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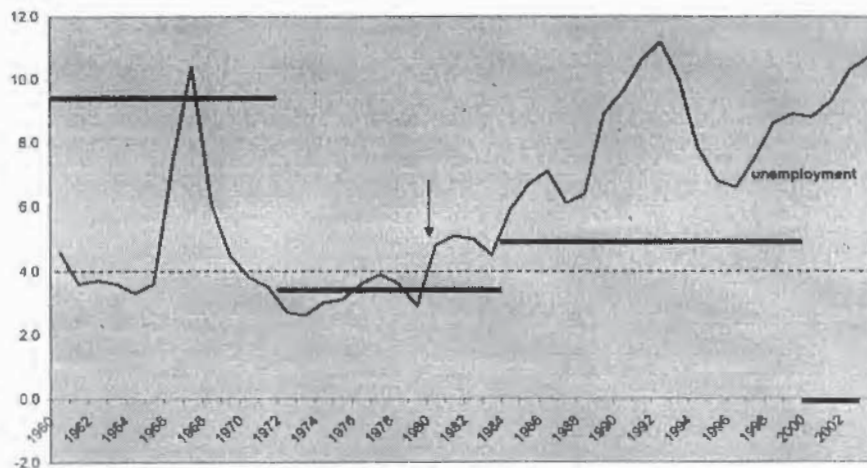
**כיצד משפיעים רעיונות על הכלכלה הפוליטית: אבטלה
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**How Ideas Affect Political Economy –
Unemployment and Employment Policy in Israel**

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Economic conditions in Israel have experienced a dramatic change in recent decades. Economists tend to divide Israel's economic performance into two periods: the early years, until 1973, were marked by very high growth rates and low unemployment thanks to the absorption of the mass immigration in the labor market; in the later years, from 1973 onwards, growth slowed to comparatively very low levels and unemployment rates increased steadily (Ben-David 2003: 33; Ben-Porath 1989). This description, however, misses a very interesting phenomenon: whereas 1973 was indeed the breakpoint with regard to growth rates, changes in labor market performance were minor. As can be seen in Figure 1, unemployment rates started to increase only after 1980, and from 1985 onwards reached relatively high levels (no less than 6 per cent). Significant changes in employment (participation) rates also occurred only during the 1980s.¹

Figure 1 - Unemployment and Average Growth Rates In Israel 1960-2003



Source: Bank of Israel and the Central Bureau of Statistics; Full data in Appendix I. Average growth was calculated for the periods 1960-1972; 1973-1984; 1985-2000; 2001-2003.

Seemingly, the delay between the slowdown of the economy and deterioration in the labor market is puzzling. It could be expected that such a dramatic growth slowdown would have been much more immediately followed by increased unemployment, as in many European countries during the post-1973 period. This did not occur, however, thanks to the Israeli government's intervention in the economy during these years, mainly by significantly enlarging the public sector during the 1970s (Ben-Porath 1987; Meltz 1996: 363; Metzger

¹ I will refer to the period of 1973-1985 as the transition period. Israeli economists often call this period 'the lost decade'. Periodization will be further discussed in the methodology section.

1989: 83; Shalev 1997: 242).² Although this fact seemingly resolves the puzzle, it also raises a more important question: what caused the state since the 1980s to move away from this type of counter-cyclical intervention, to actually act in an opposite direction of economic liberalization, in effect facilitating unemployment? Perhaps the answer may be found in the economic and political instability that characterized this period, responding to the challenges of hyper-inflation, increasing globalization and the political upheaval of 1977. However, I believe that these factors cannot provide a sufficient explanation, and that the essential origins of the policy shift can be discovered only by adopting a long-run and macro political-economic perspective (see also: Korpi 2002: 370).

By focusing on the reasons for the change in government's employment policy during the transition period of 1973-1985, and specifically on the measures that more or less maintained full employment, the research proposed here thus aims to improve our understanding of the general change in the Israeli political economy that is usually linked to the Stabilization Plan of 1985. Research in comparative political economy emphasizes the impact of the major political-economic actors, i.e. capital, labor and the state, on policy and economic conditions. It is characteristically assumed that the role of these actors is shaped by their pursuit of self-interest (e.g. Grinberg 1991; Shafir and Peled 2000a; 2002; Shalev 1992; 1997). Nevertheless, the delay that occurred in Israel's retreat from full employment, during the first years of the transition period, implies that although political-economic interests and policy are connected to each other, consequently interests themselves are shaped by ideas. Thus, this research assume that pre-existing interests alone cannot explain a policy shift, especially if economic conditions are relatively constant as was the situation in Israel from 1973 to 1980. Rather, it is argued here that in order to fully understand a radical change in policy we need to add an ideational dimension to the explanation, a dimension that will serve us as a complement to standard interest-based explanations rather than a replacement for them (Campbell 1998; 2002).³ This research does not seek to challenge interest-based explanations per se, but it denies that they can provide exclusive and all-encompassing answers. By focusing on the causal role of ideas, it is expected to contribute to a better understanding of the interaction of ideas and interests.

