

## Part III. GLOCALIZATION

### In the Land of Whose People? Inequality, Neoliberalism, and Shifting Nationalisms in Israel\*

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*This essay examines the role of nationalism in legitimating state-led economic strategies. Specifically, we juxtapose the integration of Israeli nationalism into Labor Zionism and, more recently, into Israeli neoliberalization. More to the point, we argue that the discursive form of respective nationalist politics is relational to the political economic context in which it is being applied. Israeli nationalist political rhetoric is reflective of this theoretical which has shifted from collectivist and inclusive to individualist and exclusive, which reflects deep shifts in the paradigmatic political economy of Israel. The sustained legitimating power of nationalist politics points to the role nationalism plays in legitimating state authority; however, the form of that nationalism has shifted to reflect structural realities of Israel's neoliberal turn.*

**Keywords:** neoliberalism, nationalism, legitimation, inequality, Israel, Labor Zionism.

From Russia to India, Sweden to Turkey, Japan to France – the apparent rise of nationalist rhetoric as an effective political legitimation strategy is (ironically) increasingly global. The rise of nationalist opposition parties to positions of national (e.g., the Danish People's Party, the AKP in Turkey, or the BJP in India) or regional (e.g., the ascendance of the euroskeptical *Front national* as France's majority European Union Parliamentary representatives) political authority certainly points to the increased efficacy of nationalist politics. More to the point, we have seen established parties and politicians embrace nationalist political strategies as a means of maintaining (or enhancing) contemporary popular legitimation (e.g., the Putin regime in Russia, China, post-1995 Fidesz in Hungary).

Israeli nationalist politics, our empirical case of interest in this essay, is reflective of the latter trend of established political actors/organizations embracing monolithic nationalist rhetoric. Take for instance recent political efforts to promote a monolithic articulation of Israeli national identity. In 2011, Avi Dichter, a member of the Kadima party, *proposed* the Basic (constitutional) Law: *Israel as the Nation-State of the Jewish People*, which was backed by only 39 of the 120 members of the Knesset (Wolf 2011). The bill declared that Israel would be the nation state of the Jewish people, Hebrew as the state language (with Arabic having a 'special standing in the state'), the observance of the Hebrew Calendar, the Sabbath as the national day of rest, and a call for the culture and heritage of the Jewish people to be taught in any educational setting serving a Jewish population (Basic Law:

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\* This article was first published in *Journal of Globalization Studies*, Vol. 7, Num. 2, 2016, pp. 118–136.

*Israel as the Nation-State of the Jewish People*).<sup>1</sup> A majority of these topics have been more or less integrated into the cultural, if not legal, context of Israel due in large part to early nationalist mobilization.

The bill garnered no real momentum, until Prime Minister Benjamin Netanyahu – coincidentally during a period of broadly supported protest against economic inequality in form of the J14 movement – revived it in 2014. Although Netanyahu and the Likud party proposed a fairly watered down version of the original, many of the main points remained intact, such as defining Israel as the nation-state of the Jewish people and the need for Israeli schools ‘to teach the history, culture and customs of the Jewish people’ (Avishai 2014). In a number of remarks, Netanyahu stated that Israel is both a democratic state and Jewish state, yet the latter is simply ‘not sufficiently expressed in our basic laws’ (Beaumont 2014). Continuing on this point, the Prime Minister also stated that the imbalance between being a democratic and Jewish state has become highly problematic (Lis 2014). Netanyahu’s push for this bill ultimately failed, only to be revived and shelved again in October 2015 (Times of Israel Staff 2015).

Appealing to – and articulating – a core identity that reflects a majority constituency has long served as a means of enhancing legitimacy, but the monolithic and exclusionary nature of these efforts shift away from the more collectivist and cosmopolitan integration of legitimating nationalism common in the postwar era. We argue that this shift is a direct result of the inability for political elites to maintain power through prior state protectionist means.

This rhetorical trend is commonly understood as increasingly exclusionary, anti-immigration, and a ‘backlash against globalization’ (Norris 2005: 4; see also Betz and Immerfall 1998). The implication, of course, is that this is somehow ‘new’ or ‘resurgent’ is common in both popular anecdotal observations as well as in scholarly works dedicated to subfields such as ‘neo-nationalism’ (Gingrich and Banks 2006: 2–6). Indeed, there seems to be a proliferation of a political ideology once viewed as obsolescent in the face of rising global and regional economic and political cooperation. A central claim of neo-nationalist proponents is that the particular political economic conditions of the ‘globalization era’ create opportunities for new forms of political rhetoric and mobilization. Holmes (2000), for example, argues that this apparent resurgence is better defined as ‘integralism’ due to its hybridized characteristics, notably the lack of traditional, ‘left/right’, political orientation and distinction from more ‘civic’ forms of nationalism due to its illiberal and reactionary anti-globalization position (see also Bhatt 2004; Gingrich 2006). The emergence of ‘integral nationalism’ is a response – commonly exclusionary and monolithic/ethnocentric – to the cultural (read: migration) and political integration (such as neoliberal policy convergence) that typifies the ‘globalization era’. The emphasis on the ‘neo’ in integralist approaches is welcomed to a degree. There are distinct features of the contemporary era that, at the very least, differ from post conditions in advanced capitalist democracies, particularly since 1945.

The problem, however, is two-fold. First, common approaches to neo-nationalism and integralism are restrictive in encouraging attention on a narrow range rightist and oppositional populist party politics. Secondly, the conceptualization of neo-nationalism, itself, tends toward the ahistorical and further limits the ability to understand the relationship between broader political economic change and forms of nationalist politics. We argue that a more specific focus on the role of nationalism in legitimating political authority, as

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<sup>1</sup> Basic Law: Israel as the Nation-State of the Jewish People. URL: [http://index.justice.gov.il/StateIdentity/Information/InEnglish/Documents/Basic%20Law%20110911%20\(1\).pdf](http://index.justice.gov.il/StateIdentity/Information/InEnglish/Documents/Basic%20Law%20110911%20(1).pdf). Retrieved November 30<sup>th</sup>, 2015.

well as sensitivity to the structural impact of political economic conditions, enables a broader theoretical understanding of this resurgent role of exclusionary nationalist politics on a global scale.

