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1

Historical Background

This chapter describes the historical background to the economy of Israel. Clearly, this is not a full history of Israel, as it focuses only on the main historical processes that are crucial for understanding the Israeli economy. These processes are the Jewish-Zionist immigration to the country, the Israeli-Arab conflict, and nation building. These three processes intertwine strongly with one another. The Israeli-Arab conflict would not have erupted without the waves of Jewish immigration that posed a growing threat to the local Arab community. Similarly, the Jewish immigration was not an act of individuals, as most immigrations are. It was part of a political project, Zionism, whose goal was to renew Jewish nationalism in the country. This strongly linked the building of national institutions to Jewish immigration.

The history of Israel reflects a country that has changed dramatically over the years. In the nineteenth century, it was a collection of districts in the Ottoman Empire. During World War I, the British Army conquered it and the rest of the Middle East. Following their victory over the Ottomans, Britain and France divided the Middle East between them according to the Sykes-Picot Agreement.¹ Palestine became a British Mandate in 1922.² In 1947, the United Nations reached a resolution on the partition of Palestine into two states, one Jewish and one Arab.³ Following the rejection of the

1. See Fromkin (1989).

2. The British authorities called the country Palestine in English, while using the term “Palestine Eretz Yisrael” in Hebrew. Jews always called the country “Eretz-Yisrael,” meaning the land of Israel.

3. Resolution 181. See [https://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/181\(II\)](https://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/181(II)).

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resolution by the Arab states and the Palestinians, a war broke out. In the middle of that war, on May 15, 1948, the British Mandate ended, and the State of Israel was established. After the 1949 Armistice Agreements between Israel and the Arab countries, which ended its War of Independence, the State of Israel controlled 78 percent of the territory of the country. This changed again in June 1967, when Israel occupied all of Western Palestine, the Golan Heights, and the Sinai Peninsula. Israel withdrew from Sinai in the Peace Agreement of 1979 with Egypt, but the remaining territories (the West Bank, the Gaza Strip, and the Golan Heights) are still under occupation, and their permanent status has yet to be determined.⁴

Jewish Immigration: Description

The main process behind the development of Israel has been the rapid growth of the Jewish population in the country since 1882 by means of immigration. Prior to that year, Jewish immigration was relatively small. In 1881, on the eve of the Zionist immigration, the Jewish population, called the “Old Yishuv,” numbered only 24,000.⁵ These Jews lived mainly in the four holy cities of Jerusalem, Hebron, Safed, and Tiberias, where Jewish communities had existed for hundreds of years. In the nineteenth century, Jews began to settle also in Jaffa, Akko, and Haifa.⁶ Many of them lived on religious donations, but some, mainly Sephardim, lived by engaging in retail, trade, and crafts. There were some early attempts at modernization in the Old Yishuv, in production, education, and even the foundation of an agricultural settlement (Petah Tikva, established in 1878). However, these attempts were minor and did not significantly change the Jewish community.⁷

Change began in 1882, after the pogroms in Russia in 1881, which were triggered by the murder of Tsar Alexander II. These pogroms, together with the dire economic conditions of Jewish life in Russia and Poland, led to a massive emigration from Eastern Europe. Most of the Jews went to the United States, numbering 3.7 million Jews between 1880 and 1929.⁸ Some emigrated to Europe, and only a handful of idealists went to Palestine. They

4. See Sela (2002).

5. “Yishuv” is the Hebrew name for the Jewish community in the country before the establishment of Israel. The “Old Yishuv” were those who had lived in the country before 1882, while the “New Yishuv” were the new immigrants, who came after 1882.

6. Much of the information on immigration in this chapter is from Bein (1976).

7. See Gat (1963).

8. See Dashefsky and Sheskin (2019), p. 9.

belonged to a movement called *Hovevei Zion* (Lovers of Zion), and they formed the first wave of immigration. This movement soon became part of a wider national movement, *Zionism*, founded by Theodor Herzl in 1897. From then on, Jewish immigration to the country was the result not only of the terrible hardships of Jewish life in Eastern Europe but also of strong national aspirations, influenced by the general rise of national movements in Europe at the time and supported by the Zionist movement.⁹

Over the years, more waves of Jewish immigration to Palestine followed, becoming larger over time, and within a few decades, they changed the country beyond recognition demographically, geographically, politically, and economically.

Table 1.1 shows how the country's demography changed dramatically over the years. While at the beginning of the period, in 1880, Jews constituted less than 5 percent of the population, in 1947, toward the end of the British Mandate, they were already close to a third of the population. This enabled them to declare independence and to win the war of 1947–1949.¹⁰ In the following three years, 1948–1950, the Jewish population doubled with the large immigration of the Holocaust survivors from Europe and entire Jewish communities from Syria, Yemen, and Iraq. At the same time, the Arab population declined drastically, both because Israel did not include the West Bank and Gaza, and because most Palestinians who had previously lived in the Israeli area became refugees.¹¹ After 1950, Jewish immigration to Israel continued, and the population grew quickly. From 1950 to 2018, total population grew 6.5-fold, and the Jewish population grew 5.5-fold.