Employment policy may take a variety of forms, both direct and indirect. The proposed research will concentrate on *macro measures* that are not only, or even explicitly, directed to employment goals but nevertheless have the greatest impact on unemployment rates: fiscal policy, within it and of special importance public sector employment (including jobs and

² "Public sector" includes the military and its direct and indirect employment effects, including reserve duty (*Milu'im*).

³ The concept "ideational dimension" refers to a wide range of ideas which may direct people's action, such as ideologies, values or theories.

service in the military), and monetary policy. These are the policy instruments that most profoundly affect the state of the labor market, especially in Israel where the *micro measures* traditionally known as “active manpower policies” and more recently as “activation policies” have always been modest in scope.

The questions which lie at the center of this proposal are how ideational change affected employment policy in Israel, how and why this ideational change happened, and how it has affected other parameters of explanation, mainly interests. A central insight of the literature on the role of ideas in policy change is that ideas can influence and change existing interests, either by affecting actors’ preferences (i.e. through a normative change) or by affecting their perception of the best way to realize these preferences (i.e. through a cognitive change) (Campbell 1998; Goldstein and Keohane 1993; Weir 1992). It is hypothesized that ideational change of both types has occurred in Israel during the transition period and affected the political economy in general and employment policy specifically. The cognitive layer is represented by the penetration of imported economic theories to Israel, mainly monetarist theory, and the normative layer found expression in the dramatic normative movement from a Republican to a Liberal world-view, which also had more specific implications regarding the main normative goals which directed the state’s actions. It is hypothesized that these two shifts were not independent or separated, but were connected to each other and empowered each other. The consequence of this fundamental ideational transition was a major shift in the way the state defined its interests and the ways it chose to achieve them, and its final result was economic liberalization and a lasting rise in politically acceptable levels of unemployment.

Labor Market Liberalization in Israel: from Full Employment to Unemployment

It is widely accepted that the full-employment period in Israel, which persisted until the end of the 1970s, was a consequence of intentional government policy (Ben-Porat 1989: 14; Shalev 1992: ch. 6; 1997: 242). No doubt the government’s policy during that era was in part a reflection of power relations between labor and capital, or in other words the great strength of the Histadrut. But the state’s preference for full-employment also derived from Zionist goals, most importantly the goal of immigration absorption (Shalev 1984). Even more significant for our research is the fact that from the onset of rapid economic growth in the late 1950s, a full-employment *norm* was established. To use Shafir and Peled’s terminology, this was an inherent component of Israel’s ethno-republican character – meaning a strong mutual commitment between the state and its Jewish citizens (Peled 1992; Shafir and Peled 2002).⁴ This is not to say that liberal values effectively did not exist at that time, but rather that

⁴ This is a simplification of the way Shafir and Peled describe ethno-republicanism, which lacks their important reference to the differential status of groups within the Jewish community.

Zionist values took precedence. The 'great recession' of 1965-6, and the high unemployment that accompanied it, has been interpreted from a political-economic perspective as the state's means of restraining workers' demands and wages (Grinberg 1993: ch. 8; Shalev 1984; 1992); but we can also learn from its short duration that this was an exception during the second and third decades of statehood (Aharoni 1998: 130).

The war of June 1967 and the opportunities it introduced brought the mid-sixties recession to an end, but only a few years afterwards the Israeli economy once again entered a period of crisis, which was in many respects more severe than that of the 1960s. Yet in spite of the diminished growth rates and rising inflation, the government's macro-policies powerfully maintained employment, mainly through enlarging the public sector. The maintenance of low unemployment through a period of continuous crisis and recession highlights that the state's Republican world view was still intact during the first part of the transition period. Israeli economic conditions are even more remarkable if we bear in mind that most European countries, which also experienced severe economic stagnation during that period, did suffer high rates of unemployment (e.g. Therborn 1986). As seen in Figure 1, unemployment started to increase only during the 1980s, but this time in a continuous and steady trend. As several scholars have already argued, this implies that an important change of macro-economic policy occurred at that time (Aharoni 1998; Ben Basat 2001b; Shalev 1997). It should be emphasized that at this period the seeds of major structural changes in the political economy were planted, such as decline in the Histadrut's power (Grinberg 1991) and a retreat in the state's role as an employer (Ajzenstadt and Rosenhek 2000). Later, towards the end of the 1980s, much more transparent liberalizing policies were introduced into the Israeli labor market: entrance of labor migration ('foreign workers'), withdrawal from national wage agreements, the rise of private manpower companies, and efforts to reducing taxation (Artstein 2001; Shalev 1997: 240-2). Beyond its serious economic implications, these changes in the labor market are part of the liberalizing process which penetrated Israel's society and polity as a whole (Shafir and Peled 2002).