To that end, we offer a theoretical framework that understands this particular form (exclusionary, culturally monolithic) of nationalist politics to be a state-centered response to legitimation challenges resulting from shifting political economic conditions – specifically, the decline of economic protectionist strategies in the face of neoliberal/market-oriented policy convergence and resultant material adversities (deepening wealth inequalities, stagnating wages, rising costs of living, to name a few). In addition, we argue that there is very little ‘new’ in the form of nationalist politics being respectively mobilized country by country. The shift to liberal market hegemony reduces the capacity and efficacy of state economic protectionist means to address persistent (and exacerbated) material adversities. As such, state actors seek alternative means to maintain/obtain legitimate authority; however, these means are commonly rooted in the known, with regards to respective national populations. As such, already existing nationalist rhetoric and national cultural symbols are revived as a means of connecting with powerful constituencies and circumventing economic protectionist demands.

We examine the case of Israeli nationalism as a way to illustrate both the historical roots of singular definitions of Israeli national (read: state-centered or ‘official’) identity, the changing political economic conditions in Israel that promoted the decline of Labor Zionism and the rise of a distinctly neoliberal Israel, as well as examining the contemporary conditions of economic adversity that create legitimate challenges to Israeli political actors. We conclude with a discussion of how the case of Israel is reflective of other liberalizing states and highlight how the deepening of economic liberalism is likely to result in sustained intensification of monolithic definitions of national identity and pose sustained challenges to inclusivity and integration in the future.

### **Neoliberalism and Nationalist Politics**

The integration of nationalism as a political legitimation mechanism is certainly not new and speaks to the emergence of modern nationalism, itself (Gellner 1983; McCrone 1998: 85–86). While there is healthy debate over the emergence of nationalism (see May 2012: 67) and its relationship to the state, our concern is much more narrowly focused on the strategic integration of nationalism to legitimate state policies and practices. *That* nationalism serves as a legitimation mechanism is less relevant, understanding *how* forms of nationalism legitimate state activities is our primary goal.

To that end we have two primary goals: To understand the sustained utility of nationalism as a political legitimating mechanism as well as understanding the structural influence of political economic conditions on that strategic legitimation. Put simply, the way in which nationalist politics is integrated into state legitimation strategies is deeply influenced by the dominant (and temporally contingent) context and conditions of capitalism in respective national locales. This understanding of nationalist politics is rooted in an understanding of nationalism as a ‘category of practice’ (Brubaker 1996: 7) as well as examining nationalism as a *distinctly* political process in the face of myriad conceptual and empirical possibilities (Breuilly 1993: 420). We understand nationalist politics to be purposeful and utilized as a means to strategically legitimate the authority of political actors – be they

in opposition or in power. We also argue that such legitimation is relational and dependent on dominant structural conditions that create discursive (in the broadest sense of the term) opportunities and restrict others.

As such, understanding how political economic context enhances or inhibits particular forms of nationalist rhetoric (collectivist, pluralist, exclusionary, xenophobic, *etc.*) and how nationalist politics plays a role in legitimating said context is of paramount importance. To that end, we are not conflating respective states with commensurate nations, rather we are attempting to understand how specific definitions of national identity (a) are amenable to specific political economic paradigms and (b) are used to legitimate state institutions, which in turn work to legitimate systemic capitalism.

Smith (1995) makes a similar call to integrate political (as well as cultural and social) context into explanations of ‘ethnic conflict and nationalism’ (*Ibid.*: 72); however, he does so in an explicit attempt to move away from modernist tendencies that emphasize economic context and conditions as causal factors. His claim that ‘ethnic nationalisms do not generally correlate with economic trends’ (*Ibid.*: 73) is interesting, but we would argue one that is needlessly restrictive. If we understand nationalist politics to function as a legitimating mechanism for state institutions and state institutions to function as legitimating mechanisms in support of capitalism – through the dual promotion of capital accumulation and the mitigation of adversities resulting from requisite material inequality (Przeworski 1985; Harvey 2010) – then the political context of nationalist politics must be understood within the broader context of capitalist structures and form.

From this perspective, political legitimation is cumulative and relational. Perhaps an effective way of understanding this is through a conceptualization of political legitimation as a tiered political economic process. At its base, the modern state was established in support of capitalism – as manager (in mercantilist contexts) and mediator (in more liberalized contexts). Capitalism, of course, lacks governance structures that make it impossible to mitigate the effects of systemic inequality and maintain ideological legitimacy on its own. Systemic tendencies towards sustained and exacerbated inequalities (Piketty 2014; Lowi 2005) create distinct problems in generating popular support from those on the adverse side of requisite material inequality. This is particularly the case during periods of market liberalization – as regulation and other forms of economic protectionism decrease, material adversities among respective national populations increase (Das and Mohapatra 2003; Stiglitz 2000). Capitalism has long relied on state institutions to manage and mitigate the effects of systemic inequality and maintain its ideological legitimacy. State actors who are understood as creating or protecting broad economic benefits for respective national populations are granted increased legitimacy – those who are not, do not.

This understanding of the state as a mediating social institution is based on the Polanyian concept of the double movement – in which the state seeks to satisfy two sources of legitimation by promoting capital accumulation, while simultaneously mitigating the effects of market liberalization through economic protectionist means (Polanyi 2001; see also Cox 1987; Panitch 1994). This dual position is clearly articulated by Block and Somers: ‘...the state acted in the interests of society as a whole when it passed protective legislation, and yet the same was true when it passed promarket laws; it clearly did not “belong” to either of these forces’ (Polanyi 2001: 68).

The role of the state is then to mediate and manage the integration of national market liberalization (*Ibid.*: 147, 216). The mechanisms available for the state to meet these medi-

ation requirements were largely economic in nature. The primary mechanism was traditionally the control over monetary policy, which allowed states to adjust local prices in times of increased foreign competition or scarcity (*Ibid.*: 214). The role of the state is paramount in supporting market liberalization, but only to the point that eventual protectionist demands are met. In this sense, the state must mediate in order for the project of liberal capitalism to be sustained.

The key question then becomes: How can state-centered political authority maintain legitimacy in the face of neoliberal dominance? In many ways, it seems as if political authority, in general, is facing a crisis of legitimacy. Challenges to traditional political party frameworks, organizations, and actors seem prevalent – as do the proliferation of extreme party factions (such as the American Tea Party) and apolitical actors/organizations (*e.g.*, the ‘Best Party’ in Iceland and Italy’s Five Star Movement). However, it seems that in the face of clear analytical evidence supporting the visible sustenance of state institutions the question of ‘traditional’ authority seems misplaced, either in the context of globalization (Weiss 1998) or deepening neoliberalism (Plant 2010).

