

## **Liberalization and Unemployment in Israel: Explaining the Israeli Anomaly**

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Israel adopted universal unemployment insurance only in 1973. There have been a number of attempts to explain why Israel was so anomalously late in adopting a universal unemployment insurance policy. Esping-Andersen has argued that countries with a strong labor party are likely to adopt social-democratic welfare models, including unemployment insurance, yet in Israel, despite the power of the labor party, unemployment insurance was not adopted until the 1970s. Until then unemployment was dealt with through work-relief programs, within what has been described as a residual or clientelistic welfare model.

Most of the literature has explained this Israeli anomaly on by pointing to the clientelistic feature of work-relief programs and the political advantage they provided for the government and the Histadrut. The shift to a social-democratic regime was explained on the basis of rising inflation levels in the late 1960s. The aim of this paper is to explain both Israel's lateness and the regime shift on the basis of national economic interests.

The article poses two questions: first, what is the welfare model that captures the Israeli welfare regime in the 1950s? Second, what are the factors that explain the adoption of unemployment insurance and the shift to a social-democratic regime? On the descriptive level, the article argues that Israel's welfare regime during the 1950s is best described as a *productivist welfare model*. The productivist model, scholars have suggested, characterized the East Asian developmental states. While the Western welfare models are embedded in market economies that are characterized by a high level of commodification of the labor, the productivist regime is embedded in developmental institutions, without a clear separation between economic and social policies.

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On the explanatory level, the article argues that the shift from productivist to social-democratic welfare is explained as part of a more general transformation of economic strategy and the redefinition of Israel's economic interests. In the 1950s the national interests dictated a strategy aimed at rapid industrialization and full employment; in the 1960s there was a shift towards expert-oriented industrialization. The practices of work-relief had negative externalities with respect to the export-oriented strategy, whereas the policy instrument of unemployment insurance contributed to the flexibility of the labor force and therefore was congruent with export-oriented development.

The article shows that the same state actors that promoted the shift to export-oriented industrialization also supported the adoption of unemployment insurance instead of the work-relief programs. Moreover, the article shows that ideas diffused from the macro-economic policy discourse to the social discourse, and legitimized the policy instrument of unemployment insurance.