struggle in Israel: Between Oppression and Liberation, Identification and Alternative, 1948–2003*, Tel Aviv 2004, p. 263.

month later Shas, with its seventeen MKs, bolted out of the coalition on the eve of Barak's departure for Camp David, leaving him with a minority government as the Oslo process approached its denouement.

The collapse of the Camp David summit, and especially the Israeli and us governments' interpretation of it, reshuffled the cards in Israel's domestic politics and in Israeli-Palestinian relations. While pro-forma negotiations continued up to the very eve of the elections for prime minister in February 2001, the political atmosphere was no longer one of negotiation, but rather of war. In the political limbo that prevailed at the close of Barak's short term in office, Sharon stole a march with his highly publicized and militarized visit to the Temple Mount/Noble Sanctuary. The clear message it conveyed was that, whatever agreement might still be reached with the Palestinian leadership, different actors were now going to be calling the shots.

The Israeli and us governments had been warned by Palestinian officials about the likely consequences of Sharon's visit, and were asked by them to block it.²² But Barak and his then Minister of Public Security Shlomo Ben-Ami did nothing to stop Sharon. When the predicted Palestinian reaction came, in the form of stormy demonstrations on the Temple Mount/Noble Sanctuary on Friday, 29 September, the police opened fire on the demonstrators, killing seven of them and wounding more than a hundred.²³ The signal for the outbreak of the second *intifada* had been lit.

The events of the next few days are crucial for understanding the dynamics of Sharon's rise to power and the transformation of Israeli and Palestinian societies that ensued. In a groundbreaking article in the mass circulation daily, *Maariv*, on the second anniversary of the *al-Aqsa intifada*, Ben Kaspi revealed that in the first days of the uprising the IDF fired one million bullets in the Occupied Territories—700,000 in the West Bank and 300,000 in Gaza—against largely unarmed demonstrators. As a result, the 'kill ratio' at the beginning of October 2000 was seventy-five dead Palestinians to four dead Israelis. According to Kaspi:

²² Jeremy Pressman, 'Visions in Collision: What Happened at Camp David and Tabat?', *International Security*, vol. 28, no. 2, Fall 2003, p. 28.

²³ *Report of the State Commission of Inquiry for Investigating the Clashes between the Security Forces and Israeli Citizens in October 2000* [the Or Commission], vol. 1, Jerusalem 2003, pp. 92–101.

In the Israel of 2001 it became clear, for those who did not already know it, that the military makes and implements policy . . . [It] determines the rhythm and gets the events rolling. The political echelon is totally incapable of checking the military or enforcing discipline on it. In those hard days, in September 2000, it finally turned out that Israel is not a state that has an army, but an army that has a state attached to it. The real executive branch is not the Cabinet, but the formidable security system that the state has surrounded itself with in the course of the years.²⁴

In more measured terms, Yoram Peri, a prominent student of civil-military relations in Israel, concluded that 'the military is an equal partner in the policy process and is sometimes even more powerful than that'. Where Kaspit believes that the IDF was defying Barak's policy, Peri is more sceptical: whether through weakness or because he agreed with it, 'it is clear that Barak adopted the military's policy during much of that period'.²⁵

During the first ten days of October another arm of the state-security apparatus, the national police force, was acting in essentially the same manner within Israel's pre-1967 borders, shooting dead twelve Palestinian Israeli citizens and one non-citizen Palestinian engaged in protest activities. (One Jewish motorist was also killed by citizen Palestinian demonstrators during the same period.) The state commission of inquiry Barak appointed to investigate these events, presided over by Supreme Court justice Theodore Or, delivered its unmistakable conclusion in 2003: the Israel Police, without government authorization, had acted as an independent agent, shooting unarmed demonstrators with rubber-coated bullets and live ammunition, in contravention of the law and of its own internal guidelines.