While neoliberal reforms have clearly retasked state institutions in forms ranging from decentralization to welfare/workfare adaptations to sheer regulatory abdication, it is also clear that the state is still a necessary authoritative institution (see Jessop 1993; Peck 2001). As capitalism, writ large, is unable to legitimate itself, so too does its contemporary global iteration suffer from this structural limitation. The transformative and microcosmic effects of economic globalization mirror those of liberal capitalism: expanded capital accumulation and exacerbated adversities resulting from aggravated socio-economic inequalities. Perhaps, Barrow puts it best with the contention that states are ‘principle agents of globalization’ (Barrow 2005: 123), which reinforces his argument that without the support of state institutions globalization would be unable to sustain itself. More specifically, Barrow frames this sustained need for state authority in familiar terms: ‘...within the new global political economy, state elites must still manage the contradictory pressures of (global) accumulation and (national) legitimation’ (*Ibid.*: 125).

Thus, the state is both despised yet necessary from a neoliberal perspective. Given the contradictory demands inherent in the double movement – it is difficult to see how this could be otherwise in the context of sustained late capitalism. The question, therefore, must center on that of legitimation. As states face sustained pressure on economic protectionist capacities, the threat is not simply to populations adversely affected by neoliberalization, but also to political legitimation, itself. With reduced capacities (or even desire) to meet local protectionist demands through economic means, the material foundations for reciprocal legitimation are restricted, at best. In this neoliberal context, political entities – including state institutions – are increasingly turning to alternative legitimation strategies as traditional economic means wither.

We argue that this legitimation gap is increasingly circumvented through the integration of monolithic nationalist political rhetoric and practices (see also Blad and Koçer 2012; Blad 2016). As the economic protectionism so prevalent in the embedded liberal period becomes less viable as a result of ubiquitous, albeit uneven, neoliberalization, nationalist politics play an increasingly viable role – not simply the result of a power vacuum so commonly implied (see Castells 2004; Piven 1995) but as an intentional legitimation strategy in the restrictive context resulting from neoliberal integration. As such, the imbri-

cation of nationalism as political legitimation becomes an important strategic alternative to economic protectionism – and one that can be easily adapted to be amenable to neoliberal prerequisites.

Nationalism has certainly played a central role in the history of this longer process of normative political construction – yet it is the relationship between strategic political legitimation and the project of creating a normative neoliberal context that highlights the role nationalist politics plays in the contemporary era. To this end, we can return to Smith's contention that 'the recovery of an ancient ethno-history... is the starting-point for... vernacular mobilization' (Smith 1995: 66). The utility of a respective national cultural definition is, of course, deeply contingent on this connection to a common past; however, this nationalism is not immune to nuanced changes that reflect influential structural demands. Neo-nationalist perspectives emphasize the influence of such structural change – namely, global capitalist integration or 'fast-capitalism' (Holmes 2000). In sum, neo-nationalism is a reaction to various socio-political changes wrought by globalization initiatives (Eger and Valdez 2015; Gingrich and Banks 2006; Paquin 2002).

While we appreciate the attention to conditions of global capitalist integration that can prompt popular nationalist political mobilization, we also argue that the conceptual restrictions of neo-nationalist approaches bias our understanding of resurgent and increasingly exclusive nationalist politics to populist and protectionist actions. This bias makes it difficult to understand how nationalist politics have also been integrated as legitimation mechanisms in support of traditional political parties as well as reinforcing efforts to deepen neoliberalization. We suggest narrowing the focus on the perceived role of the state as a protector of economic security in advanced capitalist societies.

Based on these theoretical assumptions, we can postulate the following. First, as political entities embrace neoliberalism, the ability to obtain legitimate authority through claims of economic protectionism become less viable. Despite neoliberal claims of eventual market equilibration, the effects of 'actually existing neoliberalism' exacerbate prevailing inequalities, maintain wage stagnation, and reduce the role/scope of the state in social service provision. These adversities (of relative and varying intensity) limit the ability of neoliberal political actors to convince legitimating constituents of the protectionist potential of deregulated market capitalism. Such was the case with regards to Labor Zionism, which integrated an 'ancient ethno-history' for the purpose of collective political economic mobilization. Given the dominant Keynesian/Fordist context of the postwar period, this form of Israeli nationalism was used to successfully legitimate relatively strong trade protections and Keynesian development policies until the 1970s. The paradigmatic shift away from the Keynesian demand-side economics to the monetarist, supply-side dominance of neoliberalism would remove this protectionist, collectivist interpretation from Israeli nationalist politics.

Second, we should expect legitimation strategies to reflect this neoliberal turn – both in terms of legitimating reactionary responses to 'conditions of globalization' (as evident in neo-nationalist approaches) but also with respect to neoliberal political actors. Nationalist symbolic discourse comes to be a constructed association as neoliberal political actors seek alternative means of legitimate authority. Nationalist politics has proven to be amenable to neoliberal goals in terms of articulating a specific – individualistic, entrepreneurial, and non-state dependent – ideal typical identity as well as shifting public debate to issues of selective (read: dominant constituent) cultural relevance as opposed to economic protectionism. In these ways, neoliberal political actors can wrap neoliberal ideological structures in nationalist politics – shifting the context of legitimation away (at least rhetor-

ically) from economic protectionist alternatives as well as elevating the political role of amenable national constituent groups.

Recent trends in Israeli nationalist politics have reflected these theoretical trends: moving away from inclusive and collective – particularly protectionist – definitions of national culture/identity to emphasize more individualistic and exclusive characteristics of national identity. As a result, the absence of economic protectionist alternatives has left those adversely affected by neoliberalizing trends (notably, increases in personal debt and rising housing costs) politically marginalized. Our intent is not to comment on the content of these definitional shifts, but to illustrate the causal influence of political economic paradigmatic context on the rise of a more exclusive nationalist politics in neoliberalizing Israel.

