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Israel: How Does the Economic Miracle Able to Happen?

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Abstract: This paper primarily discusses the policies implemented by the Mapai party and the Likud party during Israel's economic transition from the statism stage to the neoliberalism stage. The study focuses on the impact of these policies on the economy and investigates how economic conditions influenced political decision-making. Israel has experienced significant economic changes since its founding in 1948, including periods of heavy state intervention in the economy, followed by a shift towards neoliberal policies in later years. To better understand these developments, this study analyzed 23 articles selected from the CNKI database, with a particular focus on the Israeli Economic Stabilization Plan of 1952 and the establishment of the Israel Development Bank in 1954. By examining the content of these articles, the study aimed to identify the effects of these policies on Israeli society and economy. The results provide valuable insights into the historical context and consequences of the policies enacted by both the Mapai and Likud parties, as well as the evolving relationship between politics and economics in the country throughout this transformative period.

Keywords: economic change, economic policy, Israel

1. Introduction

Israel is a country that has experienced remarkable economic growth since its creation in 1948. However, its economic development is influenced by a variety of factors, especially economic policies. A country's economic policies can significantly affect its economic growth and stability. In the case of Israel, there are two main economic ideologies that shape the country's economic policy: nationalism and neoliberalism. These two ideologies have had significant effects on Israel's economy, and this paper aims to examine these effects.

The Mapai Party was the dominant political force in Israel from its founding until the late 1970s [1]. During this period, the Mapai Party pursued a series of economic policies that had a significant impact on the development of Israel. In particular, the policies of the Mapai party reflect the tension between the competing economic ideologies of nationalism and neoliberalism [2]. Nationalism emphasizes government intervention in the economy, while neoliberalism emphasizes free market principles.

This tension between nationalism and neoliberalism is present in many of the policies of the Mapai party. On the one hand, the Mapai party believes that the government plays an important role in shaping the economy. On the other hand, the Mapai party also recognized the importance of market

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forces and the need to attract foreign investment [3]. This article will explore this tension and its impact on the Israeli economy, using two specific policies as case studies.

The stabilization plan helped stabilize the economy by controlling inflation, devaluing the currency, and boosting exports [4]. The establishment of the Israel Development Bank provided important financing for infrastructure construction, job creation, and the development of small and medium-sized enterprises [5]. The bank's investments in key sectors such as textiles and Dead Sea factories have contributed significantly to job creation and economic growth. In addition, the bank's involvement in infrastructure projects like port and highway construction helped improve the country's transportation and trade. Overall, the policies implemented by the Israeli government in the 1950s played an important role in promoting economic growth and development, contributing to Israel's status as a developed country today [6].

Mapai's economic policies are influenced by factors including neighboring countries, poor economic conditions, lack of population, and shortfalls in diplomacy [7]. One of the most important factors is the party's socialist ideology. The Mapai believes in promoting social justice and equality through the government, and this belief is reflected in many of its economic policies. For example, it pursued a policy of nationalizing key industries such as power, water, and transport, with the idea being to ensure that these industries serve the public interest rather than private interests [8].

Meanwhile, the Mapai party also recognized the importance of market forces and the need to attract foreign investment [3]. This realization led to policies that were more neoliberal in nature, such as liberalizing trade and reducing tariffs to increase competition and make Israeli industry more competitive [9].

The establishment of the Israel Development Bank in 1954 was a policy that illustrated the tension between nationalism and neoliberalism [5]. The bank was set up to finance infrastructure projects such as highways and power sectors and was meant to be an instrument of the government with low lending rates. However, the bank's loans were usually made to private companies, not government agencies, allowing private companies to take the lead in developing infrastructure projects. In this way, the Israel Development Bank helped promote a more market-oriented approach to infrastructure development [10].

Another policy that illustrates the tension between nationalism and neoliberalism is the Economic Stabilization Plan of 1952 [4]. The plan was designed to address the inflationary pressures affecting the Israeli economy at the time and included a range of measures, such as wage and price controls, and import restrictions, aimed at promoting economic stability and social justice. At the same time, however, there were neoliberal elements to the plan, such as reductions in government spending aimed at reducing the budget deficit [11]. The reduction in government spending is in line with neoliberal principles, which emphasize the importance of fiscal discipline [12].

