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Dear CPW,

Thanks for taking the time to go over this draft! In case you're alarmed by the length, take comfort in the fact that the cover pages, figures, tables and bibliography are about 16 pages by themselves, promise.

Some background: this draft is written as part of an ongoing project with Prof. Michael Shalev (Hebrew University of Jerusalem) and will hopefully end up as a coauthored paper. I'm reluctant to name Michael as a full coauthor of this version, since he did not see or comment on this initial draft yet and any conceptual or technical mistakes are solely mine. Nonetheless, the broad argument is part of a common effort and a couple of subsections incorporate parts of Michael's unpublished work.

Any comments on the draft will be extremely helpful: plausibility of argument, density, structure, case studies and so forth. In addition, as I'm starting to think of possible prospectus directions, I will also be happy to hear any feedback and thoughts on the broader topic (redistribution and social/ethnic cleavages), especially possible generalizations and extensions to other cases. Some of my thoughts are noted in the paper, namely the lacuna identified in the current literature and possible generalizations discussed briefly in the final discussion.

Thanks again, I look forward to your feedback!

Alon

**RETHINKING THE EFFECTS OF DEEPLY DIVIDED SOCIETIES AND NEOLIBERAL
RETRENCHMENT ON WELFARE STATES: THE POLITICS OF 'LOYALTY BENEFITS' IN ISRAEL**

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Abstract

Welfare state scholars frame diversity as a challenge to solidarity and thus to risk sharing and redistribution. We shift the focus to divided societies in which elites and social groups have an interest in promoting selective benefits based on particularistic identities. Such 'loyalty benefits' are not exotica, but an unacknowledged type of social right (e.g. veterans' benefits). They are especially prominent in countries deeply divided along ethnic or cultural lines and are acquiring renewed prominence as some welfare states segment insider and outsider entitlements. However, neoliberal reforms and retrenchments potentially challenge loyalty benefits. Using Israel as a case study, we examine the relationship between these two forces. First, we conceptualize loyalty benefits and show their centrality in the Israeli welfare state. Second, we demonstrate that neoliberal reforms, led by fiscal bureaucrats seeking to cut costs and maximize their autonomy, oppose such privileges and promote alternative universal benefits. Focusing on two contrasting struggles for benefits, on behalf of military reservists and Holocaust survivors, we unravel the politics of such struggles and their results.

Political scientist Keith Banting succinctly noted that “Contemporary politics is multicultural politics” (Banting 1999, 108). More often than not, modern societies and states comprise of a variety of social, ethnic, racial, religious, cultural and subnational groups. However, our understanding of the implications of this diversity in politics and public policy is still evolving. In recent years, the research of redistribution in divided countries gained further attention. One dominant argument in this body of work asserts that diversity and solidarity are at odds with one another. The underlying logic is that salient social cleavages may undermine social cohesion, willingness to share risks and support of social aid for the weak. Hence, deep social divisions should be associated with less generous welfare states.

This paper challenges this argument. We assert that under certain conditions, in particular deep divides and unequal power sharing, both ruling elites and social groups have an interest in promoting categorical benefits targeted exclusively at favored groups. Such ‘loyalty benefits’ can be legitimized by a Republican citizenship discourse, which links social rights with contribution to the common good, either actively (e.g., performing services) or symbolically (e.g., reinforcing particular national identities). By this logic, it is more likely that such benefits appear in countries deeply divided along ethnic, cultural or subnational lines, where questions of national identity and security are particularly prominent. Thus, divided states do not necessarily choose to redistribute less, but may rather redistribute in a selective manner that benefits certain groups over other.

At the same time, we also argue that such benefits stand in direct conflict with neoliberalism, which advocates state neutrality and low fiscal expenditures. Indeed, neoliberal policies are often correlated with a smaller government and welfare state retrenchments. Using Israel as a case study, a deeply divided society with a liberalized economy, we examine the relationship between these two forces. We show that loyalty benefits are historically central in the Israeli welfare state, consistently reaching between a fifth and a third of total transfer payments. At the same time, we examine how these policies were affected by Israel’s economic liberalization, led by institutionally strong fiscal bureaucrats seeking to cut costs. Focusing on the development of two particular loyalty benefits, our analysis indicates that both neoliberalism and social divides are powerful in their own right and reflect directly on welfare state policies. We conclude that the fate of such policies depends on the dynamic power balance between the two forces, a function of their organizational power, public appeal and external events.

The paper proceeds as follows. After reviewing the existing literature on redistribution and social cleavages, we conceptualize the notion of loyalty benefits and demonstrate their centrality in the Israeli welfare state. We then turn to discuss the historical development of loyalty benefits provided to Holocaust survivors and military reservists, two cases with different overall spending trends in recent years. We conclude with a discussion of the lessons learned and possible applications for a broader set of cases.

REDISTRIBUTION AND SOCIAL CLEAVAGES

Political scientists and political sociologists have long been studying social cleavages, broadly defined as long-standing, salient and conflicting division lines between social groups in a given community (Eckstein 1966; Lipset and Rokkan 1967; Lipset 1959; Rae and Taylor 1970). This line of study has been revitalized in recent years, with added focus on ethnic cleavages and their effects on mobilization for political parties (Chandra 2004; Posner 2005), economic performance (Easterly and Levine 1997; Montalvo and Reynal-Querol 2005) and violent conflicts (Fearon and Laitin 2003; Gubler and Selway 2012). Deeply divided societies can be defined as such when cleavages are particularly salient, rigid and enduring. Specifically, a society is deeply divided “if ascriptive ties generate an antagonistic segmentation of society, based on terminal identities with high political salience, sustained over a substantial period of time and a wide variety of issues. As a minimum condition, boundaries between rival groups must be sharp enough so that membership is clear and, with few exceptions, unchangeable” (Lustick 1979, 325; cf. Smooha and Hanf 1992, 26). Based on this definition, it is clear that the manner by which a given society is divided has important implications on how it functions, governs and distributes resources among its members.

Nonetheless, salient cleavages received only limited attention by welfare state scholars. One common analysis of redistributive policies ignores social structures altogether, preferring instead a simple economic framework of individual voters and politicians. Such models typically predict welfare spending based on the electoral incentives of policymakers, namely the redistributive preferences of the median voter (Kang and Powell 2010; Meltzer and Richard 1981; Romer 1975), size of the politically winning coalition (Bueno de Mesquita et al. 2003) and electoral institutions (Milesi-Ferretti, Perotti, and Rostagno 2002; N. Persico and Lizzeri 2001;

Persson and Tabellini 2003). The problem, however, lies in the shared premise of an atomized, homogeneous society of identical income-maximizing individuals. Complex social structures and in-group interests are usually not part of this theoretical story.

Another literature takes a step forward by incorporating socioeconomic class structures into its theoretical and empirical analyses. Broadly speaking, this line of work explains welfare spending as a political compromise forged between different classes—most commonly employers and labor, or the rich, middle class and the poor—that varies based on the each class' relative electoral significance (Iversen and Soskice 2006), their organized political power (Esping-Andersen 1990; E. Huber and Stephens 2001; Korpi 1983; Moene and Wallerstein 2001; Przeworski and Wallerstein 1982, 1988; Shalev 1983) and their income equality levels (Lupu and Pontusson 2011). However, these models typically downplay other social cleavages, implicitly assuming relative homogeneity except class. Yet, as recent research show, individuals often identify and mobilize politically along other cleavages, such as ethnicity (Chandra 2004; Hale 2004; Posner 2004) and nationality (Shayo 2009), often trumping their class interests.

Following these insights, a developing body of work traces the effects of ethnic, racial and religious divisions on welfare spending. One common argument posits that higher social fragmentation leads to less cooperation and solidarity in a given society, including within socioeconomic classes, resulting in lower support for universal welfare spending (Alesina, Baqir, and Easterly 1999; Alesina and Glaeser 2004; Austen-Smith and Wallerstein 2006; Gilens 1995; Habyarimana et al. 2007; Luttmer 2001). A additional claim argues that certain social groups, such as organized religions, provide their members with exclusive and substitutive social care and solidarity, leading to lesser support of state-led redistribution which also benefits individuals outside these networks (J. D. Huber and Stanig 2011; Scheve and Stasavage 2006). Both arguments conclude the diversity leads to less spending.

While this new line of study is promising, it leaves much to be explored. Three caveats stand out in particular. First, many studies focus on public opinion, telling a story of collective action problems among dissimilar citizens. Some support their claims with controlled experiments of interpersonal interactions between individual subjects (e.g., Habyarimana et al. 2007; Klor and Shayo 2010). However, such models overlook policymakers and the political institutions within which they operate, both affecting the way public preferences translate to

actual redistributive policies. Specifically, welfare spending is highly affected by elected politicians and bureaucrats with independent goals, interests and tactics.

Second, by focusing on internal cooperation, many studies fail to notice other, equally important economic considerations. In particular, global markets and neoliberal economists often push for certain types of policies regarding government spending, market involvement and resource distribution. Hence, while group cooperation is an essential part of redistribution, other economic interests should also be taken into account.