### **Nation-Building and Nationalism in Israel**

At the turn of the twentieth century, a push for a new Jewish homeland began to take shape, due in large part to growing anti-Semitism in Europe. Theodor Herzl's novel *Alt-neuland* outlined the goals of this new homeland, describing the term 'mutualism' as 'a semi-socialistic system in which almost every element of life is organized and achieved via cooperative efforts of the citizens' (Kay 2012: 100). It is here where we get a glance at the original attempt at nation-building in the land of Israel. The Jewish settlers of pre-state Israel called for a sovereign system that was oriented as a 'new egalitarian, labor-oriented socialist society that would allow them to escape the trauma of their previous social identity as nonproductive economic elements that were no more than pawns in the relations among the nations' (*Ibid.*: 101).

Zionists did not unintentionally select British mandated Palestine as the location for their 'Jewish utopia', but instead chose it because of the land's historical significance in Judaism. Like many nationalist organizations before them, Zionists attempted to unite a scattered people on land that held historical and religious meaning. Although these Zionist pioneers were for the most part not born on this land, they believed it to be their homeland because it is portrayed as the land of their ancestors in the Hebrew Scriptures. This declaration began the process of what would become the base of Israeli nationalism.

Although the territory identified by Zionists was directly linked to a historical identity, other historical anchors were necessary in order to create a national identity. The need for more uniting factors was made even more pressing as the population of pre-state Israel began to increase. In Tel Aviv alone, the city grew from 3,600 residents in 1921 to 160,000 people by 1939 (Helman 2002: 362). What made this situation even more difficult was although these settlers were for the most part united religiously through Judaism, their countries of origin were diverse. The Zionist solution was for a common language linked to an ancient past (Hebrew) to become a common national language. The centrality of language through religion served as a powerful legitimation mechanism for a new national political identity. Through the work of early Zionists the centrality of Judaism to the original nationalism of Israel is readily apparent.

Anthony Smith's understanding of contemporary nationalisms being rooted in respective ancient traditions is particularly relevant with regards to Israeli nationalism. From this perspective, the appeal towards a strong nationalism must come 'only from deep-rooted, enduring religious beliefs and sentiments, and a powerful sense of the sacred, which required absolute loyalty' (Smith 2003: VII). Smith's perspective argues that modernist ap-

proaches to nationalism create a false dichotomy in placing the label of 'tradition' on religion and 'modernity' on nationalism (Smith 2003). The implication of this is that the integration of religion or other traditions into nationalist definitions is somehow incompatible with aspects of modernity. However, in the case of Israel, particularly relevant for Smith (2000) they have blended together in a way that allows for religious elements to reinforce a contemporary nationalism in support of a modern state. Thus, historically religious elements do not act against nationalism, but instead can strengthen it.

Religion has long been present in Israeli national political discourse. State actions to these ends include the observation of the Sabbath as a day of rest, the banning of imported pork, national rabbinical control over civil marriage, and the serving of only kosher food in all public establishments (Yiftachel 1998: 14–15). That said, Smith's point that traditions reinforce modern national states is an important one. Israel, in particular, is reflective of a deep integration of traditional elements in support of contemporary structural goals. The ideological movement known as Labor Zionism was a defining moment in Israel's national identity, and one that made Jewish aspects within Israeli nationalism possible. Labor Zionists called for 'the national resurrection by emigration to Palestine, social salvation by becoming agricultural laborers in egalitarian communal settlements, and individual salvation by service to the community, which implies asceticism and self-sacrifice' (Weissbrod 1981: 779). They established collective farms (*kibbutzim*) and collective settlements (*moshavim*), in which people lived and worked on the land of their ancestors (Nasmyth 1954: 395). All Jews who immigrated to the land of Israel had a right to both the land and a piece of the wealth, as guaranteed by the Labor Zionists' social and economic policies. Through this, the Labor Zionists had created a Jewish-based national identity that focused on the idolized idea of the pioneer (Weissbrod 1981: 780).

The idea of returning and working the land of Israel may have been for territorial reasons, but they were far more grounded in the ideas of protectionist economic policies in which everyone had proper access to a share of the wealth. *Kibbutzim* worked very well in pre-1948 Israel, but a huge influx of immigrants created potential problems for this 'perfect system'. Between 1948 and 1951 over 684,000 people immigrated to the new nation of Israel (Kay 2012: 102). For the first ten years of Israel as a nation, the economic policies could best be classified as 'a quasi-command economy that maintained a strict rationing policy, which gradually evolved into a "mixed" economy where government intervened and directed most aspects of economic activity' (*Ibid.*: 102). The early Labor Zionist government of Israel reflected the broader Keynesian belief in the centrality of the state within an embedded liberal capitalist context.

During the early years of Israel, this approach was successful. The economic policies promoted by the Labor Party allowed for the smallest income disparity in Israel's entire first fifteen years of existence out of all other non-communist countries. This reduced economic stratification did not exist in opposition to growth. For the first two decades of its existence, Israel posted an annual growth rate of about 10 per cent per year. Because of this, many have dubbed Israel's situation as an 'economic miracle' (Kay 2012: 103). The state-centered economic model was legitimated by the promoted national identity of Israel – a nationalism bound together by semi-socialistic and protectionist economic policies that supported the group over the individual. A national identity bounded by the 'Zionist Spirit', heavily grounded in historically religious concept of getting back to the land, Hebrew ancestry and the Hebrew language.



### **Israeli Neoliberalization and Its Effects**

The early economic successes of Labor Zionism inevitably reversed, mirroring broader global capitalist trends. In the late 1960s, Israel entered its first major recession, causing high levels of bankruptcy, financial restructuring, and shifts in economic policy to expand exports (Hanieh 2003: 7). This recession was both due to and enhanced by Israel's involvement in various military conflicts, as well as the Arab oil embargo. With this steep decline of the Israeli economy also came a decrease in the public's confidence in the state (Kay 2012: 107).

The increase in military expenditures reflected a shift in state priorities away from social spending (Hanieh 2003: 8). The combination of military conflict, integration of occupied territories and populations, as well as declining global economic conditions resulted in a steep rise in inflation (Kay 2012: 105). All of this occurred at the very same time that Israel entered a period of sluggish economic growth, creating stagflation amongst Israelis, promoting calls for economic reform (Hanieh 2003: 8).

The elections in May of 1977 ushered in new political leadership and set the stage for subsequent shifts in Israeli economic policy. Likud, a staunchly conservative political party, won the majority of the seats in Knesset over the Labor Party for the first time in history (Kay 2012: 108). Known in Hebrew as 'Mahapach', this 'great shift' in the Israeli political world would ultimately lead to a massive change in the both the economic and social worlds, in reaction to stagnating macroeconomic conditions. Israel went from an annual inflation rate of 12 per cent in 1971 to 34.6 per cent in 1977 (OECD 1971–2014). The Israel government's reserves were quickly diminishing and it became quite unclear if it would be able to make payments on foreign debt, which at the time was amount to about 70 per cent of GNP (Fischer 1987: 276). Fixing these economic woes became imperative.