Whether the police intended it or not, in killing Arab-Israeli demonstrators they sealed Barak's fate and guaranteed Likud's election victory. For years the centre-right electoral block, composed of Likud and its allies, had enjoyed a slight advantage among Jewish voters. Labour could win an election only if supported by an overwhelming majority of Palestinian

²⁴ Ben Kaspit, 'Two Years of the Intifada', *Maariv*, 6 and 13 September 2002 supplements [Hebrew].

²⁵ Yoram Peri, 'The Israeli Military and Israel's Palestinian Policy: From Oslo to the Al Aqsa Intifada', Washington, DC 2002, pp. 13, 35; see also pp. 32–5. It should be noted that only a few months earlier, in May 2000, Barak was able to impose his will on the IDF and force it to withdraw from southern Lebanon.

Israeli citizens, as Barak was in 1999. The events of October 2000 resulted in massive abstention among Palestinian voters in the prime ministerial elections of February 2001. Why, then, did Barak do nothing to prevent actions that were to bring about his electoral downfall? Perhaps amid renewed Palestinian resistance and breakdown of the Oslo process, the military man in him trumped the politician.

Settlers and security forces

The reasons for the ferocity with which the state-security apparatus lashed out at the Palestinians are not hard to decipher. Since the late 1980s, both the IDF and the police had been frustrated in their efforts to quell the growing restiveness of citizen and non-citizen Palestinians. Israel's failure to repress the first *intifada* (1987–93) did not stem, obviously, from the balance of military power between Israel and the Palestinians, but rather from the political limitations that the country's trade and economic policies imposed on the use of military force. The IDF, then under Barak as Chief of the General Staff, opposed the Oslo process, as it did the initial moves towards peace with Egypt in the late 1970s; even as Prime Minister, Barak did not hide his disdain for the Accords. On two occasions during the Oslo period, in 1996 and 2000, the IDF was again frustrated in its attempt to utilize its power effectively against Palestinian 'disorders'. The IDF's withdrawal from southern Lebanon in May 2000, meanwhile, took place against its publicly expressed misgivings.²⁶

Underlying the frictions between the state-security apparatus and its elected officials was a growing antagonism on the part of the IDF and other security forces to the prospect of any form of withdrawal from the Occupied Territories. Since 1967 the IDF has been, *de facto* and *de jure*, the sovereign power in these territories, which have not been formally annexed to Israel to this day. In addition to intelligence and operational forces, managing the Territories and their millions of Palestinian residents requires a large civil affairs bureaucracy, sustained by huge budgets, where many military careers have been made. As we have seen, the turn

²⁶ Pressman, 'Visions', pp. 27–8; Kaspi, 'Two Years'; Peri, 'Israeli Military', pp. 31–3, 50–1; *Or Commission Report*; Amos Harel, 'The IDF Will Not Withdraw Again in Defeat', *Haaretz*, 8 March 2004. Needless to say, the IDF high command is not made of one cloth, and many generals, in and out of uniform, have supported the peace process and, on occasion, even restrained bellicose civilian politicians. See Peri, 'Israeli Military', pp. 45–51.

to neoliberal policies had been accompanied by a substantial reduction in military spending relative to GNP, as well as the loss of military contracts and reduction of the standing army. During the Oslo period there was talk of abolishing the draft and turning to a professional force, and even of privatizing major military functions. Finally, the prestige of the military, and the motivation to serve in it, had experienced a marked decline during that period. Both have been restored since 2001.²⁷

The other social sector that, along with the military, stood to lose the most from any withdrawal from the Occupied Territories were the settlers. Arguably, they too should be viewed as an arm of the state. The settlers have by and large been placed where they are by the state, on land forcibly expropriated from Palestinians and transferred to them for free, and with their housing and social services heavily subsidized. Their settlements have always been provided heavy security by the military, and a whole network of bypass roads has been built for their exclusive use. About 50 per cent of the settlers are employed directly by the state, and they constitute auxiliary military garrisons in their settlements, armed by the state. In the vast majority of cases, when the settlers have used these arms against Palestinian civilians at their own initiative, they have done so with impunity. Lastly, the torturous route of the separation wall currently being built by Israel in the West Bank was determined by the need to provide security for as many settlers as possible.