Finally, most of the empirical tests in this body of work use aggregate welfare spending as their dependent variable. However, such an examination assumes a dichotomous choice between higher or lower welfare spending for everyone, disregarding the *content* of redistributive policies. Yet divided social structures could also lead to selective policies rather than self-damaging cutbacks across the board, especially when political power is not distributed equally among social groups. One notable means by which elites can selectively benefit favorable groups is through what we dub ‘loyalty benefits’, categorical transfer payments that reward loyalty and service of these aims. We now turn to discuss this notion in depth.

CATEGORICAL ‘LOYALTY BENEFITS’¹

Consider the two goals generally attributed to the state in redistributing income. The ‘transfer state’ is seen either as a giant insurance company, which pools individual risks of old-age, illness, unemployment and so forth, or else as a vehicle for narrowing the deep inequalities generated by market forces. In practice, however, at least some of the transfer payments made by some welfare states cannot be justified by either of these principles. To deal with this lacuna, social policy researchers introduced the concept of ‘categorical benefits’ (Gal 2002), described as cash benefits paid to members of socially or politically defined categories considered worthy of public support. Recipients are under no obligation either to participate in covering the cost or to furnish proof of their economic distress. Some of these benefits are expressions of prevailing norms of compassion and social justice, such as allowances without means testing for the physically disabled, orphans and families with children. Other categorical benefits are designed

¹ The following section borrows from Michael Shalev’s unpublished work on the topic (Shalev 2008, 2010).

to compensate citizens, usually women, for providing unpaid care to dependent family members such as infants, the elderly or invalids (Gal 2002).

Loyalty benefits can be defined as categorical benefits that have the express purpose of rewarding citizens for serving the common good as defined by the government. While the rhetoric of loyalty benefits usually resonates with widely shared norms and sentiments, they are nevertheless paid in cash and framed as a social expenditure.² This ambiguity is not accidental. By distributing rewards via the transfer system rather than as a contractual payment, governments may seek to elevate and ‘launder’ the existence of an exchange relationship between the state and specific social groups and citizens. Yet, as noted above, they are neither earned by a record of contributions to the social insurance system nor are they part of the universal safety net that protects citizens against severe material deprivation.

Loyalty benefits link directly to divided states. Rewarding service to the nation through the transfer payments system puts governments in the position not only of defining the common good, but also of deciding who contributes to it and who does not. This opens the way to using the system of social protection as a marker of in-group membership, not only on the boundary that separates citizens from aliens common to most social rights, but also by mirroring status hierarchies based on ethnicity, religion, gender and so forth. Politically, loyalty benefits may be exploited for state building and social stratification purposes or for buying citizens’ political allegiance to clientelistic parties. They may also play a role in reinforcing the authority of the political regime. For example, when analyzing Bismarck’s introduction of social security in Germany, Esping-Andersen (1990) argues that its purpose was “to chain the workers directly to the paternal authority of the monarchy” while at the same time using lavish welfare provisions for civil servants “to reward, or perhaps guarantee, proper loyalties and subservience” (59).

Whether loyalty benefits are designed to uphold social status hierarchies or to further the political interests of the ruling elites, their legitimation is always Republican. As opposed to the Liberal citizenship discourse, which sees individual rights and obligations as minimal and equal for all citizens, the Republican citizenship discourse provides certain rights according to one’s

² The OECD defines social expenditures as “financial contributions targeted at households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes *neither a direct payment for a particular good or service nor an individual contract or transfer*” (OECD 2007, 6, our italicization).

contribution to the common good (Shafir and Peled 1998, 2002). Put differently, better contribution rewards some rights differentially. Although distinct, both the Liberal and Republican discourses share the view that the relations between states and their citizens should be regulated by a social contract under which rights to welfare benefits are earned by fulfilling some kind of obligation. This stands in contrast to the standard approach to cash benefits in the postwar period, under which benefits were either earned by paying contributions or unilaterally granted to ameliorate economic or other forms of need. These distinctions, and the consequent uniqueness of loyalty benefits, are summarized in Table 1.

[TABLE 1 ABOUT HERE]

A common example of loyalty benefits is transfer payments for military veterans (Gifford 2006b), in which the contribution to the common good is defined as defense of the nation. Celebrated illustrations are America's post-Civil War pensions for Northern soldiers and their widows (Skocpol 1979) and the generous package of veterans' benefits introduced in the US following the Second World War (Campbell 2004). In both instances, war-related benefits indirectly served as a substitute for a universal expansion of social protection. Veteran benefits preceded universal welfare policies in other Western countries as well, at times setting the basis for the subsequent welfare state (Cowen 2005; Leimgruber 2008; Murphy 2011). Moreover, despite some erosion, state welfare benefits for military families and veterans remain generous to this day and often exceed those granted to civilians (Campbell 2004; Cowen 2005; Gifford 2006a). Military service can also overlap with ethnic or subnational cleavages—in Israel, for example, Palestinian-Israelis are collectively exempted from mandatory military service—making the effect of such benefits crosscutting along multiple cleavages (Rosenhek 2011).

Loyalty benefits could be targeted more directly at certain ethnic or subnational groups when the contribution is defined in terms of in-group membership. In Malaysia and Fiji, two deeply divided countries, state building included redistributive policies that selectively benefitted members of certain ethnic groups. According to Shoup (2011), these policies were enacted by the ruling elites to construct and support an ethnically hierarchical national identity. By a similar logic, Béland and Lecours (2008) contend that in Flanders, Quebec and Scotland (subnational units of Belgium, Canada and the United Kingdom, respectively) nationalist movements put ethnically exclusive welfare programs high on their separatist agenda as part of their aspirations

“to control social policy to highlight their own importance and secure the loyalty of a population” (200).

Finally, as a more universal illustration, benefits earmarked for political refugees are often made available even in countries that generally expect immigrants to make their own way such as the United States. Often times, a central reason that governments single out political refugees for special treatment is that as ‘enemies of our enemies’, they are seen as contributing to our collective well-being. The common feature of all these examples is the use of existing or proposed welfare policies to reward certain groups categorically in the name of some common good.

LOYALTY BENEFITS AND NEOLIBERAL RETRENCHMENTS

In recent decades, any discussion of the welfare policies must consider the rising force of neoliberalism. Driven by the economic and political crises of the 1970s and 1980s, by a growingly globalized economy and by the rise of Rightist and Third Way governments in the West, the neoliberal discipline pushes for deregulation of financial markets, free trade, privatization and, most importantly for our debate, fiscal cutbacks (Centeno and J. N. Cohen 2012; Hall 1992; Williamson 1990). This trend also diffused to developing countries, often in the form of neoliberal reforms required as part of foreign aid packages tailored by international financial institutions and donors (Centeno and J. N. Cohen 2012; World Bank 2005). As noted by Centeno and Cohen (2012), “Broadly, neoliberalism stresses the necessity and desirability of transferring economic power and control from governments to private markets” (318).

Neoliberal reforms are promoted by a variety of actors, including politicians and interest groups (Hall 1993). However, much scholarly attention was given to the role of fiscal bureaucrats in particular, namely finance ministries and central banks. Specifically, fiscal bureaucrats tend to play a dual role in reform processes. First, they serve as ideational entrepreneurs, both framing the problem and designing possible solutions. As professional experts, especially in a seemingly scientific field such as economics, these bureaucrats have significant influence and persuasion power on policymakers (Chwieroth 2010; Dahlström 2009; Grabel 2000; Quaglia 2005). Indeed, many reforms worldwide were led by domestic and international economists, most having similar academic training (e.g., Babb 2005; Chwieroth

2010; Mandelkern and Shalev 2010). Second, fiscal bureaucrats often implement and monitor neoliberal policies on behalf of the government. This is especially the case where bureaucratic agencies hire professional economists and grant them relative autonomy and discretion over the execution of economic policies (Christensen 2012; Marier 2005). Furthermore, in many countries, economic crises of the type that preceded neoliberal reforms tend to open a window of opportunity for institutional change that provides fiscal agencies further power and autonomy (Maman and Rosenhek 2007; Quaglia 2005). As opposed to elected elites, such bureaucrats are more isolated from electoral pressures.

The extent to which neoliberal reforms lead to welfare retrenchments remains debated. Pierson (1994, 1996) famously argued that conservative governments did not succeed in dismantling popular welfare programs, yet he also concedes that they cut down spending and tightened eligibility criteria on existing programs. Further, more recent measurements reveal that the neoliberal age indeed led to a consistent decline in welfare spending cross-nationally (Allan and Scruggs 2004; Korpi and Palme 2003; Starke 2006). Accordingly, neoliberal policies, and strong fiscal bureaucrats in particular, seem to pose an institutional challenge to loyalty benefits as defined above. First, the push for fiscal cutbacks has an indirect effect on all types of state benefits. Second, neoliberalism poses a direct challenge to loyalty benefits as, by definition, it advocates a Liberal citizenship discourse which emphasizes individualism, free competition and limited state intervention rather than ongoing fiscal spending on benefits for categorically selected groups. Thus, where these two forces are salient, we expect to see tensions and ongoing struggle over the enactment and size of loyalty benefits. Their level of success should reflect their strength relative to one another, as determined by the salience of relevant cleavages, the institutional framework and windows of opportunity opened by external events.