The United States, like Likud, had long called for liberalization of the Israeli economy. Following the Likud victory, the United States took up an opportunity to push for market liberalization in Israel with a conditional offer of US\$ 1.5 billion in emergency aid with the stipulation that the aid result in 'decisive action' (Fischer 1987: 276). In an effort to begin this process in Israel, the Reagan administration commissioned a group, led by economists Stanley Fischer and Herbert Stein, to tackle the Israeli economic situation. Their demands were simple: The need for an 'American-style' economy in Israel (Kay 2012: 111). These actions ultimately manifested themselves in the Economic Stabilization Plan of 1985.

The Economic Stabilization Plan of 1985 called for four major changes: (1) Reducing public expenditure; (2) reducing government control and use of capital markets; (3) a real devaluation and temporary freeze of the exchange rate; and (4) reducing taxation (Kay 2012: 112). These neoliberal policies attempted to repair the failing economy as well as to "normalize" the Israeli economy vis-a-vis the global capitalist economy' (Hanieh 2003: 16). This major point of departure from Israel's democratic socialist roots would systematically uproot its entire political, social and economic past. Whether this plan would both work and accepted by the majority of the Israeli public would ultimately decide if Israel sank or swam in the global capitalist era.

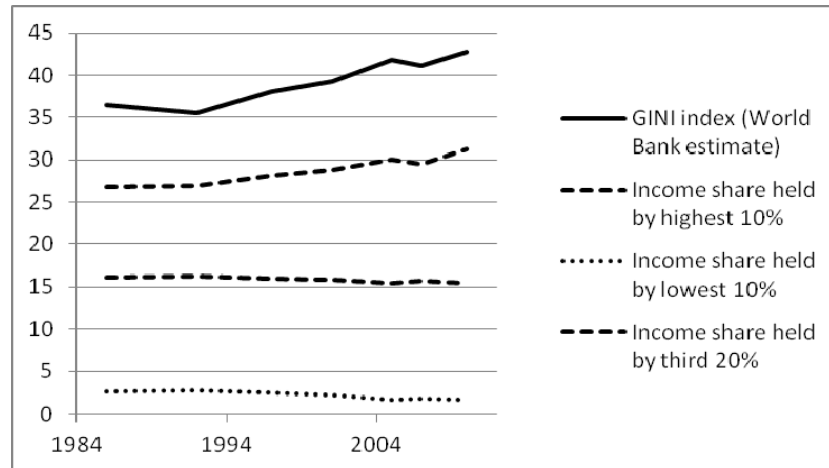
The effects of this plan were both widespread and immediate. The public expenditure and public sector in Israel decreased greatly, at the same time that the private sector saw large levels of growth, especially during the high-tech boom of the 1990s. A reduction in the state's role in the market led to a massive decrease in bond buy backs and governmental subsidization of pensions (Kay 2012: 114). At the same time, this liberalization helped Israel see a massive increase in foreign investment. In the period from 1992 until 1998, Israeli foreign investments increased roughly 600 per cent (*Ibid.*). The Israeli shekel, which had been at the mercy of Israel's sky-high inflation, was depreciated by about 26 per cent, which made the shekel to dollar exchange rate NIS 1.50=US\$ 1 (Patinkin 1993: 117). In order to maintain legitimacy and minimize backlash from the Israeli public, an agreement was made between the Israeli government and Histadrut for one-time wage increase that was almost equal to the devaluation of the shekel (*Ibid.*: 118). This helped to establish legitimacy, making the deal appealing to the Israeli public while at the same time bringing the inflation rate down.

During the late 1980s and 1990s the inflation rate in Israel dropped dramatically. In 1986 the annual inflation rate was 48.1 per cent and dropped to 17.2 per cent in 1990 and then again to only 1.1 per cent in 2000 (OECD 2015). This massive drop was due in part to the policies enacted by the national unity government and the United States economists. It would be irresponsible however not to mention the role of migration in this process. From 1990 to 2000 around one million former Soviet Jews immigrated to Israel (Hanieh 2003: 14). This population increase significantly benefitted the Israeli economy. As the Economic Stabilization Plan shifted Israel into a more globalized economy with particular emphasis on technology sectors, this new migrant population was there to help fill in the gaps. Roughly two-thirds of these immigrants 'were trained in scientific, technical, or professional sectors' (Hanieh 2003: 14). This allowed for an expanded workforce, further supporting the Israeli government's new economic policies and prompting substantial economic growth during the 1990s.

From a macroeconomic perspective, neoliberalism positively impacted the Israeli economy. Inflation had been driven down to historically low levels. The technology sector in Israel was growing rapidly. A massive population of former Soviet Jewish immigrants had been well integrated into a globalized economy. All of these factors have led to Israel becoming a globalized world power. With a population of 8 million and a GDP of roughly US\$ 33,000 per capita, a country similar in size to New Jersey has become a dominant force in the twenty-first century (OECD 2015). Looking more closely at the effects of a maturing Israeli neoliberalism, however, a different picture emerges.