Before introducing political economy explanations, we should pay attention to explanations for the changing economic policy of Israel that are offered by other approaches. Functionalist political explanations emphasize government structures and capabilities: economic policy, and thus coping with unemployment, is explained by ad-hoc changes in the political needs of political actors (Arian 1998: ch. 3), either within parties (e.g. the rise of 'political appointments') or between them (e.g. by allocating resources to certain municipalities) (Kleiman 1999: 206-8). In a similar vein, Sharkansky (1987) points to the lack of capabilities that impede Israel's political and bureaucratic leadership and its effect on the economy. Although these claims are probably valid when examined in relation to specific policy questions, it seems that they are inadequate for understanding the long-run shift in Israeli

policy. One may propose another related explanation, which connects the change in policies to the fall of the dominant Labour Party in the elections of 1977. However it seems that this explanation does not hold, for two related reasons. First, the Likud's initial tenure in office did not signal a significant economic policy change (Ben-Porath 1982). Second, when liberalization efforts did happen they were initiated and maintained by both Likud and Labor governments (including "National Unity" coalitions).

Approaches that emphasize the effects of economic globalization provide us with a very different explanation: the shift we have pointed to is mainly a result of external pressures (Layard, Nickell, and Jackman 1991). Many economists have presented globalization as a set of constraints (unavoidable in an open economy) that disciplined the Israeli government to prioritize economic considerations over political ones, thereby promoting liberalization and requiring the market rather than the government to cope with unemployment. (e.g.: Ben Basat 2001b; Kleiman 1999: 210-2). However, a growing critical literature outside of Israel shows that globalization has different effects on different states and does not necessarily lead to convergence on the American-style model of liberal political economies (Esping-Andersen 1990; Esping-Andersen 1999; Hall and Soskice 2001; Kitschelt et al. 1999; Weiss 2003). Thus, although global economic pressures cannot be neglected it seems that the way the local arena translates external pressures is still highly significant. Both the issue of the role of local actors in the impact of globalization, and the earlier one of the need to explain long-lasting policy shifts, are the subject of a considerable literature in comparative political economy (Pempel 1998; Weiss 2003).

In the contemporary political economy literature on Israel, two main actors play the prominent role in the liberalizing process – the state and the representatives of capital. The latter push for liberalization since it greatly improves their economic status in a globalizing world economy, especially since the decline of the highly subsidized armament industry of the 1970s (Nitzan and Bichler 1996). In order to improve its position, the business community takes initiatives that go beyond the economic arena. Through both political party activists and by directly influencing decision-makers, it impacts on wider political and societal issues – most significantly the peace process (Shafir and Peled 2000b; 2002: chs. 8 & 9). On the other hand, research focused on the state's role during liberalization portrays it as means of increasing state autonomy and the state's capacity to regulate economy through expanded measures of indirect rather than direct intervention (Ajzenstadt and Rosenhek 2000; Shalev 1997). One should note that major studies in political economy support the insights of the local literature by suggesting that the state and capitalists cooperate when labor suffers a decrease in power, and that the main result will be increased unemployment (Kalecki 1943; Korpi 2002).

The research proposed here shares Shalev's assumption that it is necessary to focus on the state in order to understand contemporary trends, especially when employment policy is examined. The long history of a strong Israeli state, or *étatisme*, supports this assumption (Barnett 1996b: 122-5; Kimmerling 1993; Levi-Faur 1999). However, while Shalev focuses on the state's interests as the major explanatory factor, the basic assumption here is that interests alone cannot provide us with a full explanation. While it is indeed plausible to claim that liberalization serves the state's interests (Barnett 1996b: 127); it seems that this was already true from the mid-1970s. It is not clear from an exclusively interests-based perspective how to explain why earlier political-economic priorities persisted during almost a decade of crisis. It is suggested here that during the transition years the state must have either changed its priorities, or come to differently perceive the best means for achieving them – probably both. Some scholars have dealt with aspects of ideological continuity and change in the Israeli political economy (Doron 1996; Doron 2003; Doron and Kramer 1992; Sternhell 1995). However, a thorough examination of different ideational impacts on the interests and policies that furthered economic liberalization has yet to be conducted.

Theoretical Framework: the Characteristics of an Ideational Change

The first thing to establish is the conditions under which we can expect ideas to have influence, and whether these conditions were present in Israel during the transition period. Ideas-based literature on economic policy change tends to emphasize the impact of ideas during times of crisis, because they create uncertainty (Blyth 2002: 27-34; Goldstein and Keohane 1993: 16; Haas 1992:12-6; Hall 1993: 275-6; Hay 2001: 194-6; Mcnamara 1999: 8). In such times, it is claimed, ideas serve as guidelines for those who find difficulty in defining their interests or the means to fulfill them, guidelines which are not needed in times of certainty and stability. Moreover, in such times ideas serve as resources for institutional change: they may assist to the entrance of new actors and to create new coalitions, and also to undermine current hegemonic ideas or actors status (Blyth 2002: 39-41). It is plausible to assume that the transition period in Israel was characterized with uncertainty, at least partly, since as already mentioned although full employment was maintained other economic indicators were problematic (Barnett 1996b: 127). The war in 1973 also brought with it an essential social and political instability.