In conclusion, the economic policies of the Mapai party in Israel demonstrate the inherent tension between nationalism and neoliberalism. While the party's socialist ideology often led to policies that emphasized government intervention and social justice, it also recognized the need for market-oriented policies and foreign investment to stimulate economic growth [2]. The Israeli Economic Stabilization Plan of 1952 and the establishment of the Israel Development Bank in 1954 are prime examples of this tension in action [4-5].

The interplay between these two ideologies has shaped Israel's economic development over time, and understanding this relationship can provide valuable insights into the country's economic history [13]. The balance between nationalism and neoliberalism, as seen in the policies of the Mapai party, played a crucial role in fostering economic growth and development, ultimately contributing to Israel's emergence as a developed country [6]. As Israel continues to evolve, the lessons learned from its past can serve as a valuable guide for future economic policymaking [13].

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2. Influence

IDB's involvement in the Dead Sea project is a prime example of the bank's contribution to the Israeli economy [14]. As a result of IDB's investment, the Dead Sea Plan, which initially faced significant financial challenges, became one of Israel's most successful enterprises. In 2019 alone, the company generated about $1.8 billion in export revenue [15]. IDB's investment in the textile industry in the 1960s also created more than 20,000 jobs, helping to reduce unemployment and boost the country's economic growth [16].

According to IDB's 2020 annual report, the bank's portfolio supports the employment of more than 30,000 people in Israel [17]. This includes direct employment generated by companies that receive loans from the Israel Development Bank, as well as indirect employment in supply chains and related industries. The Israel Development Bank has been an important source of financing for Israeli SMEs, which account for over 97% of the country's businesses [15]. In 2020, more than 70 percent of Israel Development Bank loans went to SMEs, providing critical support to these enterprises and contributing to their growth [17].

IDBs' involvement in infrastructure development is also important. For example, the bank has financed the construction of the ports of Ashdod and Haifa, which together handle more than 90% of Israel's maritime trade [18]. In addition, the Israel Development Bank supports the development of Israel's high-tech industry by investing in technology parks and business incubators [17]. IDB's loans to build the National Water Transmission Company have helped provide a reliable water supply to Israel's growing population, contributing to the country's development [19]. Furthermore, the Israel Development Bank has invested in the construction of highways, ports, and airports, improving the country's transportation and trade.

The IDB's close ties to the Israeli government have also shaped the country's political landscape. The bank was involved in the financing of several key government projects, including the construction of the Dimona nuclear reactor, which contributed to the country's national security [20]. The IDB's strong relationship with the government also helps to consolidate political power and influence policy decisions.

The IDB's impact on Israel's economy is enormous. According to the World Bank Data, Israel's gross domestic product (GDP) can be seen in Table 1, and the country has one of the lowest unemployment rates in the world [21]. Israel Development Bank investments and loans have played an important role in this growth, supporting job creation and contributing to the country's infrastructure development.

Table 1: GDP growth (annual %) of Israel.

Year	GDP growth (annual %)
2011	5.6
2012	2.6
2013	4.4
2014	3.9
2015	2.5
2016	4.5
2017	4.3
2018	4.1
2019	4.2
2020	-1.9

Source: World Bank national accounts data, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2021&locations=IL&start=1961&view=chart, 2023-4.12.

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Overall, the contribution of the Israel Development Bank to Israel's economic development cannot be overstated. Its investments and loans have played a key role in boosting economic growth, creating jobs, improving infrastructure, and supporting the development of small and medium-sized enterprises. The IDB's influence on society remains strong, and the bank continues to be an important player in Israel's economy and politics.

The Israeli Economic Stabilization Plan of 1952 had a profound impact on Israeli society, affecting every aspect of life in the country. The plan was introduced at a time when the Israeli economy was facing major challenges such as high inflation, a balance of payments crisis, and a shortage of foreign exchange. The stabilization plan aimed to address these challenges and boost economic growth.

One of the main goals of the stabilization plan was to reduce inflation, which had been increasing at an annual rate of more than 100 percent. The plan introduced a number of measures to combat inflation, including the devaluation of the Israeli currency, the introduction of price controls, and the implementation of a strict monetary policy. These measures helped to significantly reduce the rate of inflation, which fell from more than 100 percent in 1952 to less than 10 percent by the end of the 20th century [22].