THE CASE OF ISRAEL: THE POLITICS OF LOYALTY BENEFITS

To examine this expectation empirically, we now turn to an analysis of the Israeli welfare state. The use of a single case study enables us to engage in initial theory testing while holding contextual factors constant. Further, an in-depth analysis provides the ability to study the *content* of specific welfare benefits in depth rather than a less insightful measure of aggregate welfare spending. Israel provides a particularly useful case study for this purpose. First, Israel is considered a deeply divided society, with several overlapping social cleavages which remain

politically salient throughout the years (Horowitz and Lissak 1989; Smooha and Hanf 1992). As of the end of 2012, 20.6% of Israel's citizens were Arab Israelis, who are in an anomalous position given Israel's self-proclaimed identity as 'the Jewish State'. The country's ongoing involvement in a regional conflict with national and ethnic characteristics ensures that issues of security and identity remain high on the social and political agendas. Based on our theoretical framework, these attributes make Israel a fertile ground for the emergence of loyalty benefits.

Second, like many other countries, Israel underwent extensive neoliberal reforms following a severe economic crisis in the mid-1980s. As of the 1970s, the Israeli economy experienced slow economic growth, falling economic productivity, a growing balance of payment deficit and soaring inflation rates that reached 400% in 1984 (Bruno 1989). In 1985, after several years of futile attempts to fight the recession with devaluation measures, a new emergency stabilization plan was introduced, led by a group of academic and professional economists from Israel and abroad. Among its various components, the plan also included deep cuts to fiscal spending (Keren 1993; Mandelkern and Shalev 2010; Shalev 1998). Further, the Bank of Israel and the Ministry of Finance (MoF) were granted stronger institutional power (Maman and Rosenhek 2007). Another noteworthy welfare retrenchment plan was enacted in 2003 following another economic crisis, caused by the early 2000s global recession and a security downturn. Devised and implemented by the MoF, the plan aggressively cut fiscal expenses, including welfare programs, alongside privatization steps and a capital market reform. Taken together, this variance in economic policies allows us to examine the dynamic relations of standing cleavages and rising neoliberal forces.

Categorical Loyalty Benefits in Israel³

Broadly speaking, from the onset of modern Zionist immigration shortly before the turn of the twentieth century, social protection reserved exclusively for Jews was an essential component of Jewish settlement in Palestine. Later, the segmented welfare state established after the attainment of sovereignty in 1948 offered little support for the Palestinian minority within Israel's borders, while providing numerous particularistic benefits to Jewish citizens and immigrants. To this day, the transfer payment system as a whole (though not all of its components) tends to advantage

³ The following subsection uses and extends data and some preliminary analysis from Michael Shalev's unpublished work on the topic (Shalev 2008, 2010).

Jews over Arabs, and also has differential effects on different Jewish ethnic groups (Rosenhek and Shalev 2000; Rosenhek 2011).

To better analyze the role of loyalty benefits in generating these outcomes, we have reviewed all the transfer payments in Israel since the mid-1950s. Following our definition of loyalty benefits, we have singled out categorical payments (i.e. payments that require neither previous fund contribution nor demonstration of economic distress) that are awarded based on a Republican justification of contribution or sacrifice for the common good.⁴ As expected, we find several transfer payments fitting this description. More concretely, loyalty benefits in Israel can be subdivided under two headings.

First are transfer payments that derive from the Israeli *collective identity project as the Jewish national home*. By far the largest financial commitment under this heading is the task of attracting and retaining Jewish immigrants. As opposed to other forms of immigration, Jewish immigration to Israel is framed in Zionist terms as *Aliyah*, literally ‘ascent’, implying a return to one’s long awaited fatherland after years of exile. This notion was prominent from Israel’s first days, but it grew particularly strong after the Soviet Union began to disintegrate and opened its borders for Jewish emigration. Immigrants’ spending power when they first arrive in the country was boosted through a generous ‘absorption basket’ funded by the government (Gal 2008). Other cash benefits include stipends that meet specific contingencies (e.g., housing subsidies) and a special old-age allowance paid to elder immigrants without former social insurance contributions. In a small number of cases, a benefit is granted in recognition of sacrifice by immigrants designated as former Prisoners of Zion, Jewish citizens of the Soviet Union who were imprisoned because of their activism in the movement to emigrate to Israel.

A more symbolic reflection of the Israeli state’s commitment to Zionism is its self-appointed role as the collective representative of the Jewish people. Holocaust survivors residing in Israel, whose sufferings precede the establishment of Israel, receive a dedicated allowance

⁴ Note that by focusing on transfer payments we are excluding other state policies affecting distribution and social stratification outside the welfare state. For example, under the heading of contractual rewards, the state is by far the largest employer in Israel, and the public sector broadly conceived was once the dominant factor in shaping all forms of stratification (e.g., Farjoun 1983). Under the heading of in-kind benefits, the most dramatic state interventions were the massive redistribution of Arab lands and property that occurred after the foundational Arab-Israeli war of 1948-49 (Golan 2002) and, primarily since the 1980s, the immense infrastructural and housing subsidies that Israel has channeled to Jewish settlers in the occupied territories (Arieli et al. 2009).

from the state. Israel also pays a monthly stipend to a small number of non-Jews, dubbed ‘Righteous Gentiles’, to honor their role in helping to save Jews from Nazi persecution during World War II. Far more significant financially are cash benefits earmarked for ultra-Orthodox Jewish men (*Haredim*) studying full-time in *Yeshivas* (institutes for religious study). More than 10,000 *Yeshiva* students are granted a special income support benefit, as they would not be eligible for regular social assistance that is conditional on a work test.⁵ This generosity is often explained by the pivotal position of ultra-Orthodox political parties in fragile coalition governments. However, it must also be seen in the context of the state’s powerful underlying interest in supporting the *Haredi* ideal of a ‘community of scholars’, the legitimacy of Zionism critically resting on the religion-based linkage of Jews to the Land of Israel (Kimmerling 1999).

A second subtype of loyalty benefits can be linked with *the management of the Arab-Israeli conflict*. The Israeli government has sponsored a variety of transfer payments designed either to reward citizens for their mandatory military service or to compensate victims of war or terrorism. To begin with, the Israeli Defense Forces (IDF) are based on the model of a citizens’ army. Accordingly, in addition to the nominal salary they receive while performing compulsory service (not being a transfer payment, this is beyond the scope of loyalty benefits), soldiers are entitled to cash grants at the completion of their compulsory service, and to earnings replacement and other benefits when mandatorily serving in the reserves. Military service also has wider repercussions: it is often one of the criteria on which non-transfer welfare state entitlements are based (for example, in the case of housing assistance), although it rarely serves as an explicit condition for receiving cash benefits unless they are directly related to military service. A prominent exception was the ‘child allowance for families of veterans’, a key component of Israel’s income maintenance system from 1970 until it was phased out in the mid-1990s. Since Arab citizens (other than a few small groups, including ultra-Orthodox students) are not called upon to serve in the military, they were denied the benefit.

The transfer system also provides compensation to victims of the national conflict or their survivors. Cash benefits are provided when civilians are killed or wounded by what the law

⁵ This estimate of the number of recipients appears on the website of the Ministry of Education's Division of Torah Education Institutions (<http://cms.education.gov.il/EducationCMS/Units/MT/Odot>, [Hebrew]). Note that there are also special scholarships for low-income *Yeshiva* students that are disbursed by *Yeshiva* administrators using funds supplied by the Ministry of Education (formerly, by the Ministry of Religious Affairs). However, since the benefit is paid by intermediaries rather than welfare state institutions it is not included in this study.

terms ‘hostile actions’, namely wars or terror attacks against Israelis. Far more quantitatively significant are allowances for disabled veterans and bereaved families, which together account for approximately 0.6% of Israel’s GDP (Kop 2008). This reflects not only the large number of beneficiaries (54,000 recipients of military disability benefits alone), but also the generosity of the benefits which are much higher for military than non-military disabilities (Gal and Bar 2000). The types of loyalty benefits are summarized in Table 2.

[TABLE 2 ABOUT HERE]

Magnitude and Trends

Using the above categorization, we can also examine basic trends in government spending on loyalty benefits over time. The data on government expenditures for each type of benefit were collected by five-year margins from on the National Insurance Institute of Israel (NII) Statistical Quarterly reports, the Accountant General’s data on government budget execution, the Ministry of Defense⁶ and Taub Center’s annual data on social services expenditure.⁷ A standardization of these expenditures by GDP or price indices would be problematic, given Israel’s inflationary spiral of the late 1970s to mid-1980s which rendered national accounting very difficult. Further, we are interested in the relative role of loyalty benefits over time. Hence, we standardize their magnitude as a percentage of all transfer payments in each respective year.