A second important insight is that ideas may have different effects on different states. In the economic literature, small and open economies are assumed to be much more sensitive to international occurrences, an assumption which also has important political-economic

implications (Katzenstein 1985; 2003).⁵ Analogously, small and open ideational arenas will be much more sensitive to theoretical and ideological developments beyond their borders. For well-known reasons, Israel's small ideational arena was not fully open, but it was certainly not fully closed. If we connect to the previous argument, it may be suggested that under uncertainty and crisis, a small and partly-open ideational arena like Israel was highly exposed to the penetration of external ideas, in addition to increased influence of existing non-hegemonic ideas.

It is also important to take into account the institutional structure during the period under consideration. With regard to the state-centered/society-centered axis (or *étatisme*/pluralism), Israel tended toward the *étatiste* pole, but was also characterized by important corporatist features, such as a strong labor party and a strong labor federation. Institutional structures may influence the manner of the entrance and maintenance of ideas in the policy making process (Risse Kappen 1994: 208-12; Weir 1992). In an *étatiste*-corporatist structure like the one that existed in Israel during the transition period, there are relatively few access points. Thus new ideas may have difficulty to enter, but relatively more chances to be sustained once they have entered (Risse Kappen 1994: *ibid.*). This institutional structure leads us to focus mainly on the impact of ideas on elites more than on the mass public.⁶ Insofar as the state is concerned, there is theoretical disagreement over which actors represent the state. This research will follow Skocpol (1985) in defining bureaucratic officials as state actors, but will also include the main political leaders that hold office, as Ciepley (2000) suggests. Ciepley's claim that political leaders enjoy a significant measure of autonomy is particularly relevant to economic (and employment) policy in Israel, due to its secondary place in the political debate (Arian 1998: 69; Sharkansky 1987).⁷

After establishing the broad characteristics of an ideational arena, it is necessary to assess the ideational impact itself. As noted earlier, the literature distinguished between two layers of ideational change and its political impact: a cognitive layer and a normative layer (Campbell 1998: 384-5; Goldstein and Keohane 1993: ch. 1; Weir 1992: 169).⁸ The first layer refers to the way an actor ought to operate in order to achieve his or her goals (or interests). The second layer refers to the stage of determining one's goals, or interests, and setting priorities among them. With regard to the present case it will be argued that both layers were relevant. My hypothesis with regard to their gradual effect within the research period is as follows:

⁵ It is worth mentioning here Katzenstein's emphasis is not on primarily on the economic interests of small states, but mainly on their perceived vulnerability and its ideological outcomes, and also their high learning capabilities.

⁶ This distinction is based on Campbell (1998) and Hay (2001).

⁷ See also Haas (1992).

⁸ Goldstein and Keohane divide the normative layer between world-views and principled beliefs. The former is defined as a general and broad perception, or understanding, of the world.

1. The normative layer: Israel has experienced a movement from a Republican to a Liberal world-view. The social and political consensus around values such as Jewish mutual commitment, solidarity and relative equality has weakened; instead, individualist and utilitarian perceptions took their place. Specifically, state's action became less guided by Zionist goals of settlement and immigrant absorption, and more by international economic competitiveness. The weight of 'security needs' and of the army has also diminished. The state's priorities have been modified rather than transformed; former top priorities were not totally neglected, but downgraded. As a result, employment policy was modified as well. Whereas in the past full employment was considered as a necessary means for achieving the above mentioned Zionist goals, for the new goals full employment was not vital and might even be counter-productive.

2. The cognitive layer: This effect pertains to a much narrower prism than the normative one, and is specifically concentrated on economic questions. The 'big' economic issues of growth and international competitiveness were highly contested matters in most western world during the 1970s, when the Keynesian paradigm was challenged by the neo-classical monetarist paradigm (Hall 1989). I hypothesize that monetarist theory has had an important impact on Israeli policy-making, leading the state to emphasize price stability as an essential means for improving economic performance. The meaning of this is that full employment is no longer a necessary tool for better economic performance, nor a condition that can be maintained if it is in conflict with achieving price stability.

Some clarifications are needed. First, while analytically we may distinct between these two layers, we should assume that in practice they overlap, at least partially. In addition, seemingly the normative effect precedes the cognitive effect, but this is not necessarily true. Cognitive explanations, like economic theories, can define what is possible and what is impossible, or whether achieving a certain goal is plausible or implausible. Thus, cognitive explanations can have a limiting effect on the normative layer (Haas 1992 15). In our case, the rising dominance of Monetarist theory could have led to defining past Zionist goals as no longer accomplishable. Thirdly, if in our case the normative effect preceded the cognitive one, one might wonder what significance the latter has. If goals changed, it would be only natural that former ways of achieving them were also altered. However, it needs to be emphasized that past goals did not disappear, and equally that later goals did not appear from nowhere. International economic performance was always an important factor for of the Israeli state, and we can assume that economic theory, or causality, had always been used as a significant basis for economic policy.