The IDF and the settlers have always had a symbiotic relationship, with the latter having a say in the appointment and dismissal of senior military officers, and many of them becoming senior officers themselves. It is a hotly debated question whether the IDF would actually remove the settlers if ordered to do so by the government. What is clear, however, is that throughout the Oslo period no effort was made to remove even one settlement, and the settler population actually doubled during that time. Still, as long as a declared policy of some eventual, partial withdrawal was being promoted by the Israeli bourgeoisie as part of its neoliberalization policy, the settlers and IDF were powerless to stop it. Only when the Oslo process had been checked by the opposition of Shas and the Jewish working class was the state able to abandon the project. What was

²⁷ Yoram Peri, 'Civil-Military Relations in Israel in Crisis', in Daniel Maman, Eyal Ben-Ari and Zeev Rosenhek, eds, *Military, State, and Society in Israel*, New Brunswick, NJ 2001, pp. 107–36.

most important to the bourgeoisie, however—economic liberalization—was continued by the state, and with a vengeance unprecedented in the country's history.

As we have seen, the events of October 2000 guaranteed a Likud victory in the 2001 prime ministerial elections. Netanyahu declined to run, ostensibly on the grounds that he would not be able to govern with the Knesset returned in 1999. (A better explanation may be that he was wary of the social stalemate that had brought him down in 1999, which he had no idea how to break.) The way was thus open for Sharon, the only other politician of any stature in Likud. He owed his landslide victory primarily to an unprecedentedly low turnout of 62.3 per cent (compared to 78.8 per cent in 1999), comprised of 68 per cent of eligible Jewish voters and only 19 per cent of Palestinian ones. As noted above, many of the abstainers were potential Labour voters. Thus, Sharon received 62.4 per cent of votes cast, even though, in absolute terms, he received 100,000 fewer votes than Barak did in 1999.²⁸

Sharon's electoral base in 2001 was Likud's traditional constituency—the less affluent, less educated, more *mizrachi*, younger and more religious section of the electorate.²⁹ Like the French peasants who voted for Louis Bonaparte, it was precisely these layers that would suffer most from the neoliberal policies Sharon's government would adopt. In spite of that, they would again vote for Likud and its allies in even greater numbers in 2003.

Savaging the welfare state

Throughout the 1990s the Israeli economy experienced relatively high growth rates and a soaring increase in the inequality of income distribution. Between 1990 and 2002, the economic-income share of the top decile rose from 25 to 30 per cent, that of the second decile remained unchanged, while that of all others declined. The Gini coefficient rose from 0.498 in 1993 to 0.528 in 2002. Inequality of disposable income—which includes taxes and transfer payments, in addition to economic

²⁸ Asher Arian and Michal Shamir, eds, *The Elections in Israel—2001*, Albany, NY 2002, particularly the chapters by Shamir and Arian and by Jamal.

²⁹ Shamir and Arian, 'Abstaining and Voting in 2001', in Arian and Shamir, eds, *The Elections*, p. 22.

income—was much more moderate, however, rising from 0.339 in 1993 to 0.357 in 2002.³⁰ As one commentator has put it:

The welfare state remained broadly unharmed by the liberalizing reforms that have been the leitmotif of Israel's political economy since the successful deflation of the mid-1980s . . . it is only in the new millennium that, against the backdrop of resurgence of the Israeli–Palestinian conflict and a halt to economic growth, the Ministry of Finance and its supporters have gathered the political strength to undertake substantial welfare state retrenchment.³¹