Figure 1 illustrates the proportion of loyalty benefits out of all transfer payments in the years 1954-2010 (see table A1 in the appendix for more details). Most notably, loyalty benefits show relative stability throughout Israel’s history. As the data demonstrate, these categorical benefits were an inseparable component of the Israeli welfare state since its early days, amounting to between approximately a fifth and a third of all transfer payments in all periods. Moreover, these benefits remain fairly stable until the 2000s, reaching an annual average of 27.8% of all transfer payments (marked by the upper dashed line). The few peaks can be explained by exogenous circumstances: the 1969 and 1974 rises are mainly driven by benefits linked with the conflict, as expected given the 1967 and 1973 wars. The 1990 rise is mainly

⁶ In particular, the Ministry of Defense’s annual expenditures for disabled veterans and bereaved families were gleaned from personal interviews and annual budget proposals.

⁷ The Taub Center annual reports could be found in their official website:
<http://taubcenter.org.il/index.php/category/publications/periodicals/annual-report/lang/en/>.

driven by growth in immigration benefits, as expected given the massive post-Communist immigration wave that started that year.

[FIGURE 1 ABOUT HERE]

Notwithstanding this relative stability, figure 1 also shows an ongoing decline in the share of loyalty benefits since the year 2000: as of the new millennium, the average annual share of loyalty benefits drops to 20.7% (lower dashed line), implying that loyalty benefits were cut more than other programs in the past decade. Further, this period was not devoid of notable exogenous events linked with loyalty benefits expenses, including a period of frequent terror attacks in central cities (2001-2002) and several large-scale military operations in the West Bank (2002), Gaza (2008) and Lebanon (2006).

Prima facie, this data may lead one to conclude that the past decade marked a change in these policies. Yet, once we disaggregate loyalty benefits, the result is not as decisive. Figures 2 and 3 show the change in relative size of the six largest loyalty benefit programs since 1985. Only two loyalty benefits experienced a consistent and unambiguous decline in this period, both plotted in figure 2. These include the gradual phasing out of veterans child allowances noted above, mostly as the result of a rare political gesture by Prime Minister Rabin to Arab parties in return for parliamentary support, as well as a significant decline in reserve duty benefits. However, as figure 3 demonstrates, other programs were not as consistent in their trends over time. Immigration absorption packages display the most erratic change, as can be expected given the massive yet fading immigration wave of the 1990s. Nonetheless, in 2010 it reached a larger share of all transfer payments than in 1985. Benefits for disabled veterans and bereaved families remained fairly stable in their relative size, while benefits for Holocaust survivors show a consistent growth in relative size since 1990. Finally, benefits for demobilized soldiers, introduced in the mid-1990s, grew consistently (and, arguably, provide a partial replacement for the cancelled veteran child benefits).

[FIGURES 2 + 3 ABOUT HERE]

This breakdown demonstrates that there is no clear trend applying to all loyalty benefits, even not in periods of neoliberal reforms and fiscal cutbacks. To better understand the exact dynamics of change in these benefits, we now turn to examine two particular programs in depth:

benefits for Holocaust survivors, which experienced a consistent *growth* in recent years, and benefits for reserve duty, which experienced a consistent *decline* in recent years.

Loyalty Benefits for Holocaust Survivors

The dynamics of welfare benefit for Holocaust survivors in Israel can be roughly divided to two periods. The first period, taking place until the late-1980s, included stable arrangements based on legislation from the 1950s. The second period, starting in the 1990s, is characterized by public struggles and by changes in the former arrangements.

First Period (1950s To 1980s): Hybrid Loyalty Benefits

The basis for Holocaust survivor welfare benefits was laid during the 1950s in the form of two primary laws. The first law, *The Disabled Veterans of the War against the Nazis Law*, was legislated in 1954 and offered benefits for disabled veterans who fought the Nazis as part of foreign armies or resistance movements. The second and more inclusive law, *The Disabled Victims of Nazi Persecution Law*, was enacted in 1957. The latter law included an eligibility test, requiring survivors to have an at least 25% disability rate incurred during World War II, and offered benefits varying by level of disability. Moreover, while it is common that welfare benefits are administered by 'social' bureaucracies centered around beneficiaries, both laws were administered by a new unit in the economically-minded MoF (Dorner, Eisikovits, and Moav 2008; Teitelbaum 2008). In upcoming decades, very few changes were made to this legislation, save for recurring extensions in appeal periods and a 1969 amendment providing special supplement for needy disabled survivors.

As one can notice, these arrangements were based on a peculiar mix of Republican and Liberal justifications. On the one hand, benefits were granted to an exclusive subgroup as compensation for an ethnically related genocide occurring before the state was established. As such, it is distinct from standard disability benefits given purely based on need, disregarding their cause or ethnic background. On the other hand, within this group the benefits were not automatic and universal, but rather provided differentially based on proven (Holocaust-related) disability and its severity. Why were not these benefits more generous? The reasons can be traced back to the balance between the economic interests of the government and the strength of Republican justifications on the side of survivors.

The state's responsibility for survivors was made public in the Holocaust Reparations Agreement (also known as the Luxemburg Agreement) between Israel and West Germany, signed in 1952 as part of the latter's series of post-World War II financial compensation agreements. Alongside the primary agreements, which determined that West Germany would pay goods in the worth of 3 million marks (approximately 750 million US dollar) to the state of Israel, an added appendix declared that Israel conceded the right of its citizens to demand further individual compensation from West Germany from that moment on (Dorner, Eisikovits, and Moav 2008; Segev 1993). Put differently, from a West German perspective, Israel had taken full responsibility for the welfare of its Holocaust survivors.

However, the political economy of Israel during its first couple of decades was mostly shaped by a centralist, corporatist structure, headed by the strong *Mapai* party and its affiliated labor union, the *Histadrut* (Shalev 1989, 1992). Unsurprisingly, the reparations were negotiated by *Mapai* officials (in contrast, West Germany sent mostly experts and bureaucrats) and the agreed upon goods were channeled directly to state and *Histadrut* agencies rather than welfare ministries (Dorner, Eisikovits, and Moav 2008; Kleiman 1964; Segev 1993). Moreover, it is estimated that the reparations contributed 15.1% of the GDP growth between the years 1953-1964 (Bank of Israel 1965), helping the *Mapai* government remove severe austerity measures.

Meanwhile, the welfare of survivors played a minor role in the national discourse. The Holocaust was a constitutive event in the Israeli national narrative from day one. Indeed, government officials claimed symbolic credit for the reparations agreement, marking the young state as the representative of the Jewish people worldwide and the official body with which one negotiates Jewish matters. As Foreign Minister Moshe Sharett stated in 1952, "the Israeli government claims the reparations for itself, because it sees the State of Israel as bearing the rights of the millions who were slaughtered...being the only national embodiment of the people who, because of their association with it, were sentenced to destruction" (Segev 1993, 251).

However, one must distinguish between the national status of the Holocaust as an event and of Holocaust survivors. Alongside their symbolic declarations, government officials made it clear that they are free to use the reparations goods as they will and that they do not have any legal obligation for the welfare of survivors (Dorner, Eisikovits, and Moav 2008; Teitelbaum 2008, 228–229). The survivors themselves, meanwhile, were not involved in the negotiation or

allocation processes and posed little effective opposition. They did not form a solid group, but were rather a heterogenic collection of disorganized individuals with little political influence. Moreover, the nascent state was still struggling to define a new nationalist-Jewish identity, which was in part based on the distinction between the submissive Jews of the Diaspora, marching to their deaths 'like lambs to the slaughter', and the young, active spirit of the new Zionist Jews. The survivors, while worthy for pity due to their sufferings, represented the Old Jew: weak, helpless and beaten down (Ofar 2000; Shapira 1998; Weitz 1995). Accordingly, many survivors did not expose their personal stories, some out of efforts to start life anew, build a home in the young state and assimilate in it (H. Klein and Kogan 1986; Yablonka 1999), and some following their encounter with suspicion and unwillingness to listen (Segev 1993; Solomon 1995).

In other words, the national discourse was one of nation building, not of victimhood. Hence, the result was exclusive benefits that did not ignore survivors altogether, but had a high, means tested bar administered by an unfavorable fiscal agency. Along the years, Holocaust survivors assimilated and gained stronger influence in Israeli society, as well as organized under one parent organization. However, several private bills that attempted to raise and universalize survivor benefits were shot down due to effective opposition by the Government and MoF (Teitelbaum 2008). It was not until the 1990s that a change in government policies had finally occurred.