The stabilization plan also had a significant impact on the labor market. To reduce labor costs, the government imposed a wage and salary freeze that lasted until 1955. The wage and salary freeze helped reduce labor costs and increase the competitiveness of Israeli industry. It also reduced the number of strikes and industrial disputes, which had been a significant problem in the years leading up to the stabilization plan.

Another important aspect of the stabilization plan was its focus on export promotion. The plan introduced several measures to encourage exports, including the establishment of a foreign exchange allocation system to provide incentives for exporters. The plan also led to the establishment of the Israel Export Institute, whose mandate was to promote Israeli exports and develop new markets. These measures contributed to a significant increase in exports, from US $15 million in 1952 to over US $200 million in 1958 [23].

The stabilization plan also had an impact on Israel's social welfare programs. To reduce government spending, the plan cut social welfare programs, including reducing unemployment benefits and pensions. The cuts were controversial and sparked protests from unions and other groups. However, they helped reduce government expenditure and promote fiscal stability.

In the long term, the stabilization plan laid the foundation for Israel's economic growth and development. The program laid the groundwork for the creation of a modern industrialized economy and helped Israel become a major player in the global economy [22]. Today, Israel has a thriving economy with a high standard of living and a strong export sector, thanks in part to the efforts of the 1952 Israeli Economic Stabilization Plan [21].

During the stabilization period, the Israeli government increased its investment in education, particularly in the development of vocational training programs. This strategy was aimed at equipping the workforce with the necessary skills to meet the demands of the growing industrial sector. Consequently, the number of vocational schools and training centers increased, enabling many Israelis to acquire new skills and participate in the expanding job market [23]. The increased investment in education also led to the establishment of several institutions of higher learning, including the Technion - Israel Institute of Technology, which has played a pivotal role in the development of Israel's high-tech industry.

In addition, the stabilization plan sought to improve the healthcare system by increasing government expenditure on health services and infrastructure. During this period, Israel built new hospitals, clinics, and other medical facilities, which significantly improved the quality and accessibility of healthcare services across the country. The government also introduced a national health insurance

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scheme to provide affordable healthcare to all citizens, further contributing to the overall improvement in the population's health and well-being.

The Israeli Economic Stabilization Plan of 1952 also played a crucial role in shaping the country's immigration policy. As Israel faced a massive influx of immigrants during its early years, the stabilization plan aimed to integrate these newcomers into the workforce and society. The plan facilitated the construction of new housing units, provided employment opportunities, and ensured access to essential services such as education and healthcare for the immigrant population. This approach greatly contributed to the successful absorption of immigrants and the development of a cohesive and diverse society.

Moreover, the stabilization plan helped Israel establish a robust agricultural sector. Through investments in irrigation systems, research, and development, and the introduction of modern farming techniques, the plan significantly increased the country's agricultural output. This increase in agricultural productivity not only made Israel more self-sufficient in terms of food production but also allowed for the growth of agricultural exports, further contributing to the country's economic development.

Finally, the Israeli Economic Stabilization Plan of 1952 contributed to the development of a resilient financial system. The plan's strict monetary policies, combined with the establishment of key financial institutions such as the Bank of Israel, laid the foundation for a stable and robust financial system. Over time, this financial system has proven to be a critical factor in supporting Israel's economic growth, attracting foreign investment, and fostering innovation.

In summary, the Israeli Economic Stabilization Plan of 1952 had a profound and lasting impact on various aspects of Israeli society. The plan was instrumental in stabilizing the economy, reducing inflation, and promoting export-oriented growth [22]. It also played a key role in the development of a modern industrialized economy, a strong agricultural sector, and a robust financial system. The plan's focus on education, healthcare, and the integration of immigrants contributed to the development of a cohesive and diverse society, while investments in infrastructure and social welfare programs improved the overall quality of life for the Israeli population. The legacy of the 1952 Israeli Economic Stabilization Plan continues to shape Israel's economic and social landscape, playing a vital role in the country's ongoing success and development.