The global recession and breakdown of the Oslo process plunged the Israeli economy into a serious slowdown. Israel's GDP decreased by 0.9 per cent in 2001 and 0.8 per cent in 2002, though a recovery of 1.3 per cent was registered in 2003. Per capita GDP decreased in all of these three years, by 3.2 per cent in 2001, 2.8 in 2002, and a moderate 0.5 in 2003.³² The recession, coupled with a sharp increase in military spending due to the *intifada*, occasioned six rounds of budget cuts and structural economic changes between September 2001 and September 2003. In overall monetary terms, the state budget was cut by nearly 20 per cent. In broader political-economic terms, the cumulative effects of the fiscal austerity and structural changes were greatly detrimental to the interests of the working class. Levels of employment, wages, unionization, social services and retirement plans declined, while employers benefited greatly from increased labour 'flexibility' and lower wage-costs and taxes.³³

³⁰ Shlomo Swirski and Ety Konor-Attias, *Social Report—2003*, Adva Centre, Tel Aviv [Hebrew], pp. 7, 13; Asher Arian, David Nachmias, Doron Navot and Danielle Shani, *Democracy in Israel: 2003 Follow Up Report*, Democracy Index Project, Jerusalem 2003 [Hebrew], p. 83. Changes in the Gini coefficient do not tell the whole story, of course, since it measures only wages and salaries, not capital gain income.

³¹ Michael Shalev, 'Placing Class Politics in Context: Why is Israel's Welfare State so Consensual?', presented at the conference 'Changing European Societies—the Role for Social Policy', Copenhagen, 13–15 November 2003, p. 20, n. 14. This is in sharp contrast with the conventional wisdom (shared by Shalev and the present writer) that prevailed until the current transformation began to become apparent. In his 1999 *Israel Affairs* article, Shalev had noted that 'the collectivist economy that was the historical legacy of Jewish settlement and Arab–Jewish conflict in the pre-state period is difficult to dismantle precisely because conflict and settlement continue to shape state commitments'. Instead, renewed conflict and settlement have been the very factors that have enabled the reshaping of the country's political economy and retrenchment of the welfare state.

³² <http://trade.walla.co.il>, 16 March 2004.

³³ Between 1980 and 1996 the overall tax burden in Israel fell from 42.3 per cent to 37.3 per cent. The tax rate on corporate revenues fell from 61 per cent in 1984 to 36 per cent in 1996; see Ram, 'Promised Land', p. 234.

The second *intifada* indeed served as the backdrop to this reassertion of the liberalization drive, but the effects of the renewed conflict were mediated politically by Sharon's ability to neutralize Shas and the Jewish working class. When Shas cabinet ministers objected to Sharon's first proposed state budget, which incorporated severe cutbacks to the welfare state, Sharon—bolstered by his Likud–Labour coalition—unceremoniously dismissed them. Within days they were back, completely subdued, and voted for the budget. In his second government, established in 2003, Sharon left Shas out altogether and included its arch-rival, Shinui, an economically liberal and politically conservative (although militantly anti-clerical) middle-class party that was the great success of the 2003 elections, rising from six to fifteen Knesset seats.³⁴

It was the marginalization and eventual exclusion of Shas that enabled the Sharon government to make its unique contribution to Israel's political economy—the retrenchment of the welfare state. Whereas workers', and increasingly the middle class's market-based income continued its secular decline in the Sharon era, cutbacks in transfer payments and social services were dramatically deepened. During Sharon's first full years in office, 2002 and 2003, old age allowances lost 10 per cent of their value, guaranteed income allowances, paid to the poorest of the poor, lost 20 per cent, and benefits to single-parent families lost 28 per cent. The universally paid child allowances lost an average of 20 per cent of their value for families with two children; insurance-based unemployment benefits lost 23 per cent. While unemployment rose from slightly over 8.5 per cent when Sharon took office to nearly 11 per cent in 2004, in 2003 only 23 per cent of the unemployed received benefits, compared to 39 per cent in 2001.³⁵

Sharon's ability to ignore Shas and break the social stalemate stemmed directly from the fact that, unlike all his predecessors since 1992, he was no longer trying to cater to the bourgeoisie's interest in a peace settlement with the Palestinians. The attempt to juggle the two balls of peace negotiations and economic liberalization at the same time had been the undoing of his two immediate predecessors, Netanyahu and Barak. Sharon has

³⁴ Shinui was established specifically to fight Shas and represents secular middle-class *ashkenazim*, including many immigrants from the former USSR; see Shalev and Levy, 'Winners and Losers'.