Second Period (1990s onward): Purely Categorical Benefits

The change arrived in two waves. The first occurred in 1996, following an appeal to the Supreme Court demanding to equalize survivor benefits with the higher German allowances that were allegedly denied following the Reparations Agreement. The Supreme Court took the side of survivors, ruling that the said appendix was indeed an unfulfilled legal obligation by the state. It subsequently ordered the MoF to reconsider its policy towards Holocaust benefits, although leaving the exact details to be determined by the government.⁸ Following the verdict, the MoF raised allowances by as much as 23%, yet they were neither equalized nor permanently tied to the equivalent German allowance, ensuring full governmental control of the rates. Other improvements included added social benefits (mainly tax deductions) and an expanded payment

⁸ Hirschenzon v. Minister of Finance, HC 5263/94.

to economically needy survivors (Dorner, Eisikovits, and Moav 2008). As expected, however, the rise experienced erosion in coming years and survivor benefits, direct and indirect, were further cut back as part of the government's 2003 welfare retrenchments (Lindenstrauss 2007).

The second and more important step occurred in 2007-2008 following a combination of grassroots protests and political efforts. The protest, headed by student and youth movements, gained momentum starting of 2006 following renewed claims by survivor organizations. It consisted mostly of petitions, public demonstrations and lobbying efforts (e.g., Barshkovsky 2006). Following the growing public attention of the protests, the autonomous State Comptroller initiated an inquiry of the state's care for Holocaust survivors, presenting a harsh report in the summer of 2007 (Lindenstrauss 2007). At the same period, a new Minister of Welfare, Yitzhak Herzog, was appointed after more than two years in which the ministry was under the direct responsibility of the Prime Minister. With the growing demonstrations in the background, the new minister soon took the issue of survivors' welfare as a leading project. Within the next few months, the Ministry of Welfare obtained the responsibility of Holocaust survivors from the MoF, led an inter-ministerial committee on the issue, and, backed by the public support, pushed for the allocation of further resources for needy survivors despite the MoF's opposition (Sinai 2007a, 2007b).

However, due to seeming miscalculations of the number of eligible beneficiaries, the new and celebrated supplement in fact assigned only an additional NIS 83 (approximately 21 US dollars) per month for each needy survivor (Barkat 2007). Perceived as insulting, the publication of this sum led to broad public outcry, culminating in a mass protest organized by a coalition of students, youth movements and survivor organizations, which included controversial images of elderly survivors protesting with Auschwitz uniforms in front of the Knesset. The fierce criticism and images, alongside the now published State Comptroller report, defused any remaining opposition within the government. Within a matter of days, the government announced that a national inquiry commission would investigate the state's treatment of Holocaust survivors throughout the years, while the Prime Minister himself commenced direct negotiations with representatives of the survivors (Shragai, Ravid, and Pfeffer 2007; Shragai 2007). The following year brought several long-awaited changes to survivor benefits, some of them based on propositions that were constantly rejected in the past. First, a substantial raise to existing benefits was approved, now affixing them to the equivalent German allowances. Second, a new

government-endorsed law determined that every survivor ineligible for other welfare allowances would categorically receive a fixed monthly stipend, as well as other benefits for needy survivors. Third, it established a new center dedicated to helping elderly survivors claim their rights. From a hybrid, survivor benefits turned to pure loyalty benefits.

What led to this sudden change? The answer can be found again in the balance between the government's economic interests and the strength of Republican claims. As noted above, Israel's 1985 economic liberalization lent more institutional power to the fiscal bureaucracy. Indeed, with strong gatekeepers at the public treasury, demands and private bills pushing for a rise in survivor benefits were constantly opposed to or thinned down. The MoF also led the major fiscal cutbacks in 2002-2003, which included budget cuts to institutions and funds assisting survivors. The execution of the 1996 Supreme Court decision is a case in point: although benefits grew by 23% following the verdict, the change was not permanent and left the control in the hands of the MoF. Indeed, it eroded within several years. Once the original legal framework was set in the 1950s, it endured impressively half a century down the road.

However, the national status of survivors grew significantly stronger. Since the public testimonies during Eichmann's trial in 1961, the cold suspicion with which the survivors were initially received had gradually transformed into acknowledgement, respect and reverence (Shapira 1998). This trend deepened as of the 1990s, as the third generation embraced the Holocaust as an integral part of their national identity. As an informal rite of passage, many young Israelis visit the ruins of Nazi concentration camps and are more interested in the personal stories of survivors (D. Bar-On 1999). This change was further reinforced by the aging of the survivor population, coupling their demands with media images of old age, physical illness and socioeconomic hardships (O. Persico 2009). Indeed, the protests were led mostly by people of the third generation, such as students and youth movements.

The strong national status of survivors was also evident in the political sphere. The 1996 Supreme Court appeal was filed by Avraham Hirschzon, an aspiring Member of Knesset (MK) who made the welfare of Holocaust survivors a key issue in his career. The political power of survivors further expanded after the surprising success of the Pensioners of Israel party in 2006, which established a new Ministry for the Elderly and formed a parliamentary lobby for Holocaust survivors with the Labor party. It is not surprise, then, that the new Minister of

Welfare Herzog, also from the Labor party, had placed the issue of survivors at the top of his agenda from the start. Most tellingly, following the mass protest of 2008, the Prime Minister himself, alongside high ranked politicians, welfare bureaucrats and survivor representatives, led the drafting of the new law while leaving a smaller role than usual for MoF officials.

Loyalty Benefits for Reserve Duty

The benefits given by the state to active reserve soldiers serve as another interesting case. As figure 2 indicates, and unlike benefits for Holocaust survivors, the loyalty benefits for reservists actually declined since 1985. Many countries (e.g. the U.S., the U.K., Canada) maintain a voluntary reserve force with *quid pro quo* salaries (Ben-Dor, Pedahzur, and Hasisi 2002). However, in Israel reserve service is a mandatory duty by law. The IDF is structured in a three-tier model: professionals, regular conscripts and reserves. *The Security Service Law* (1949), one of the first laws to pass in the Knesset, determined a universal military duty for all citizens, men and women alike.⁹ After two to three years of mandatory regular service starting at the age of 18, when called upon all discharged citizens are obliged to serve in the reserve forces for up to a maximum period set by the law, typically up to one month per year (Ben-Dor, Pedahzur, and Hasisi 2002; S. A. Cohen 2008; Perliger 2011). At the same time, reservists receive certain benefits from the state for their service. For most decades, the payment granted for reservists was distributed by the social security apparatus (the NII) and funded by a universal payroll tax, rendering it a transfer payment like any other. In other words, reserve duty is not just an obligatory duty as declared by the law but also a source for extended state-funded benefits. Here, again, it is useful to examine the historical changes in these benefits by two main periods.

First period (1950s to late-1990s): Compensation for Lost Workdays and Symbolic Rewards

The payment mechanisms for reserve soldiers were first established in the early 1950s. The core principle of these arrangements was dual: first, a symbolic daily payment for all reservists regardless of rank or civil occupation and, second, an additional differential salary compensation for each soldier according to his or her civil wage (bounded by a minimum and maximum threshold). While the negligible universal payment was paid directly by the state, the more

⁹ Importantly, however, the law also authorized the Minister of Defense to exempt certain individuals and groups from army service, as is indeed being done with Palestinian citizens and a growing quota of ultra-Orthodox Jews. *De facto*, then, not all Israeli citizens serve in the IDF.

substantial wage compensation was financed by a universal payroll tax, i.e. paid collectively by all employers regardless of whether their employees actually serve in the reserves. Since 1954, this tax was collected and administered by the NII as part of a wider package of social security payroll taxes. Furthermore, as of 1973, these payments were also granted to the unemployed and new immigrants, who did not necessarily contribute through past salaries. This benefit framework remained the same until the late 1990s, with only minor changes, mostly a gradual increase of eligibility criteria and compensation sums.

These arrangements seem to fit our definition of loyalty benefits: they were distributed through mechanisms of the welfare state in return for a contribution for the common good. Further, as of the 1970s they did not depend on former contribution, but rather financed by a universal payroll tax. To explain the emergence and stability of this mechanism, let us return to the forces noted above, namely the government's economic interests and the strength of Republican justification behind the benefits.

The legislation behind these benefits was led by government and military officials, who indeed benefitted the most. The military was free to enlist as many reservists as it required while leaving the bill for employers. This also boded well for the ruling *Mapai* party, a labor party in essence, which could take pride in the compensation provided for workers who enlist for service (Greenberg 2001). These interests often overlapped, as many *Mapai* officials, including certain Ministers of Labor (e.g., Yigal Alon or Yitzhak Rabin) joined the party straight out of the military establishment and saw eye to eye with its officials.

These arrangements also reflected a strong Republican justification. Israel was established after the 1948 war and had lived by its sword ever since. In this militarist environment, the employers posed little opposition to the funding load put on their shoulders. In fact, the Manufacturers Association of Israel was consulted with during the original bill drafting process and had representatives in the NII Wage Equalization Fund Committee. The willingness to pay the price can be illustrated well by the fact that even before the 1950s legislation, many employers voluntarily paid workers while they were away in reserve duty (Greenberg 2001). The strength of the militarist justification for benefits also allowed the government to avoid further material benefits for reservists. During the first decades of Israel, the military enjoyed the status of a sacred cow, rendering IDF generals celebrities and the troops and reservists heroes,

especially after the euphoric triumph of the 1967 Six Day War (Segev 2007). As such, reservists enjoyed indirect ‘symbolic’ benefits, including professional training, high social status and access to political and economic networks (Barak and Sheffer 2006; Levy 2007; Maman and Lissak 1996; Perliger 2011). Reservists were thus benefitted outside the welfare system as much, if not more, as they were by it.