Like all migrations, the Jewish immigration was driven by both push and pull forces. The push factors in the countries of origin were persecutions, wars, and economic hardship. The pull factors were religious; strong sentiments for the Jewish homeland; national aspirations; security; and more recently, Israel's economic prosperity. The push forces explain why immigrations usually come in waves, when troubles hit countries of origin, and it was true for the Jewish immigration to Israel as well. This is important for the economic analysis in this book, because the variation in immigration over time helps us identify the economic effects of immigration. I next describe briefly the immigration waves since 1882.¹²

9. See Bein (1976).

10. See Pa'il (1979).

11. See Morris (1987) for a thorough analysis of the refugee problem.

12. The description of waves of immigrations is from Bein (1976), while the numbers of immigrants in each wave are from Central Bureau of Statistics (2019), table 2.53.

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TABLE 1.1. Population in Palestine and in Israel, selected years, 1890–2018 (thousands at end of year)

Year	Population	Jews	Non-Jews	Comments
1880	549	24	525	
1914	683	85	595	
1922	768	84	683	First British census
1931	1,036	175	861	
1939	1,505	449	1,056	
1947	1,970	630	1,340	
1948	1,015	759	156	Only in the State of Israel
1950	1,370	1,203	167	
1960	2,150	1,911	239	
1970	3,022	2,582	440	Arabs of East Jerusalem added in 1967
1980	3,922	3,283	639	
1989	4,560	3,717	843	Eve of ex-Soviet Union immigration
2000	6,369	4,955	1,414	225 thousands non-Jews and non-Arabs
2010	7,695	5,802	1,895	320 thousands non-Jews and non-Arabs
2018	8,968	6,664	2,303	425 thousands non-Jews and non-Arabs

Source: Data for the Ottoman period are from Gorny (1987); for the British Mandate from Metzger (1998, table A.1). Data after 1948 to the present are from Central Bureau of Statistics (2019, table 2.1).

THE FIRST ALIYAH, 1882–1903

The first immigration wave was mainly from Russia, but it coincided with the arrival of a small group of Jews from Yemen as well.¹³ This first wave of 20,000–30,000 immigrants was already part of the great Jewish migration from Eastern Europe. While previous Jewish immigrants to the Holy Land settled among the Arab population in existing towns and communities, the new immigrants established separate Jewish settlements. These were the early moshavot.¹⁴ Among them were Rishon LeZion, Zikhron Ya’akov, Rosh Pinna, Ekron, Yesud HaMa’ala, Ness Ziona, Gedera, Rehovot, and Hadera. The establishment of separate settlements was the beginning of a geographic separation between Jews and Arabs, which remains a dominant pattern in Israel today.

13. Aliyah means “ascent” in Hebrew, a common term for Jewish immigration to Israel. Before the establishment of Israel, each such immigration wave, or Aliya, had a “serial number.”

14. Moshavot were settlements of farmers, who worked the land on a private basis.

THE SECOND ALIYAH, 1904-1914

This immigration followed the failed Russian Revolution of 1903, and most immigrants were young Zionist-Socialists from Russia who belonged to the movements Poalei Zion and Hapo'el Hatza'ir. Between 30,000 to 40,000 immigrants arrived, although many left, especially during the difficult years of World War I. This immigration put the labor movement in a leadership position in the Zionist movement. Its most prominent leaders were David Ben-Gurion, A. D. Gordon, Berl Katzenelson, Yitzhak Ben-Zvi, and Levi Eshkol. This immigration continued to establish separate Jewish settlements. They built the first kibbutzim (agricultural collective settlements), but they also laid the foundations for the first Jewish city, Tel Aviv (1909).

THE THIRD ALIYAH, 1919-1923

These 35,000 immigrants had two main motives. The pushing motive was the Russian Revolution of 1917, and the pulling motive was the new British rule in Palestine and its promise, expressed in the Balfour Declaration, to promote a “national home” for the Jewish people in Palestine.¹⁵ Despite the high hopes that followed this declaration, this immigration was still small and consisted mainly of young idealists from Eastern and Central Europe. The Jewish masses continued to go to the United States. The immigration to Palestine continued to establish separate Jewish settlements, mainly kibbutzim and moshavim.¹⁶

THE FOURTH ALIYAH, 1924-1932

This was the first Jewish mass immigration to Palestine, of 82,000 immigrants, mainly from Poland. They escaped its dire economic conditions and the growing anti-Semitism in the country, also reflected in the policies of the Minister of Finance Wladislaw Grabski. It was mass immigration not only by number but also by composition, as entire families arrived, whereas previous immigrations had many young idealist pioneers.