### **Neoliberalization and Economic Adversities**

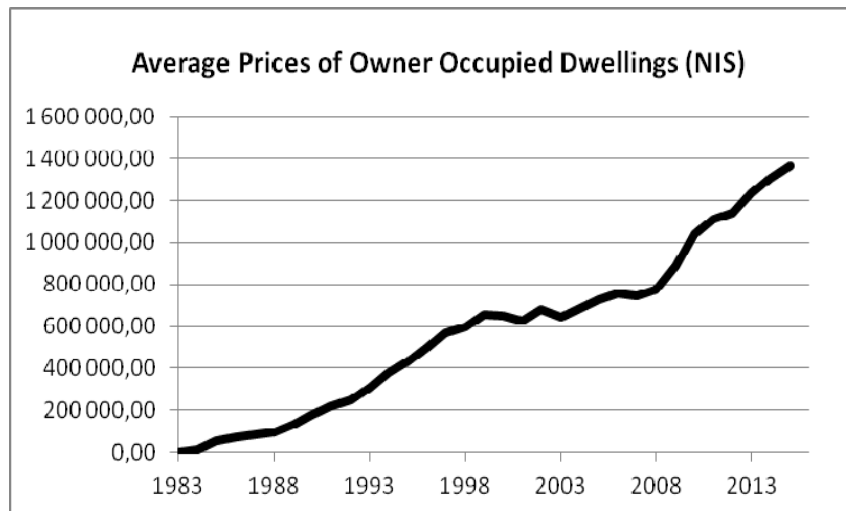
The Keynesian and collective tendencies inherent in Labor Zionism were predicated on a broad distribution of economic benefits. Neoliberalization works to reconcentrate capital for the purpose of promoting accelerated capital accumulation/growth (Harvey 2010; Stiglitz 2004). The reconcentration of financial capital that results from liberalization reforms not only redistributes capital upwards, it also exacerbates existing capitalist inequalities. Put another way, neoliberalization deepens the existing material inequalities and restricts income growth for middle and lower socioeconomic groups (see Fig. 1).



**Fig. 1.** Comparative Income Inequality in Israel

Source: World Bank Databank.

This upwards income redistribution creates difficulties in the face of rising costs of living. If we take even a cursory look at trends in Israeli housing costs it is obvious to see that the nominal price increases for home-ownership (Fig. 2) and rental properties (Fig. 3) reflect significant challenges for Israeli citizens who are not experiencing increases in overall income shares. While Israeli incomes are nominally rising (see Fig. 4), those increases are quickly consumed by rising housing costs.

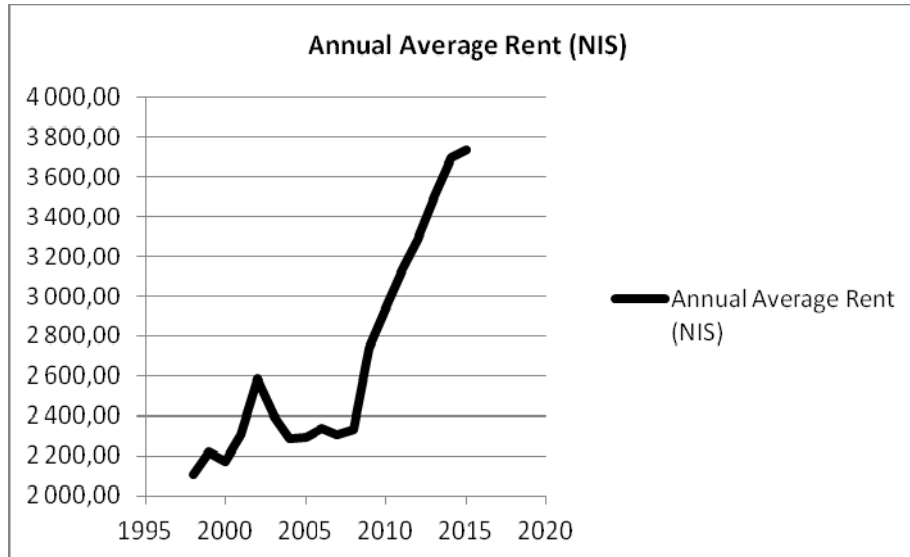


**Fig. 2.** Average Home Costs in Israel, 1983-2015

Source: Central Bureau of Statistics.

Perhaps even more telling is the rise in rents for the average Israeli due to the fact that renters tend to be younger and often in positions of economic disadvantage. A spike in rents could have an even more immediate impact on the exacerbation of material adversi-

ties – individuals or families unable to buy a home are met with increased rents and subsequent exacerbation of household budgetary strain. These descriptive comparisons are meant not to highlight exacerbated income inequality (although that is certainly occurring through neoliberal Israel, see Kristal and Cohen 2007) rather to illustrate the market-friendly rise in housing costs and the commensurate economic adversities simultaneously created.



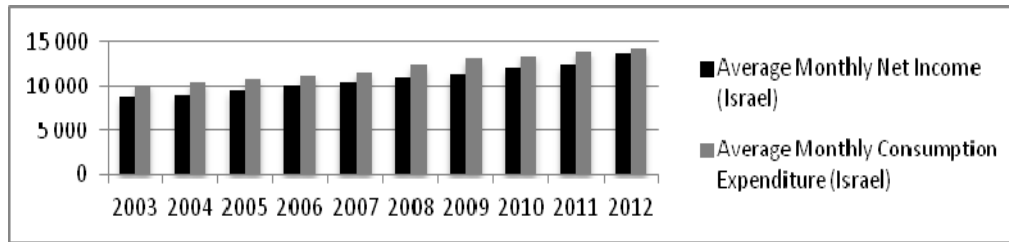
**Fig. 3.** Average Annual Rents in Israel, 1998–2015

*Source:* Central Bureau of Statistics.

To further highlight the disparate nature of economic adversities in neoliberal Israel, we will be focusing on three general economic indicators: monthly net household income, monthly household consumption expenditure, and monthly household consumption expenditure on housing. These three indicators provide a very strong, clear picture of the economic effects that neoliberalism has had on Israelis.

Average household monthly net income in Israel shows a nominal increase. In 2003, the average monthly net income was NIS 8,710 (Israeli CBS 2003) but by 2012 that number increased to NIS 13,829, a roughly 63 per cent increase (Israeli CBS 2012). Couple this with the fact that the average annual inflation rate over this ten-year period was 2 per cent, and positive conditions appear to be the norm (OECD 2015). It is when we disaggregate monthly household consumption expenditure compared to the average household monthly net income that the differential effects of neoliberalism become clearer.

In 2003, the average household monthly consumption expenditure was NIS 10,139, reaching NIS 14,273 in 2012 (Israeli CBS 2003; 2012). That is about a 71 per cent increase in consumption expenditure. Fig. 4 provides a clear snapshot of average Israeli household net income compared to average Israeli monthly consumption expenditures.



**Fig. 4.** Average Monthly Net Income and Average Monthly Consumption Expenditure (Israel)

Source: Israeli Bureau of Statistics Consumption: *Household Expenditure Survey* 2003–2012.