Second period (late-1990s onward): Inequality, Mobilization and Added Benefits

The said benefit arrangements underwent several changes as of the late 1990s. These changes can be seen as the culmination of two preceding processes. The first preceding process is the political mobilization of reservist groups, often based on the networks and social capital gained through service. The turning point was the 1973 Yom Kippur War, which levied a heavy price in casualties and public morale. Following the war, self-declared reservists led a surge of public protests calling for the resignation of the top political and military echelons. This momentum proceeded in coming years as new political movements led by reservists were formed. A case in point is Peace Now (*Shalom Achsav*), a grassroots movement of Yom Kippur veterans established in 1978 to advocate peace negotiations with Egypt, whose founders often underscored their status as reserve officers to gain public attention and support (M. Bar-On 1985; Perliger 2011). In coming years, they were joined by a plethora of other political movements led by self-declared reservists and intentionally framed as such (Levy 2007; Perliger 2011).

A second preceding process was a change in the public funding of reserve service days. Following the occupation of the West Bank and the Gaza Strip in 1967 as well as the trauma of the 1973 war, the defense budget grew significantly during the 1970s, reaching a peak of 30.3% of the GDP in 1975 (Central Bureau of Statistics 2011) and deepening the recession come the 1980s. As part of the attempts to curb expenses, the 1985 stabilization reforms included legislation that cancelled the payroll tax funding reservist benefits, gradually shifting the costs to the defense budget (though the administrative responsibility remained in the hands of the NII). This change was finalized by 1995 using the Omnibus Law of Arrangements, a legislative measure devised as part of the stabilization plan and used increasingly since to bundle together various amendments and have the Knesset vote on them jointly, usually coupled with the annual budget as a vote of confidence in the government. This tool is seen by many as the emblem of the MoF’s new institutional power, a fast lane for economic reforms that would not have passed

a regular, scrutinizing legislation process (Ben-Bassat and Dahan 2006; Nachmias and E. Klein 1999). Following this change, the military faced a price tag for its use of reservists for the first time. This led to a steep decline in reserve service days, such that in 2001 the military used only 38% of the reserve days employed in 1985. Further, the military became more selective: by 2001 it was estimated that 25% of reservists were carrying 80% of the actual burden (S. A. Cohen 2008; Levy 2007; The Israel Democracy Institute 2002).

By the late 1990s, these two processes converged as reservists mobilized to demand a lighter, equal burden and improved benefits for those who do serve. For our purposes, we focus here on the latter demand. The first notable case of organized protest for higher benefits occurred in 1998, when a large group of reserve pilots went on a flight strike, demanding better injury and life insurance. Not only were they not punished for refusing to obey orders, they were also contacted directly by the Minister of Defense with promises of a solution (Harel 1999). When the obligation was only partially filled, they joined forces with The Reserve Regiment and Brigade Commanders Forum (henceforth RRBCF), an organized group of 300-400 high-ranking reserve officers that was established in 1996 to promote reservists rights and status. Together, they demanded a comprehensive insurance solution through legislation, threatening another reservist strike (Mualem 2001). While their demands were supported by the Ministry of Defense (MoD), they were opposed by MoF officials who warned against a costly wave of retroactive claims. Eventually, with the personal involvement of Prime Minister Ariel Sharon (a former IDF general), a compromise was made: a new law equalized reservists' disability and bereavement benefits with those of conscripted soldiers and their families, while at the same time limiting their retroactive application as demanded by the MoF (Alon 2002; Harel 2002).

A broader struggle was organized by the RRBCF in the 2000s, leading a coalition of smaller student organizations and several MKs who put the claims of reservists high on their agenda and formed a parliamentary reserve service lobby (Marciano 2003). In the mid-2000s, this coalition organized a series of public protests and lobby efforts. At first, the government responded with well-photographed public embrace and promises, yet mostly implemented small-scale improvements to existing benefits, such as higher daily allowances for long service periods in combat units or additional labor market protection. They also declared a symbolic Reserve Appreciation Day with discounts, events and ceremonies for active reservists (S. A. Cohen 2008; Harel and Mualem 2005; Harel 2006).

Although several minor organizations in the coalition seemed content, the RRBCF continued to demand a structural overhaul in reserve service and benefits. Their major attempts were made within the defense establishment, where they were well connected and involved. Indeed, their efforts successfully led to a ministerial committee appointed by the Minister of Defense, including both reservists and economic experts, which made favorable recommendations to the government (Braverman Committee 2005; Harel 2004). Nonetheless, despite efforts made by the parliamentary reserve service lobby, including private bills suggesting very generous benefits as means of pressure, the government took its time converting the committee's recommendations into actual legislation. However, following the Second Lebanon War in 2006, which sparked a fierce public debate over the insufficient preparedness of the reserve forces, the government expedited the bill and included reservist representatives in the process. In 2008, a new reserve service law passed, including new benefits such as a more generous wage compensation formula, an added daily bonus for long reserve service, income tax credit points, favoritism in state tenders and the formation of a standing ministerial committee that will consider further benefits periodically. While the service was not equalized as hoped, loyalty benefits for reservists grew in generosity. The result of this processes explain the trend seen in figure 2: overall spending on reservist benefits declined consistently, reflecting the drop in reserve days and growingly unequal burden, though this trend stabilizes and even rises slightly by 2010. Put differently, individual benefits grew but overall spending is likely to remain low.

Once again, the dynamics of this change trace back to leading economic agents and Republican justifications. The latter was especially important. The main driving force behind the change was not state authorities seeking higher compensation, but rather politically mobilized reservist organizations. In particular, this mobilization can be attributed to the growing inequality in burden and, more importantly, a decline in symbolic benefits: from celebrated heroes with social privileges, reservists gradually shifted to inglorious and politically disputed policing assignments in the Occupied Territories and complained in their protests that they are perceived as 'suckers' (Levy 2007, 2008; Perliger 2011). At the same time, the high status of the IDF and reservists' social capital remained central in their successful mobilization. Most RRBCF members were educated, well-connected, middle class, *Ashkenazi* officers with close ties to the defense establishment. The parliamentary lobby was led by MKs with similar background who often took public credit for serving in the reserve ranks. Tellingly, at no point in their struggle

were reservists publically denounced or punished by the government or the military. Further, the 2006 Lebanon War added another leverage by creating a public debate over the service conditions of reservists returning from the battlefield.

Nonetheless, the reservists did not achieve all their declared aims, namely a lower service burden and all demanded benefits. Much like the retroactive limit on the new insurance law, many demands for benefits were blocked by the MoF on economic grounds. For instance, during the new bill's drafting process in 2007, Deputy Minister of Defense Efraim Sneh admitted that there is little chance of a significant benefit improvement due to fierce opposition by the MoF (Harel 2007). Later that year, MoF officials reportedly blocked suggestions for broader benefits, including more extensive tax breaks for active reservists (Azulai 2007; Bassok and Grinberg 2007). Indeed, as we have seen, for years similar demands were contained using small-scale gestures, including symbolic rewards and indirect, fiscally cheap benefits such as protection in the labor market or state fee discounts. Even after the 2008 law, which included an additional allocation of NIS 150 million (approximately 43 million US dollars), many rewards were differential, rising with or depending upon longer duties, hence limiting the number of eligible reservists. Similarly, as opposed to property tax breaks that were discussed but rejected, income tax breaks apply only to those earning above the minimum tax threshold, excluding many students and young reservists who are most often called for duty. Finally, the 2008 law was designed to further incentivize the military to cut costs indirectly: not only did it pay (more) for reserve days using the defense budget, but it also granted the military the authority to change eligibility criteria for these benefits in the future. Table 3 summarizes the change in loyalty benefits for both cases.

[TABLE 3 ABOUT HERE]

DISCUSSION AND CONCLUSIONS

The Israeli case demonstrates that social cleavages have direct implications for redistributive policies. This effect goes beyond collective action problems or preferences regarding aggregate spending. We have shown that redistributive policies could also reflect such divisions by selectively and categorically benefitting targeted groups who serve the purposes of ruling elites. As opposed to the liberal view of the welfare state, which links transfer payments with proven

need or past savings, such benefits are justified by a Republican discourse that ties citizenship with service of one's political community. While such sentiments may exist in many types of societies (e.g., benefits for military veterans), in deeply divided societies the common good may be defined more contentiously and exclusively, benefitting certain nationalist, ethnic or social groups over others. In Israel, a country deeply divided along nationalistic and ethnic lines, we estimate that such policies reach between 19.2% (2010) and 33% (1990) of total transfer payments throughout the years. Further, despite some aggregate decline in the past decade, most loyalty benefits remained relatively stable and some grew in relative size in recent years.