The discussion so far has highlighted two main theoretical issues pertaining to ideational change and its impact: (1) the traits of the Israel state as an ideational arena and (2) the layers

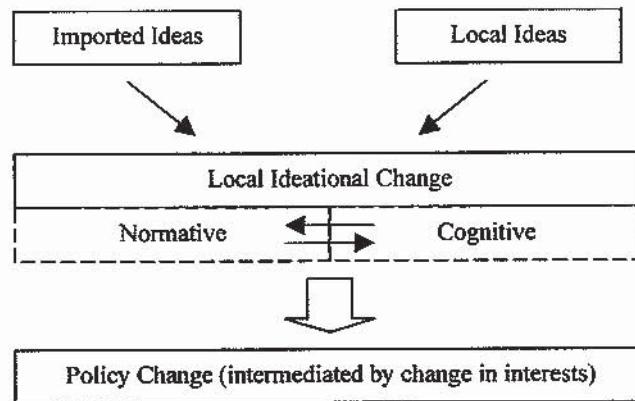
of ideational impact. To complete the theoretical framework a third issue must be raised: where do ideas come from, and how does ideational change itself evolve? Ideas may have local roots, or may be imported from external ideational arenas. The identification of Israel as a small and partly-opened ideational arena, along with the emergence of global, and specifically American, influence on Israel since the mid-1970s, implies that the roots of ideational change cannot be considered to be exclusively local (Ram 1999). Studies of Latin American countries have found that economic professionals, stationed either within or outside state institutions, have led neoliberal ideational change (Babb 2001; Fourcade Gourinchas and Babb 2002). On the face of it, this image of American-trained economic professionals engineering an ideational shift closely resembles the economics profession in Israel since the 1970s (Kleiman 1981).⁹ We should bear in mind that the recent political-economic development of many Latin-American countries resembles, in several important features, the changes occurred in Israel (Bruno 1988; Edwards 1995; Stallings and Peres 2000). Thus, we can identify economists as liable to have been important carriers of imported ideas, mainly cognitive, but not exclusively, since as already suggested cognitive ideas may have significant influence on the normative layer.

With regard to direct normative ideational change, Ram (2003) claims that Israel's normative transition (in his words 'cultural' or 'symbolic'), seen in the adoption of American values, was an inevitable by-product of American political, economic and military involvement in Israel. Although it is less clear than in the cognitive layer, we can assume that within the normative layer ideas-carriers were intellectuals, who have the option of adopting external ideas and to introduce them to local arenas.¹⁰ In any event, although the importation of external ideas is highly important, local ideas should not be neglected; thus, the same actors – though not necessarily the same persons – will also be the carriers of local and already existing ideas. The distinction between external and local ideas is not dichotomous; external ideas may be translated and reshaped by local actors. Thus, the processing of external ideas, when entering the local arena, may lead to significant transformations of these ideas and is highly important. In sum, idea-carriers will be the main actors within the ideational arena, in which local and external ideas may reinforce or challenge each other. Figure 2 summarizes the theoretical framework of the research.

⁹ Studies of the impact of experts impact are strongly connected to the literature on epistemic communities, see Haas (1992).

¹⁰ Anglund (1998) assumed that public opinion was the main carrier of norms, but she studied the impact of values on policymaking in the US, a pluralist state, representing the opposite pole to our case.

Figure 2 – Expected Causal Connections



The last issue discussed – the origins of ideational change – highlights the special importance of Israel as a case study and its theoretical benefits. Israel represents not only a small and open ideational arena, but also what we may call a peripheral (or semiperipheral) arena. The latter concepts have served in explaining the structure of the capitalist world-economy (Wallerstein 1979). Although not intended by world-systems theorists, these concepts can be usefully employed from an ideational perspective.¹¹ Defining Israel as peripheral emphasizes its stand in the global ideational arena as a ‘taker’ and not ‘maker’ of ideas. Core countries, in contrast, on which most studies of ideational change have focused (e.g. Blyth 2002; Campbell 1999; Hall 1993; Mcnamara 1999), are ‘makers’ of ideas in two senses: as the place where initial ideational changes take place (e.g. Yonay 1998), and as providers of ideas to the global ideational arena. As already mentioned, it is assumed that the source of most external ideas arriving in Israel was the United States. The fact that Israel may be considered as a semi-peripheral country when economic conditions are considered (Silver 1990), and its strong dependence on US financial and military aid, only underlines the assumption that our essential task is to grasp the combined operation of ideas and interests.

From a comparative perspective there are two important implications: first, ideational influence should be examined not only in the context of local structures, but also with reference to the place of the local ideational arena within the global arena. When we consider the position of Israel within the global arena in general, and specifically recall its dependence on foreign material aid, a second important implication arises. If ideas have affected interests, even in such a materially-pressured environment, not only from within but also from outside, then the Israeli case may have general significance by providing evidence for the power of ideas as independent factors.

¹¹ This alternative perspective appears to be supported by Gramsci (2004), see specifically p. 93.