³⁵ Ruth Sinai, 'More than 5 per cent increase in poverty', *Haaretz*, 11 May 2004; Bank Hapoalim, *Economic and Financial Survey*, 30 March 2004, p. 1 [both Hebrew].

played on Israeli society's fear of terror attacks, on its conviction that there was 'no partner for peace' and on his own military reputation to silence all meaningful opposition. He was aided by a change in the electoral law that enabled Likud to elect forty Knesset members. (By comparison, Barak, elected under the old system in 1999, had a power base of only twenty-six MKs.) This allowed Sharon to conduct both of his wars—against the Palestinians and against 90 per cent of Israeli society—in an unprecedentedly brutal manner. Moreover, the Bush administration's total backing for Sharon since September 11 has removed any *realpolitik* motivation to reach an accommodation with the Palestinians.

War dividends

Nevertheless, given the substantial 'peace dividend' garnered by the Israeli bourgeoisie, and the economic crisis into which Israel had been plunged since the outbreak of renewed hostilities, the silence of that top decile of income earners—those whose share of a vastly increased social product rose from 25 to 30 per cent during the Oslo period—might seem puzzling. The enigma is solved, however, when we realize that, in return for the loss of any prospect of peace and for stagnating GDP, the Israeli bourgeoisie received from Sharon the fundamental restructuring of the economy that had previously eluded it. Marx's characterization of the French bourgeoisie, 'which every moment sacrificed its general class interests, that is, its political interests, to the narrowest and most sordid private interests', is highly appropriate here. The major distributional project undertaken by the state under Sharon explains the evaporation of the Israeli business class as a force in favour of a peace settlement.³⁶

Sharon's inherently contradictory position with respect to the class power of the Israeli elite is captured in Marx's brilliant portrayal of Louis Bonaparte's predicament:

As the executive authority which has made itself an independent power, Bonaparte feels it to be his mission to safeguard 'bourgeois order'. But the strength of this bourgeois order lies in the middle class. He looks on himself, therefore, as the representative of the middle class and issues decrees in this sense. Nevertheless, he is somebody solely due to the fact

³⁶ In early 2004 Moody's rating service declared the economic policy of the present Israeli government to be the best in Israel's history: <http://news.walla.co.il>, 15 March 2004.

that he has broken the political power of this middle class and daily breaks it anew. Consequently, he looks at himself as the adversary of the political and literary power of the middle class. But by protecting its material power, he generates its political power anew. The cause must accordingly be kept alive; but the effect, where it manifests itself, must be done away with.³⁷

In the present case this contradiction is expressed in the fact that Sharon has found it necessary to have at least one political party that represents the *ashkenazi* elite in his coalition. So far he has always succeeded in finding a middle-class party opportunistic enough to join him—first Labour, then Shinui. To accommodate these parties he has had to appear to be constantly pursuing some sort of ‘peace plan’. As long as such schemes kept being supplied by the us—the Mitchell Plan, the Tenet Understanding, Bush’s Roadmap—he gladly embraced them, only to turn them into dead letters. In one case he adopted a Labour plan—the separation wall—which he skilfully adapted to his own purposes.