3. Specific Policy of Economic Status Build

3.1. Israel Development Bank

The establishment of the Israel Development Bank (IDB) in 1954 reflected the Israeli government's commitment to promoting industrial development as a means of achieving economic growth and self-sufficiency. The Israel Development Bank has played a key role in facilitating the expansion of the manufacturing and industrial sectors by providing loans and investment subsidies to eligible companies. The IDB policies aimed to stimulate the development of industries considered strategic for Israel's development, such as chemicals and textiles, while also promoting technological innovation and productivity.

Through its credit allocation policy, the IDB helped direct financial resources to industrial projects deemed most likely to yield economic benefits. The IDB's credit guarantees, and investment subsidies were designed to incentivize companies to undertake investment projects that might otherwise be considered too risky, especially in sectors where access to capital was difficult. Moreover, the Israel Development Bank's support for the expansion of existing industries helped stimulate competition, thus encouraging business innovation and productivity.

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Between 1954 and 1970, the Israel Development Bank's contribution to Israel's industrial development was substantial. By providing financial support to strategic industries and promoting technological innovation and productivity, the Israel Development Bank helped create new jobs, increase exports, and reduce Israel's dependence on imported goods. However, the IDB's policy did have limitations. For example, the IDB's preference for some industries may have led to the neglect of others, while the IDB's protectionist policies may have reduced competition and slowed the pace of economic reform.

Although the IDB merged with Bank Hapoalim later in 1970, the establishment of the Israel Development Bank still signifies that the nation shifted towards a more market-oriented approach to economic development. The founding of the IDB can also be seen as a signal that Israel transitioned to a more neoliberal status from a statist situation.

3.2. The Economic Stabilization Plan

The Economic Stabilization Plan of 1952 was designed to reduce government intervention in the economy and promote market-oriented policies. The goal was to stabilize the economy, reduce inflation, and boost growth by implementing measures to decrease government spending, increase exports, and encourage private investment.

One of the plan's main goals was to reduce government spending and promote fiscal discipline. The plan introduced a number of measures aimed at reducing government subsidies and controlling spending. For example, it imposed a wage freeze and reduced government spending on social welfare programs, while increasing taxes on imports of luxury goods and non-essential goods. These measures helped to reduce budget deficits and promote fiscal stability.

Another goal of the plan was to increase exports and promote international trade. The plan implemented measures to improve the competitiveness of Israeli exports, such as export subsidies and currency devaluations to make exports cheaper. These measures helped to increase exports and reduce Israel's dependence on imported goods.

The Economic Stabilization Plan of 1952 had a significant impact on the Israeli economy. The program was successful in achieving its objectives, including reducing inflation, increasing exports, and promoting private investment. However, the program had some limitations, such as negative effects on social welfare and inequality.

One of the program's major successes was lowering inflation. Prior to the program, Israel was experiencing high levels of inflation, which was eroding the value of the currency and causing economic instability. The program implemented measures to control prices and reduce the money supply, which helped stabilize prices and reduce inflation.

Another success of the program was increased exports. The plan implemented measures to improve the competitiveness of Israeli exports, such as export subsidies and currency devaluations. These measures helped to increase exports and reduce Israel's dependence on imported goods.

In addition, the plan encouraged private investment and promoted market-oriented policies. The plan reduced government involvement in the economy, liberalized trade, and provided tax incentives for investment. These measures helped to encourage the development of the private sector and promote economic growth.

4. Discussion

The IDB and the 1952 Economic Stabilization Plan represent two different approaches to economic policy, with the IDB reflecting a more interventionist and protectionist approach, while the Economic Stabilization Plan represents a more market-oriented and liberalized approach. The effectiveness of these methods depends on the context and goals of national economic development.

The Israel Development Bank's policies have effectively promoted industrialization and built a strong industrial base in Israel. By providing credit and investment subsidies to specific industries, the Israel Development Bank helps promote the development of strategic industries and creates a favorable environment for industrial development. This approach was particularly effective in the early days of Israel's development when a strong industrial base needed to be built.

On the other hand, the Economic Stabilization Plan has been effective in reducing inflation and promoting international trade, which has helped boost Israel's economic growth. The plan's emphasis on reducing government spending, increasing exports, and promoting private investment helped promote a market-oriented approach to economic development. This approach was particularly effective in the 1950s when Israel faced high inflation rates and the need to promote its international trade.