The beginning of mass immigration of Jews to Palestine in 1924 was not incidental. That year the United States passed the Johnson-Reed Act, which greatly reduced immigration quotas of ethnic groups from outside

15. See Cleveland and Bunton (2016).

16. A moshav is an agricultural settlement, which is partly collective.

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the Western Hemisphere. Among these groups were East European Jews, and the act greatly reduced their ability to enter the United States.¹⁷ Thus, many Jews in Poland, at the time the largest Jewish community with 3.5 million, chose Palestine instead. This had a dramatic effect on the Zionist project. After three small immigration waves came the first mass immigration, which has since become the main type of Jewish immigration to the country. Actually, in 1925 the number of Jewish immigrants to Palestine exceeded the number of Jewish immigrants to the United States.¹⁸

The Fourth Aliyah continued the pattern of separate Jewish settlements, this time mainly urban. Many came to Tel Aviv, which more than doubled in population during these years. The newcomers also built other towns, such as Herzliya, Bnei Brak, Kiryat Ata, Bat Yam, and Netanya. The professional skills of the immigrants and the money they brought with them made them pioneers in industry, trade, and crafts.

THE FIFTH ALIYAH, 1933–1938

Mass immigration resumed in 1933, after the rise of the Nazis to power in Germany. It spread fear in central and Eastern Europe, and 197,000 Jews arrived mainly from Germany and Poland. The immigrants from Germany were highly educated, which contributed much to building the education system in the country. The Fifth Aliyah expanded the map of Jewish settlements to new towns like Holon and Nahariya, and also to many kibbutzim and moshavim.

THE SIXTH ALIYAH, 1939–1948

During World War II, Jewish immigration to Palestine declined, as Jews were trapped in Europe under German occupation, and the Mediterranean was almost closed to seafaring. In addition, the British “White Paper” of 1939 imposed restrictions on Jewish immigration, as a reaction to the Arab Revolt of 1936–1939. Still, 138,000 immigrants arrived during this period, a fifth of them from Arab and Muslim countries, a larger share than before. After World War II, in 1945–1948, many immigrants arrived illegally to challenge the British restrictions. They were mainly Holocaust survivors, who were desperate to leave the refugee camps in Europe and go to Palestine.

17. See United States Holocaust Memorial Museum (2020).

18. See Alroey (2014), p. 17, for this observation.

THE GREAT ALIYAH, 1948-1951

Following the establishment of the State of Israel on May 15, 1948, a wave of 688,000 immigrants arrived, doubling the population of the country in 3 years. Half were Holocaust survivors from the refugee camps in Europe, who could now come freely. The other half were Jews from Arab countries, who found themselves in a dangerous situation with their countries fighting their own people and facing growing animosity from their Arab neighbors. Many such communities chose to immigrate to Israel, initially from Syria, Iraq, and Yemen.¹⁹ This large immigration created desperate needs for housing and jobs in the young state. Most immigrants landed in temporary camps of tents and sheds, called “maabarot,” where living conditions were harsh. Some camps were in the center, but many immigrants had to settle in the periphery, to solidify the new borders of Israel.²⁰

IMMIGRATION FROM NORTH AFRICA, 1956-1965

Following Gamal Abdel Nasser’s rise to power in Egypt and the Sinai (Suez) Campaign of 1956, the Jews left Egypt, followed by Jewish migration from other North African countries.²¹ The main drivers of this migration were the Israeli-Arab conflict and the end of French colonial rule in North Africa. Some 465,000 Jews arrived during these years, of which 209,000 were from North Africa. The others came from East European Communist countries, mainly Romania and Poland.

IMMIGRATION AFTER THE 1967 WAR, 1969-1973

The victorious war triggered high enthusiasm in the Jewish world, and a new wave of immigration came to Israel, mainly from developed countries. The total number of immigrants was 228,000, of which 184,000 came from Europe and America. Some came from affluent countries; others came from the Soviet Union, being able to leave it for the first time, although in small numbers. Still others were young Latin Americans who were fleeing totalitarian regimes.

19. See Trigano (2018) for descriptions of these migrations.

20. For more on this immigration, see Lissak (1999).

21. See Trigano (2018).

IMMIGRATION FROM THE FORMER SOVIET UNION AND ETHIOPIA, 1990–2000

In 1989–1990, the Soviet Union collapsed. One of the results of this dramatic event was the opening of its gates to allow Jewish emigration. Some went to Germany, the United States, and Canada, but most immigrated to Israel.²² During the 1990s, about 1 million Jews immigrated to Israel, of which 376,000 came in 1990–1991. The immigration continued, though at a lower rate, until 2000. In addition to the former Soviet Union immigrants, 47,000 came from Ethiopia during these years.