When the Americans, increasingly bogged down in Iraq, ran out of peace proposals, Sharon adopted, in modified form, another Labour idea: a unilateral withdrawal from Gaza. If taken seriously, this would mean the removal of all Jewish settlements there by the end of 2005; but the region would nonetheless remain surrounded on all sides by Israel’s military forces, isolated from the West Bank and the rest of the world, and surviving on the charity of UNRWA and other international organizations. Needless to say, Sharon does not conceive of this as a first step towards a broader peace settlement with the Palestinians, or even the resumption of negotiations. Since he raised this idea, Israel’s attacks on the Gaza Strip have become even bloodier, resulting in scores of Palestinian deaths, including those of the two top leaders of Hamas, and the utter devastation of Rafah. In the West Bank, meanwhile, settlement activity has intensified and the process of ghettoizing Palestinian communities through checkpoints, roadblocks, bypass roads and the separation wall has picked up speed.

³⁷ Marx, *Eighteenth Brumaire*, pp. 131–2. The Sharon government’s animosity towards the ‘literary power’ of the Israeli middle class is expressed in its attack on the universities, where a counter-hegemonic vision of society could potentially develop. Draconian budget cuts and forced structural changes, designed to weaken the autonomy of the faculty and strengthen the government’s hand in running these institutions, were decreed in 2003.

Sharon's real motive in proposing the 'withdrawal' from Gaza may have had something to do with the legal troubles he was facing at the time, and with the difficulties the US was, and still is, facing in Iraq. Allegations of corruption abounded around the make-up of Likud's electoral list for the 2003 general elections—including, for the first time in Israel's history, claims that safe seats on the list had been bought by elements associated with organized crime. Sharon himself, and his two sons, one of whom was elected to the Knesset in 2003, came under criminal investigation for a number of alleged illegalities, ranging from illicit campaign contributions to bribery. David Appel, a well-known real estate developer and Likud king maker, was indicted for bribing Sharon personally when he was Foreign Minister under Netanyahu, and the State Attorney (the chief prosecutor, whose position is just below that of Attorney General) recommended that the Prime Minister be indicted as well.³⁸ As it turned out, however, the Attorney General, appointed by Sharon's cabinet only a short time before, rejected the State Attorney's recommendation and even publicly doubted her motives in making it. While a number of other investigations are still under way, Sharon's immediate problems have been alleviated.

A sustainable formula?

Sharon's political formula—bribing the bourgeoisie, feeding nationalist and militarist illusions to the Jewish working class, and pumping up Israeli fears of Palestinian terror—has so far paid off handsomely. But how viable can this be in the long run? According to Marx, the Bonapartist scheme is inherently unstable, since it is based on a social stalemate that cannot persist for long. In our particular case, having achieved its long sought-after economic restructuring, the Israeli bourgeoisie may become impatient with the sluggish economy that is almost ensured by Sharon's war of politicide, as well as with the general feeling of gloom that has pervaded Israeli society since 2001. The Jewish working class too may become restive as its standard of living continues to decline. (Likud was defeated quite badly in local elections held in 2003.) While

³⁸ If Sharon had been indicted Shinui, a party that has made much of its commitment to clean government, would have come under a lot of pressure to withdraw from his coalition. Sharon may have sought to safeguard his Knesset majority by bringing Labour back into his government with the Gaza plan, which Labour strongly supports.

dissent within the military has so far been insignificant, in the past—particularly during Sharon's 1982 invasion of Lebanon—it has reached a stage where it had to be taken into account in military and political calculations. It is not inconceivable that the increasing brutality and futility of the war on the Palestinians may affect the willingness of both draftees and reserve soldiers to serve in the military.

Despite these internal contradictions and tensions, however, Israel's current political-economic-military regime can probably be sustained as long as strong American support continues. The us can, if necessary, shore up the Israeli economy at a relatively low cost to itself, and us approval lends domestic legitimacy to the Israeli state and its policies. It is true, as Marx pointed out, that state power cannot be suspended in midair. Unlike 19th-century France, however, the Israeli state has an external leg it can lean on, in the form of the United States. It can therefore dispense more easily with the need to satisfy even in an illusory way the interests of either of Israel's major social classes. But this external prop has its costs. If it were ever to be removed—perhaps as a result of the worsening quagmire in Iraq—the fall could be very painful.