Research Boundaries and Methodology

In order to examine the hypotheses suggested above an historical investigation is needed. The main hypothesis suggests that there is a causal connection between ideational change and policy shift, mediated by changing interests. However, given the strong empirical correlation between liberal ideas, corresponding interests, and liberalizing economic policies, only an historical perspective can help us to determine the order of changes (Rueschemeyer and Stephens 1997). As Blyth (2002: 35) suggests, sequential research may help us to determine when and how ideas affected interests and vice versa, and in our case how economic and employment policies were influenced by both. For the present research, the most important goal is to trace the causal impact ideas have had on interests and policy, rather than the converse.

The period of investigation will be the years 1973-1985. As was already suggested, we can identify these years as the 'transition period' between one political-economic regime and another, or between the first period of high intervention and development and the current period of liberalization and globalization. The year 1973 marks the entrance of the Israeli (and global) political-economic order into crisis. The year 1985 marks the new era in the Israeli political economy, with the launching of the Emergency Economic Stabilization Plan (EESP) and the subsequent improvements in growth and inflation indicators (Ben Basat 2001a; Shalev 1997: 227). It is assumed that through the transition period the ideational seeds of change were planted and grew, and that it will be possible to trace ideational change itself. Since ideational changes are likely to take place gradually, a sufficiently long period of investigation is needed in order to properly evaluate their evolution and effects (Pierson 2003). In order to complete this analysis a post-script, reviewing the major changes in employment and economic policies since 1985, will be provided. This review will focus on the impact of the examined ideational development on post-1985 policy changes, and on how this development served as an essential infrastructure for further political-economic evolution which exceeds the research period.

Employment conditions may be affected by a variety of state policies, and thus may be defined in different ways. Table 1 summarizes the main possible definitions of employment policy by juxtaposing two main characteristics of employment-relevant policies: short/medium-run vs. long-run, and micro vs. macro interventions.

Table 1

	Short/Medium-Run	Long-Run
Micro	Active Labor Market Policies (e.g. vocational training, employers compensation) (e.g. Janoski 1990)	Capital Investments (e.g. education policy, infrastructure investment) (e.g. Madsen and Munch-Madsen 2001)
Macro	Macro-Economic Policies (e.g. Monetary/Fiscal expansion or restraining) (e.g. Therborn 1986)	Structural Changes (e.g. labor immigration, welfare policy) (e.g. Weir 1992)

Although long-run policies probably explain the near-continuity of full employment for more than two decades prior to the transition, it is doubtful that such policies were the main factor behind the rising unemployment observed during the transition period itself. Within the short/medium-run limits, the research will focus on macro-economic policies that affect (un)employment, since as already mentioned, micro-level labor market interventions had little impact on the labor market in Israel. Macro-policies, like the recession of the mid-1960s or enlargement of the public sector during the 1970s, clearly have had significant effects (Ben-Porath 1987; Greenwald 1972).

Thus, the issues this research will trace during the transition period are: (1) the changes made in fiscal and monetary macro-economic policy including, although it may deviate from conventional economic analysis, public sector employment,¹² (2) the development of the Israeli state's definition of its main economic problems and goals during the transition period,¹³ and the specific place of full employment among them, and (3) the normative and cognitive ideational basis of this development, and their origins. Issue (1) will serve as the starting point, and as a compass when referring to issues (2) and (3). Concretely, when referring to issue (1), I will look for the fiscal changes as they appear in budgetary and taxation policy and in public debt; for changes in public sector labor force enlargement rates, especially in the labor-intensive defense and welfare areas; and for monetary policy changes as they appear in exchange rate and interest rate policies.

After dealing with the first issue the next step will be examining the ideational process behind these policies, i.e. addressing issues (2) and (3). Mapping the relevant actors is based on the theoretical framework and specifically on the distinctions highlighted in Figure 2: between local and external ideational impact, between the cognitive and the normative layers of the ideational process, and between the ideational process and the policy-making. Table 2

¹² For an exception, which supports the proposed analysis, see Ben-Porath (1987).

¹³ For the importance of changing problem definitions, see Hail (1993) and Hay (2001).

classifies the relevant actors according to (a) their involvement in different arenas that represent these distinctions (rows) and (b) their position in relation to the state and the main inputs they provide the state (columns).

Table 2¹⁴

		(b)	State Actors	Interest-oriented Actors	Ideas-oriented Actors (Ideas Carriers)
Local	Decision-Making Arena		<i>Prime Minister</i> <i>Finance Minister</i> <i>Defense Minister</i>	Government Knesset's Finance Committee	
	Normative-Oriented Arena			Government Knesset Coalition Parties Histadrut Employers Associations	<i>Intellectuals</i> <i>Publicists</i>
	Cognitive-Oriented Arena		<i>Finance Ministry</i> <i>Bank of Israel</i> Economics Ministry Commerce Ministry		<i>Academic Economists</i> <i>Think Tanks</i>
Global Arena				US government EC	<i>Foreign Economists</i>
				IMF World Bank	

It may be appropriate to locate several actors in several different cells – the most obvious example is the government. However, most actors appear only in one cell since this table aims to identify the main orientation of each actor. One may also notice that the order of arenas (a) is in an opposite direction to the casual connections presented in Figure 2. This reflects the above-mentioned order of inquiry, which starts with the policy changes, continues with the ideational impact on policy, and ends with analyzing the origins of ideational impact.