The Israeli case also demonstrates the tension between these plans and neoliberal economic policies, which encourage participation in the free market, minimal state involvement and restrained fiscal expenditures. Israel's liberalization as of the 1980s illustrates the complex relationship of neoliberalism and loyalty benefits. Prior to liberalization, other government aims—corporatist interests, economic growth, militaristic needs—played a role in designing welfare policies, but could be reconciled with nationalistic and ethnic goals more easily. Following liberalization, however, economic policies were articulated and implemented by proponents of the neoliberal doctrine, especially the Ministry of Finance. As the two case studies demonstrate, the result is a dynamic struggle over loyalty benefits, with partial, changing gains for actors on both sides depending on their relative power.

In both cases, the MoF thwarted demands of significant changes for several years. Furthermore, they successfully cut costs during or after economic crises, such as the structural change in the funding of reserve benefits in the 1980s and the cuts in certain survivor services in 2003. At the same time, the recipients succeeded in expansion of their benefits, especially once mobilized and part of broader coalitions. In both cases, their success was determined largely by the strength of the Republican aspect in their claims. Ironically, the same symbols advanced by the ruling elites are also the ones granting power to these particular group demands (cf. Laron 2005). Indeed, priding itself as the representative of Jews worldwide, the Israeli government immediately compromised following the images of elderly Holocaust survivors marching in concentration camp uniforms in front of the Knesset. Moreover, the strength of both groups' social status was an effective enabler for the construction of political coalitions, drawing other actors seeking to use it for their own interests (e.g., aspiring politicians and new social ministers publically defending these groups). Finally, here too exogenous events opened windows of

opportunity for change, especially threats to the common good that these benefits serve. Thus, the public frustration following the Second Lebanon War provided reservists better leverage to repackage their old demands and successfully push back against the MoF. Neither of these forces has the upper hand, but it is rather the intricate, dynamic balance of particularistic and neoliberal interests that sets and changes final policies.

Is the Israeli case unique? Certainly, it offers a relatively extreme case combining deep ethnic and national divisions, an active pursuit of a collective identity project by the government and aggressive neoliberal reforms. However, we believe that the lessons gleaned from this case are relevant for a broader set of cases that merit further research. First, it encourages researchers to seek similar mechanisms in other societies with salient cleavages. For instance, it is argued that the low public support of poverty-related welfare policies in the US reflects racial attitudes (Gilens 1995). An equally interesting question is whether other redistributive policies benefit dominant groups more exclusively and enjoy a stronger basis. Another example discussed above is the ubiquitous benefits provided to military veterans in many countries. Our theoretical framework provides an additional analytical lens for the study of these phenomena.

Second, our discussion implies the possible future of states that redistribute along social cleavages but whose economies have yet to fully liberalize. Hence, when Shoup (2011) demonstrates that postcolonial governments in bipolar societies such as Malaysia and Fiji implemented ethnically discriminatory redistributive programs, our argument suggests that significant economic liberalization would neither dismantle such policies nor expand them unequivocally. Rather, we would predict that in such a scenario these policies would likely experience dynamic, mixed changes reflecting the power balance and opportunities of neoliberal agents and ethnic interest groups. Our argument also implies that a larger number of public struggles would ensue, as certain ethnic groups might mobilize and demand higher benefits using the same Republican discourse used by the government to reward them in the past.

Finally, the assertion that redistributive policies could be designed to reflect and promote social cleavages is relevant to milder cases as well, in particular different settings that are held constant in the Israeli case. One important variable held constant is political institutions. Political systems that have multiple veto players or distribute political power among rival groups may produce different policies and public claim. For example, despite Flemish calls for

regionalization of the federal social security system in Belgium, which would effectively separate it along ethnic and cultural lines, the current system endures due to the intricate political requirements of wide agreements including opposing Walloon actors (Cantillon et al. 2006; Dandoy and Baudewyns 2005). Our argument points at the importance of these institutional arrangements and the redistributive implications of potential changes.

A second key variable held constant is the legal status of different social groups. In the Israeli case, the salient social cleavages run namely between groups of native citizens, including Arab Israelis who resided in the state since its establishment. In other countries, however, social cleavages may divide native citizens and incoming immigrants of different cultures, ethnics and religions. While in Israel we see selective benefits provided through categorical welfare benefits, elsewhere the same exclusion could be enacted through categorical *immigration* policies. To name one example, Banting (2010) argues that one reason behind the minimal tension between Canada's welfare state and multiculturalism is selective immigration policies, which favor high-level economic immigrants with low dependence on welfare assistance. Put differently, the same motivations underlying our argument may also manifest themselves in different policy fronts. Further research could unify these different policy domains under the same theoretical framework.

All of these paths point to the same general direction: a more comprehensive understanding of the relationship between complex social structures and redistributive policies is required. In a world of multicultural politics, in Banting's words, such an understanding is particularly important. Our research attempts to make one additional step down this road.

TABLES AND FIGURES

TABLE 1. Loyalty Benefits Compared with Other Types of Transfer Payments

		<i>Basis for Entitlement</i>	
		<i>Unearned</i>	<i>Earned</i>
<i>Type of Legitimation</i>	<i>Standard</i>	Social assistance based on material need; compassionate categorical benefits	Contributory social insurance
	<i>Liberal</i>	Social assistance for those who cannot or should not work	Social assistance for those who try but fail to integrate into the labor market
	<i>Republican</i>		Loyalty benefits for those who contribute to the common good

TABLE 2. Categorical Loyalty Benefits in Israel

<i>The Zionist Collective Identity</i>	<i>The Arab-Israeli Conflict</i>
<p><i>Aid to Jewish immigrants</i></p> <ul style="list-style-type: none"> • Absorption basket • Old-age benefits for immigrants • Prisoners of Zion allowances <p><i>Jewish identity responsibilities</i></p> <ul style="list-style-type: none"> • Holocaust survivors benefits • Righteous Gentiles benefits • Yeshiva students income support 	<p><i>Compensation for military service</i></p> <ul style="list-style-type: none"> • Demobilized soldier grants • Reserve duty earning replacement • Veteran child allowances (until mid-1990s) <p><i>Compensation to victims of the conflict</i></p> <ul style="list-style-type: none"> • Disabled veterans and bereaved families allowances • Terror victims allowances

TABLE 3. Change in Loyalty Benefits for Holocaust Survivors and Reservists

		<i>Holocaust Survivors</i>	<i>Reserve Soldiers</i>
<i>1950s-1990s</i>	<i>Economic Interests of the Government</i>	Corporatist interests Growing the economy	Support of a strong military
	<i>Republican Justification of Beneficiaries</i>	Weak	Very strong
	<i>Loyalty Benefits</i>	A hybrid of differential loyalty benefits	Loyalty benefits funded by a payroll tax Symbolic benefits
<i>Late-1990s Onwards</i>	<i>Governmental Economic Interests</i>	Limited fiscal expenditure	Support of a strong military Limited fiscal expenditure
	<i>Republican Justification of Beneficiaries</i>	Very strong	Medium
	<i>Loyalty Benefits</i>	Pure loyalty benefits	Expanded loyalty benefits funded by the government, though unequal service