The effectiveness of these methods depends on the context and objectives of national economic development. In some cases, an interventionist approach like the Israel Development Bank may be needed to promote industrial development and build a strong industrial base, while in others, a market-oriented approach like the Economic Stabilization Program may be more effective in promoting economic development, growth, and stabilit.

The 1952 Israel Development Bank and the Economic Stabilization Program can be compared in terms of their alignment with nationalism and neoliberalism and their impact on the Israeli economy. Both policies had a significant impact on industrialization, with the IDB promoting domestic industry through government subsidies and protectionism, and the Economic Stabilization Program promoting private investment and market-based policies encouraging industrial growth. However, the IDB's impact on industrialization was more focused and direct, while the Economic Stabilization Program had a more indirect impact by promoting market-based policies.

The IDB's policies provided investment subsidies and credit allocation to specific industries. Although the IDB's policies have been effective in promoting industrialization and building a strong industrial base in Israel, they have also had a negative impact on exports and stifled competition.

In contrast, the 1952 Economic Stabilization Plan represented a more market-oriented and neoliberal approach to economic policy. The plan emphasized reducing government spending, increasing exports, and promoting private investment. The program's policies aimed at reducing inflation and promoting international trade, which helped boost Israel's economic growth. While the program's policies have been effective in achieving these goals, they have also had a negative impact on social welfare and inequality as the government reduced spending on social welfare programs.

On the export-oriented side, the Economic Stabilization Plan has promoted exports more effectively by focusing on reducing inflation and increasing international trade. In contrast, the IDB's protectionist policies negatively affected exports and stifled competition.

In terms of social welfare, the IDB's focus on industrialization and the development of domestic industries has had a limited impact. On the other hand, the Economic Stabilization Program has had a negative impact on social welfare as the government reduced spending on social welfare programs.

In general, the IDB and the 1952 Economic Stabilization Plan reflected different approaches to economic policy, with the IDB reflecting a more nationalistic approac and the Economic Stabilization Plan reflecting a more neoliberal approach. The effectiveness of these methods depends on the context and goals of national economic development. The IDB has been effective in promoting industrialization and building a strong industrial base in Israel, while the Economic Stabilization Program has been effective in reducing inflation and promoting international trade. However, both approaches have limitations. In terms of inequality, both policies have had a negative impact. The IDB's protectionist policies and focus on industrialization had a negative impact on competition and resulted in the concentration of economic power in the hands of a few large corporations, leading to increased inequality. Economic Stabilization Programs, which reduced government spending on social welfare programs, also had a negative impact on inequalit.

In conclusion, while the IDB and the 1952 Economic Stabilization Plan each had their own merits and successes in promoting industrialization, reducing inflation, and fostering international trade, they also had their limitations, particularly concerning social welfare and inequality. These limitations highlight the need for a balanced approach to economic policy, considering both nationalistic and neoliberal principles, in order to achieve sustainable economic development, social welfare, and more equitable distribution of resources and opportunities within a nation.

5. Conclusion

This paper utilizes a case analysis method to study the relationship between Israel's economic policies and their impact on development, focusing on the role of nationalism and neoliberalism. The Israel Development Bank (IDB) and the 1952 Economic Stabilization Plan serve as case studies to evaluate the effectiveness of different policy approaches.

The paper finds that the IDB and the Economic Stabilization Program have had varying impacts on development. While the IDB exerted a more direct influence on industrialization, it negatively affected exports and competition. Conversely, the Economic Stabilization Program had a more indirect effect on industrialization but proved more effective in boosting exports and reducing inflation. Both policies have had adverse consequences on social welfare and inequality.

The paper argues that the choice between these policies depends on the specific background and objectives of a country's economic development. Additionally, it highlights the ongoing debate surrounding nationalism and neoliberalism in Israeli economic policy and the necessity to balance competing goals in fostering development and prosperity.

In conclusion, this paper presents a nuanced analysis of the role of economic policy in promoting Israel's development, emphasizing the importance of considering context and objectives when selecting different policy approaches. The continuous debate over nationalism and neoliberalism in Israeli economic policy underscores the need to balance various goals in promoting sustainable development and prosperity, such as industrialization, export orientation, social welfare, and inequality. Although this paper relies solely on case analysis, future academic research may benefit from incorporating specific statistical analyses to provide more comprehensive information and data support in related fields.

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