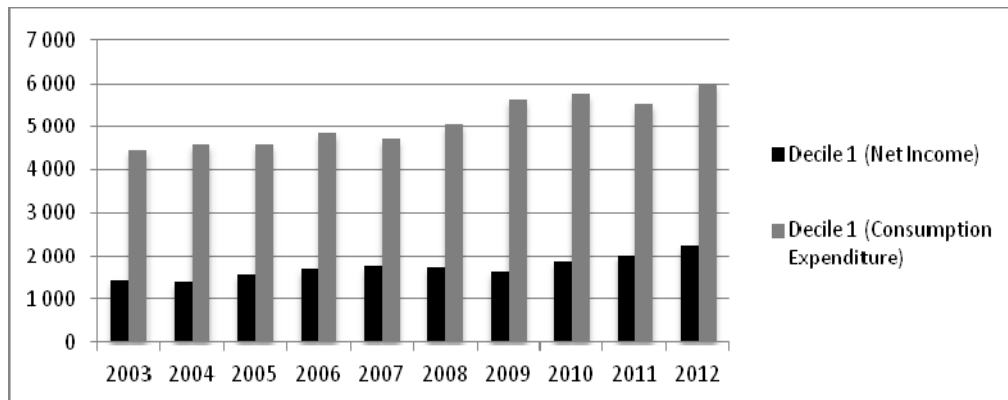
During this ten-year period, the average Israeli household had a higher amount of consumption than their overall net income. This uneven level of income to expenditure brings with it an increase in household debt. However, this is just the *average* Israeli household. What about the below average earners or the above average earners? Segmenting this diverse population is key to seeing how neoliberalism, and the inequality that it creates, has affected a more focused group of Israelis.

In 2003, the households in the lowest decile (Decile 1) earned an average of NIS 1,431 per month (Israeli CBS 2003). In that same year, households in highest decile (Decile 10) earned an average of about NIS 23,164 per month (Israeli CBS 2003). The difference between these two income levels is NIS 21,733 per month – a substantial wage difference. Forward ten years and those numbers jump to NIS 2,256 and NIS 37,330, respectively, making the difference in wages NIS 35,074 per month (Israeli CBS 2003, 2012). That is a significant wealth gap, but this comparison is obviously an extreme case considering it is using households in the highest and lowest deciles. In order to better understand this situation, it would be more appropriate to look at households in more centered deciles instead of those households in Decile 1.

In 2003, Decile 5 earned NIS 6,460 per month (Israeli CBS 2003). In 2012, households in that same decile earned NIS 10,316 (Israeli CBS 2012) with a positive difference of NIS 3,856 per month. But once again, when these numbers are compared to households in Decile 10, there is a stark difference. In 2003, households in Decile 10 earned NIS 16,704 more per month than households in Decile 5. In 2012, that difference jumped to NIS 27,014. Even when comparing households in more centered deciles to those households in Decile 10, it is evident large economic gap exists between households in varying deciles.

Wealth disparity and inequality do not necessarily go hand in hand. A difference in net incomes does not necessarily connote inequality. Wages are not as easily comparable to one another in terms of inequality unless they are matched with a respective groups corresponding consumption. Looking at the disaggregated net monthly household incomes versus monthly household consumption expenditures illustrate the presence and exacerbation of Israeli income inequality.

Fig. 5 compares monthly household net income and the monthly household consumption expenditure for Decile 1.

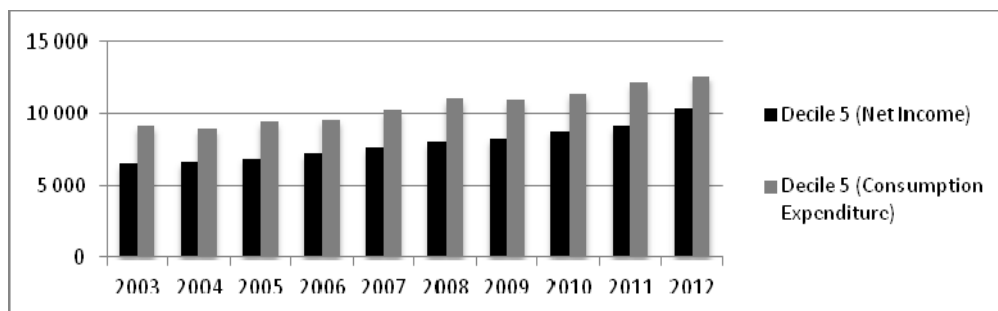


**Fig. 5.** Average Monthly Net Income (Decile 1) vs. Average Monthly Consumption Expenditure (Decile 1)

Source: Israeli Bureau of Statistics Consumption: *Household Expenditure Survey* 2003–2012.

In this ten-year period, the consumption expenditure of households in Decile 1 has far exceeded their monthly net income. In 2003, they earned NIS 1,431 but spent NIS 4,444 per month – that is NIS 3,013 more than they earned. In 2012, the difference between income and consumption has increased to NIS 3,759 per month. The comparison of monthly expenditure/consumption puts into perspective the stark inequality and potential debt accumulation that the households in Decile 1 are facing.

The same comparison in Decile 5 provides evidence of similar trends.

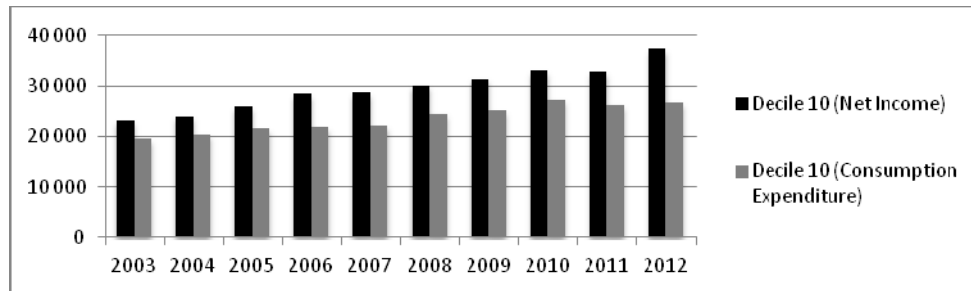


**Fig. 6.** Average Monthly Net Income (Decile 5) vs. Average Monthly Consumption Expenditure (Decile 5)

Source: Israeli Bureau of Statistics Consumption: *Household Expenditure Survey* 2003–2012.

As shown in Fig. 6, even middle-income households are spending far more than they are making each month. In 2003, Decile 5 spent NIS 2,732 more than it made per month. In 2012, that same number decreased slightly to NIS 2,278. Looking at this data, one can see how this issue of debt accumulation and inequality are not just located in households in the lower deciles, but instead are located *almost* entirely across the board.