The actors that this study will focus on are shown in *italics*; these are assumed to be the main actors in the decision-making and ideational arenas. The aim is to identify ideational processes in each of the main arenas, and ideational flows between them. Secondary actors may be important in affecting macro-economic decision-making, or ideational processes, but they are of interest only with regard to their influence on the main actors. Referring to these actors is important for a better understanding of the interplay between the effects of ideas and interests on policymaking.

The trickiest issue is perhaps identifying the vague concept of ideas within the 'real world', or in other words, how to operationalize our 'independent' variable. Nevertheless, tools that were already introduced will help address this issue: ideas-oriented arenas and actors were defined above; it is assumed that if certain ideas affected the policy making, this should become apparent from observing these arenas and actors. Additionally, the historical-

¹⁴ Table 2 is partly based on Yee (1996: 87).

sequential method advocated earlier will help to determine the directions in which ideas float, and whether ideas discussed within an ideational arena were only later introduced to the decision-making arena. Since ideas must be carried, it is necessary to examine whether idea-carriers had access to the decision-making arena, either directly or through indirect media of communication, and also whether ideas-carriers themselves moved from ideational to state arenas (Yee 1996: 92).

The methodological aspects discussed so far reflect an attempt to construct a profound understanding of a long-run development, but an understanding that will be based on an inquiry into specific policies of short run decisions and outcomes. This kind of foundation is integral to case study research, in which multiple observations within the case are used to derive general theoretical implications (Rueschemeyer 2003). This type of "systematic process analysis" (Hall 2003) has further significance due to its ability to identify and trace causal mechanisms. This is obviously central to this research since it is an essential tool for assessing the causal impact of ideas with regard to other factors' impact, especially interests, and the inter-connections between ideas and other relevant factors.

A few principled methodological problems need to be mentioned. First, the distinctions on which our theoretical perspective rests – between ideas and interests, local and imported ideas, and the normative and cognitive ideational layers – are much more transparent in analytical discussion than in the 'real world' (Hall 1997: 185). Interpretation is necessary to identify these concepts in documentary and other sources (Yee 1996). Secondly, and related to the first topic, it must be conceded that the distinction between ideas-carriers and other actors might be problematic: for example, even the most 'ideas-motivated' actors, such as academic economists, may serve as directors in company X or be highly connected to interests-carriers.¹⁵ This point highlights the need to examine actors' activities from a wide range of (both time and place) perspectives.

The research will build on a variety of resources, in accordance with research issues defined so far. Relevant resources for assessing issue (1) will be the annual and quarterly economic reports provided by the Bank of Israel (BOI) and the Central Bureau of Statistics (CBS), and also government yearbooks. Complementary data for this issue will also be obtained from academic publications: the main periodicals published at that time are the *Rivon LeCalacala* (RLC) and the *Seker Bank Israel* (SBI) journals, the non-governmental research bodies were the Maurice Falk Institute for Economic Research in Israel (Falk) and the Israeli Economic Association (IEA).

As already mentioned, I will refer to issues (2) and (3) after assessing issue (1). This is important in order to focus on the relevant specific dates and short periods of policy shifts

¹⁵ This is especially true in a small country like Israel.

within the wider time frame of this research. In any event the research will examine all periods in which the budget is finalized in the Ministry of Finance (MOF) and approved in the government (see also: Deri and Sharon 1994). It is recognized that the process of ideational change does not occur only or mainly at this specific time of 'policy importance', and probably takes place in gradually and continuously. However, focusing on these periods will serve as an anchor, and also a basis for comparison within the transition period.

In order to handle issues (2) and (3) I will use the following resources:

1. Official protocols and documentation of relevant discussions in the government, the economic ministries (mainly the MOF), and the BOI. Special attention will be given to discussions within the Budget Division of the MOF. This resource is mainly relevant for assessing issue (2), i.e. the definition of problems and priorities within the decision-making process.

2. Main daily newspapers: Ha'Aretz, Maariv, Yedioth Ahronoth. These resources will be used in two ways: first, as a substitute to unavailable official documents, i.e. for assessing issue (2), for which the news and economic news parts will be relevant. Second, as resources for understanding intellectuals' opinions of economic policies, i.e. for assessing issue (3), here the editorial and op-ed sections will be relevant. Davar, as a party-owned newspaper, will serve as a point of comparison for both news and opinion.

3. Academic essays and position papers, published by local academics economists in the main economic journal, the RLC, and by research bodies such as Falk and the IEA. These will serve as a resource for evaluating the professional economic 'environment' and economists' opinions with regard to local economic conditions and policy, i.e. for assessing issue (3).