FIGURE 1. Loyalty Benefits as a Proportion of All Transfer Payments

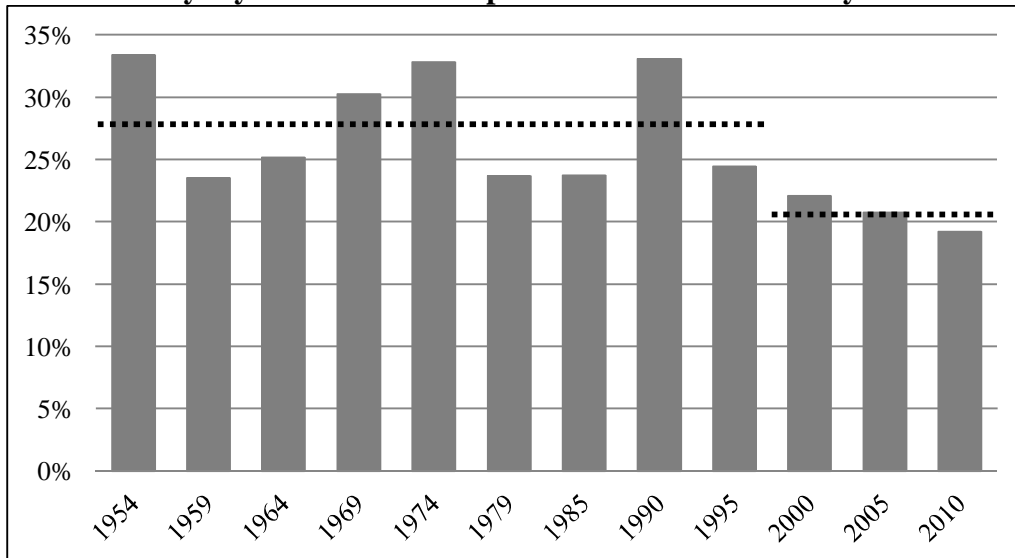


FIGURE 2. Loyalty Benefits with a Consistent Decline since 1985

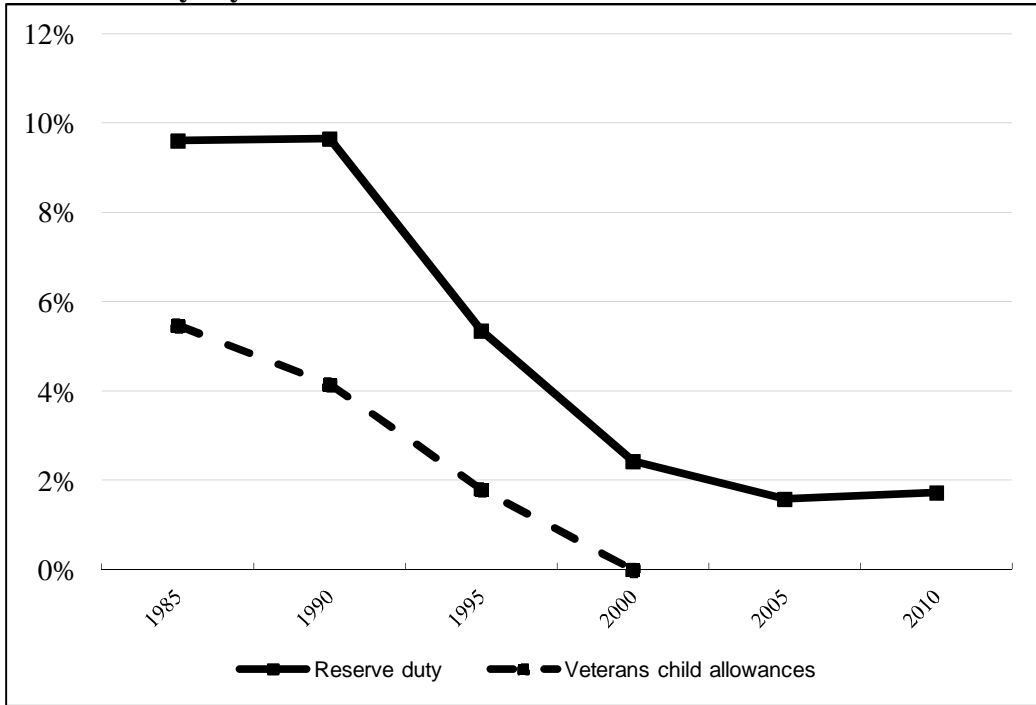
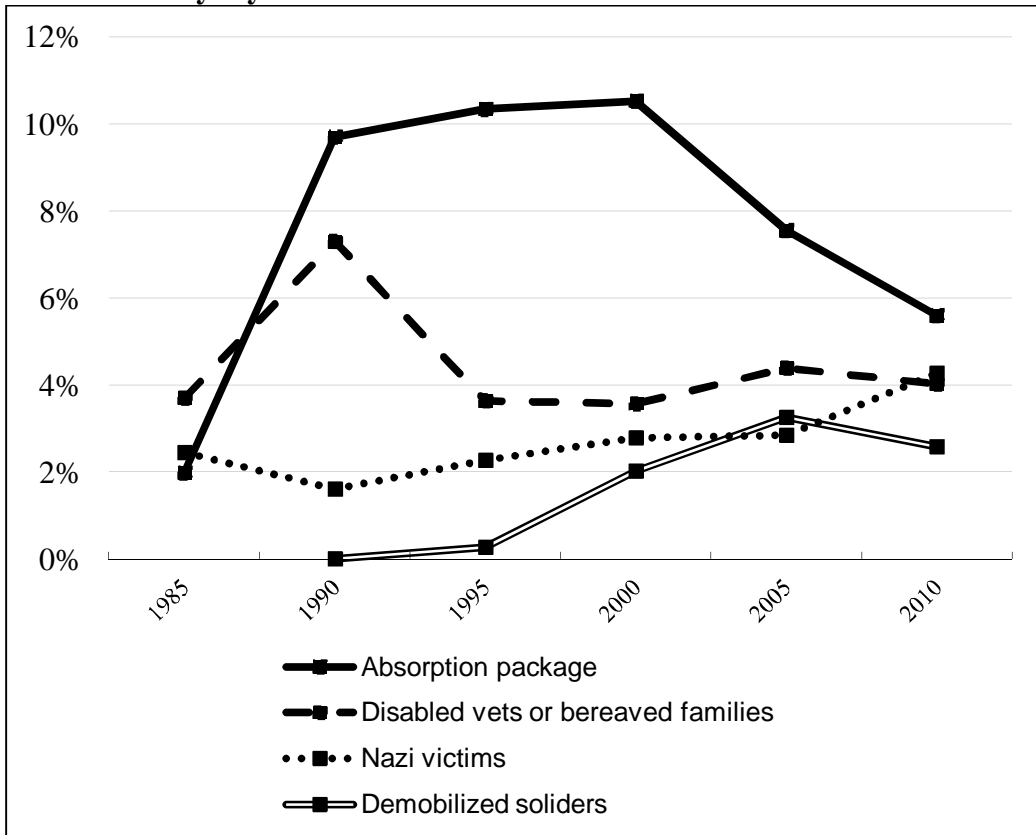


FIGURE 3. Loyalty Benefits with Inconclusive Trends since 1985



APPENDIX

TABLE A.1 Composition of Loyalty Benefits and Other Transfer Payments (Percentage of Total Transfer Payments)

	1964	1969	1974	1979	1985	1990	1995	2000	2005	2010
<i>Loyalty benefits</i>										
<i>Aid to Jewish immigrants</i>	0.0	0.7	2.2	3.0	2.0	9.7	10.3	10.5	7.5	5.6
<i>Jewish identity responsibilities</i>	8.8	4.3	3.5	2.7	2.6	1.9	2.6	3.2	3.2	4.6
<i>Compensation for military service</i>	5.5	19.0	16.2	13.7	15.1	13.8	7.4	4.5	4.8	4.3
<i>Compensation to victims of the conflict</i>	10.9	6.1	10.9	4.3	4.1	7.6	4.1	3.9	5.2	4.7
<i>Subtotal of loyalty benefits</i>	25.1	30.2	32.8	23.7	23.7	33.1	24.4	22.1	20.7	19.2
<i>Other transfer payments</i>										
<i>Old age & survivors</i>	36.5	33.5	29.8	34.5	33.2	32.0	28.7	27.1	32.0	33.3
<i>Child allowance</i>	20.4	19.4	23.1	21.5	17.8	12.1	17.5	16.4	9.9	10.3
<i>General disability</i>	0.0	0.0	2.0	9.2	10.9	7.7	9.3	11.1	16.2	17.3
<i>Social assistance</i>	6.2	2.7	4.0	0.5	3.0	2.4	5.1	6.9	6.3	4.3
<i>Other NII income maintenance</i>	11.8	14.2	8.3	10.7	11.3	12.7	15.0	16.3	14.9	15.5
<i>Subtotal of other</i>	74.9	69.8	67.2	76.3	76.3	66.9	75.6	77.9	79.3	80.8
<i>Total transfer payments</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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This was the beginning of a neoliberal turn in politics across the globe. Looking back at the development from 2011, however, a very complex picture emerges from the social science literature. Crudely, political economy has had a tendency to view the changes within post-industrial welfare states as indeed going down a liberal road of retrenchment, privatisation and marketisation. Ryner, M. 2008. "Neoliberal European Governance and the Politics of Welfare State Retrenchment: A Critique of the New Malthusians". In B. van Apeldoorn, J. Drahokoupil, and L. Horn, eds, *Contradictions and Limits of Neoliberal European Governance: From Lisbon to Lisbon*, 44-53. Basingstoke: Palgrave Macmillan. Google Scholar.

Starke, Peter. *The Politics of Welfare* John Myles & Jill Quadagno contrasted industrialism, class, & political explanations of the historical variations among welfare state forms. Recent research shows that "politics matters," by documenting "the importance of working-class mobilization (in unions and parties) as a condition for early (e.g., 1920s) welfare state consolidation and for explaining national differences in their subsequent expansion. [and] distinctive role of social Catholicism and Christian Democratic parties in generating high levels of social spending" What short-term benefit programs are being curtailed in European Union? What role has party politics played in welfare retrenchment? What will likely be Europe's future implicit social contract between groups? *The Politics of Justification* is an investigation of welfare retrenchment in Denmark and the Netherlands, 1982-1998. Welfare retrenchment is politically highly controversial, but still governments do retrench. This book argues that governments can implement retrenchment if they can achieve a party political consensus allowing them to frame retrenchment in a way that makes it seem justified to the electorate. In the Netherlands, such a consensus emerged in the mid 1980s due to the power of the CDA. It has allowed Dutch government to implement a number of welfare retrenchments. In Denmark, a co