It is not until Decile 7 that this trend reverses. Households in Decile 7 through Decile 10 all make more than they spend each month. Looking at Decile 10, we begin to see something truly reflective of upward income distribution common in neoliberalizing economies.



**Fig. 7.** Average Monthly Net Income (Decile 10) vs. Average Monthly Consumption Expenditure (Decile 10)

Source: Israeli Bureau of Statistics Consumption: *Household Expenditure Survey 2003–2012*.

In 2003, Decile 10 made NIS 3,641 more per month than it spent. In 2012, that number more than doubled to NIS 10,509 per month. Not only is Decile 10 making far more than those households in Decile 1 and Decile 5, but their surplus income has sky rocketed in recent years as well.

The differential effects of contemporary Israeli income distribution are clear and indicative of a shift away from Keynesian economic principles it was founded on to a neoliberal globalized economy. As discussed, this change was viewed as necessary in order to revive a depressed national economy and tame skyrocketing inflation. However, 30 years into the neoliberal era in Israel and differential effects leading to conditions of economic adversity are put in stark relief. The maturing of Israeli neoliberalization follows a well-worn path that conforms to Polanyian predictions of enhanced profit and exacerbated hardships in liberal capitalist societies. More to the point, the differential effects of income inequality in neoliberal Israel enhance the potential for surplus income in higher socioeconomic strata and potential for debt accumulation among the majority. Even with historic low inflation rates and the booming economy of Israel, more than half of Israel's entire population lives in a vicious cycle of high consumption expenditure and low income. This situation means economic freedom for few and debt accumulation for most.

## Conclusions

The expansion of income inequality in Israel is reflective of broader trends throughout the advanced capitalist world as a result of neoliberalization. According to the OECD, the GINI coefficient measure of inequality among OECD states increased 10 per cent from the mid-1980s to the late-2000s (OECD 2011: 22). Ben-David and Belikh (2013), using much of the same OECD data, identified the expansion of Israeli income inequality as among the highest in the advanced capitalist world. Even controlling for various groups in Israeli society that suffer persistent poverty, namely the Heredim and Arab Israeli populations, Israeli inequality is exceptionally high. More telling perhaps is their distinction between market income (before taxes and redistribution) and disposable income (after taxes and transfers) GINI data. The impact of Israeli governmental tax transfers and social programs reduces GINI-measured inequality by only 25 per cent, which is comparatively low in comparison with other OECD countries. As a result, Ben-David and Belikh find: 'The impact of the welfare and tax systems in reducing income inequality in Israel is the second smallest among all of the [OECD] countries – second only to the United States' (Ben-David and Belikh 2013: 40).

The implication of this finding is important to our larger discussion of political legitimation in the neoliberal era. The theoretical point is that despite irregular patterns of neoliberalization, even states with strong records of income distribution, such as Sweden, have experienced unprecedented increases in income inequality as a result of liberalization reforms (Atkinson 2003; Beckfield 2006). More specifically, however, the ineffectiveness of the Israeli state in addressing expanding income inequality and subsequently, sustained economic hardships contributes to substantial popular dissatisfaction – as evidenced by the broad support for the J14 Movement. The realities of increased housing costs, increased personal debt (or household deficit spending), and weak state capacities to address these conditions create distinct material adversities that are clearly rooted in liberalization.

This dissatisfaction is rooted in the twin realities of neoliberalism: Exacerbated adversities rooted in sustained inequalities and severe restrictions on state institutions to address such adversities through economic protectionist means. As such, those experiencing said adversities are likely to withdraw legitimating support for political actors and parties deemed ineffective in addressing demands for economic protectionism unless they are given a reason not to do so. The protectionist aspects of political legitimation in advanced capitalist societies create problems for neoliberal legitimation based on the ideological aversion to state regulatory authority and inevitable protectionist inhibitions on growth. That said, state institutions are vehicles of deepening liberalization and sustaining these conditions amenable to growth – political legitimation, however, is restricted to non-protectionist means.

We argue that these means are not new, but a revival of pre-Keynesian legitimation strategies based on elements of monolithic nationalism. The limited capacities of the neoliberal states to meet economic protectionist demands – while continuing to support the very ideological platform exacerbating material adversities – places neoliberal political actors in a particularly challenging position. Effective economic means for addressing real increases in costs of living, rising inequality, and overall hardships (wage stagnation, employment insecurity, personal debt, *etc.*) are politically difficult in a neoliberal context as they are commonly viewed as restrictive of growth.

Take for instance the case of housing, rising rents are a function of positive market demand and representative of exactly the type of liberal condition that facilitates capital accumulation: Increased rental profits denoting sectoral demand for housing and positive conditions for economic growth. The converse, of course, is that these same conditions amenable to accelerated growth have the potential (or actually do) exacerbate hardship conditions for those paying said rents. In a hegemonic neoliberal context, restrictions on profit are anathema; more to the point, policy reforms restricting regulation capable of mitigating hardship conditions is a component part of neoliberalization. With economic protectionist avenues restricted, revived nationalistic appeals to dominant/amenable constituencies become efficacious non-protectionist means to maintain legitimating political support as well as link a rearticulated (albeit revived) national cultural definition in a neoliberal (*i.e.*, non-protectionist) rhetorical direction.

These trends are evident in the case of Israel. The shift to a neoliberal ideological paradigm promoted a shift away from the underpinnings of Labor Zionism, specifically weakening the strategic mechanism of economic protectionism from dominant national identity definitions. As Israeli neoliberalization has matured, mounting material adversities have sustained popular demands for economic protections; however, the strategic options available for mitigating the effects of market liberalization are limited. In this context,



it becomes possible to understand recent shifts in Israeli political rhetoric and policy promotion that emphasizes an increasingly monolithic definitions of national identity as reflective of a means of legitimation that appeals to a core constituency while ignoring former connections between national identity and collective economic protection. Put another way, the recent turn towards monolithic national cultural definitions is reflective of the sustained efficacy of nationalism as a legitimation mechanism but within a specific neoliberal context. The monolithic and identity-centered character of these contemporary forms of neoliberal nationalist politics reflect the withdrawal of economic protectionism from neoliberal political discourse as well as the rhetorical (and practical) minimization of the civic role of the state. As such, forms of more civic (or broadly inclusive) forms of nationalism become less efficacious, thus restricting strategic legitimation further.

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