All of these resources share the same limitations when characterizing of the Israeli decision-making arena in the years analyzed: they cannot provide the needed information with regard to informal networks between actors. Exposing and analyzing such networks is essential for assessing the ideational process, particularly in view of the étatist and clique-like character of the Israeli state at the time. In order to cope with this issue an additional resource will be interviews of a selection of relevant actors from the above-mentioned bodies: politicians, public officials, economists and economic reporters. The latter will receive special attention since they were the least involved in the process under study, hence they may help to interpret events and statements made by other actors in a less biased way. An additional source of information will be the detailed careers of selected public officials' in order to further expose unofficial networks and also to survey transitions made by ideas-carriers' career within and between arenas. The career moves of economists and publicists, will also be studied in order to track the origins of their ideas. An additional source of information will be publications of actors, including biographies and diaries, which hold information that relates to the research (e.g. Bruno 1993).

Two main methodological problems should be mentioned: first, access to two valuable sources of information – interviews and official documents – may be limited. Second, interviews, especially with former office-holders, generate obvious biases. The accepted method of dealing with these two problems is to crosscheck and compare the various pieces of available information, which should assist us in both widening and validating our data.

Expected Contribution

As in any case study research, we can divide the anticipated contribution between case-specific significance and general-theoretical significance. In addition to its concrete implications regarding employment policy, the proposed study seeks to improve our understanding of the overall development of Israel's political economy by providing an ideational dimension to explanations of the dramatic transition that Israel has experienced in the wake of globalization and liberalization. The combined ideas-and-interests perspective which the research seeks to provide is expected to shed new light on both the actors and the processes that affected the Israeli political economy in the past, and in doing so should also provide important insights relevant to the contemporary context..

A further point pertains to the debate on the place of Israel within comparative political analysis in general and specifically in comparative political economy (e.g. Barnett 1996a; Epstein 2004). It is expected that the present research will help to advance this discussion on how studies of Israel can contribute to comparative analysis by generating insights relevant to cases that share similar characteristics while also gaining inspiration from them. Specifically, the issues of ideational effects on the political economy and the impact of Americanization are powerfully echoed in current studies of Latin-American states (e.g. Babb 2001; Fourcade Gourinchas and Babb 2002), and suggest that these countries might be good candidates for mutually beneficial comparison (Barnett 1996b: 134).

Two important theoretical implications for ideas-focused studies may be induced from an Israeli case study, due to several of its distinctive features. First, whereas most literature on ideational impacts has focused on the core capitalist democracies of Europe and America (e.g. Blyth 2002; Campbell 1999; Hall 1993; Mcnamara 1999), this research will concentrate on a peripheral, or semi-peripheral state. As a result, the Israeli case will contribute by highlighting the influence of external ideas on the policy making process, an issue that needs further theoretical development and probably has significance for core as well as peripheral states.

Second, and as mentioned before, the strong external material pressures that Israel has been exposed too, due to its dependence on foreign economic and political support, adds to the importance of the Israeli case in studying ideational influences on the political economy. Precisely because of the strength of the material forces that have impacted on it from outside, the issue of whether ideational change has played a significant role (in partnership with

material interests) has important theoretical implications for assessing ideational effects on political economy and the shape of ideational processes.

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Appendix 1

Year	Unemployment	Growth	Inflation
1960	4.6		
1961	3.6	10.9	
1962	3.7	10.0	
1963	3.6	10.5	
1964	3.3	9.9	
1965	3.6	9.4	7.7
1966	7.4	1.0	7.9
1967	10.4	2.3	1.7
1968	6.1	15.4	2.1
1969	4.5	12.7	2.5
1970	3.8	7.6	6.1
1971	3.5	11.3	12.0
1972	2.7	12.2	12.9
1973	2.6	4.9	20.1
1974	3.0	5.5	39.7
1975	3.1	3.8	39.3
1976	3.6	1.6	31.3
1977	3.9	2.0	34.6
1978	3.6	4.1	50.6
1979	2.9	4.7	78.3
1980	4.8	3.6	131.0
1981	5.1	4.7	116.8
1982	5.0	1.4	120.4
1983	4.5	2.6	145.6
1984	5.9	2.2	373.8
1985	6.7	4.5	304.6
1986	7.1	3.6	48.1
1987	6.1	6.1	19.9
1988	6.4	3.6	16.3
1989	8.9	1.4	20.2
1990	9.6	6.6	17.2
1991	10.6	6.1	19.0
1992	11.2	7.2	11.9
1993	10.0	3.8	10.9
1994	7.8	7.0	12.3
1995	6.8	6.6	10.0
1996	6.6	5.3	11.3
1997	7.5	3.0	9.0
1998	8.6	3.3	5.4
1999	8.9	2.6	5.2
2000	8.8	7.5	1.1
2001	9.3	-0.9	1.1
2002	10.3	-0.8	5.6
2003	10.7	1.3	0.7