Jewish Immigration: Characteristics

Figure 1.1 gives further support to the claim that Jewish immigration to the country was not a smooth process but took place in waves. The figure shows the numbers of immigrants in each year relative to the existing population at the beginning of the year (which is the Jewish population during the British Mandate and total population of Israel during the State years).

Figure 1.1 is informative on how large the effect of immigration was and on the difficulty of absorbing it. In relative size, the largest wave was the Fourth Aliyah. In 1924, immigrants increased the Jewish population by more than 35 percent. The Fifth Aliyah also stands out: In each of the years 1935–1939, immigrants increased the Jewish population by 20 percent. A third large wave is the Great Aliyah in 1948–1951, when immigrants increased the population by an annual average of 18 percent. The fourth significant wave is the immigration from the ex-Soviet countries in the 1990s. Its annual relative size was lower, since in 1989 Israeli population was already large, at 4.5 million. However, the million immigrants increased the population of Israel by 20 percent over 10 years.

Figure 1.1 also reinforces the importance of 1924, when mass immigration began. From 1882 to 1923, 40 years and three immigration waves increased the Jewish population from 24,000 to only 90,000. However, in the 23 years from 1924 to 1947, 428,000 immigrants came and significantly changed the demographic balance in Palestine. This further highlights the contribution of the Johnson-Reed Act of 1924 in the United States to the success of Zionism

22. Actually, Israel reached an agreement with the United States that the latter would limit entry of ex-Soviet Jews, to encourage them to go to Israel. Indeed, in 1989 the United States stopped granting Soviet Jews unconditional refugee status. See Y. Cohen, Haberfeld, and Kogan (2011).

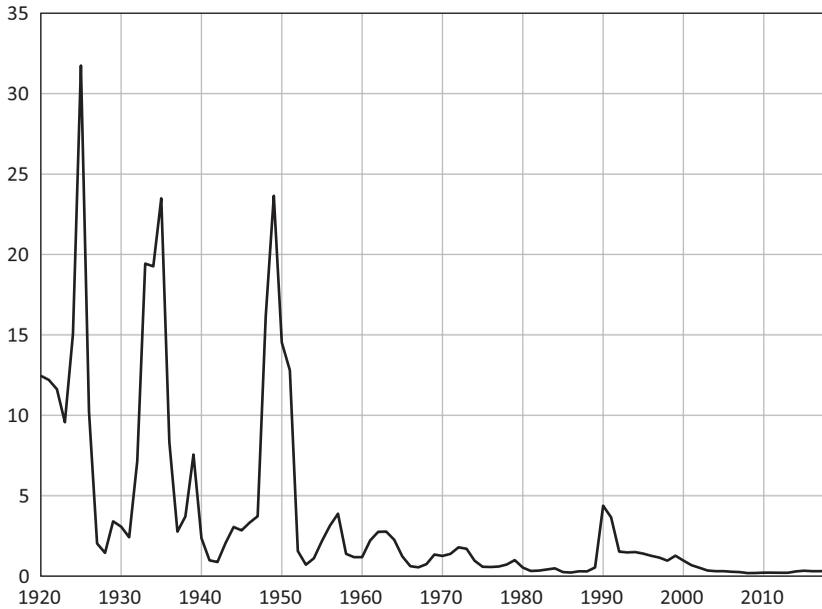


FIGURE 1.1 Annual immigration relative to beginning-of-year population, 1920–2018 (percent). Data from Mandatory period are from Metzger (1998, table A.3) and after 1948 from Central Bureau of Statistics (2019, table 2.53).

in the twentieth century. What the Zionist movement could not achieve until then, despite all its efforts, became possible once the American gates closed for Jewish immigration. The Jews of Eastern Europe, who felt the ground shaking under their feet, came in growing numbers to Palestine. The immigration of pioneers and idealists finally became mass immigration.

The Jewish immigration changed the country beyond recognition in several respects:

Demography: Jewish immigration increased the Jewish presence in the country from a negligible minority in the beginning of the British Mandate to one-third toward its end. After 1948, immigration increased the Jewish population of Israel by ten times and made the Jewish State a solid fact.

Geography: Most Jewish immigrants did not settle among Arabs but established separate Jewish settlements. They settled mainly in the coastal plain and in the valleys, but some also settled in the Galilee and in the Negev. Some of these settlements became large cities. Hence, immigration significantly changed the physical map of the country.

Politics: The Jewish immigration led to a violent conflict with the Palestinians, which expanded in 1948 to a wider conflict with the entire Arab

world. The immigration also increased Jewish population to a point of being able to demand self-determination and to establish the State of Israel, significantly changing the political map of the Middle East.²³

Economics: The Jewish immigrants built a thriving economy based on agriculture (in which they had no previous experience), industry, high-quality education, and services. The economic development of the Yishuv, and later of Israel, transformed within 50 years a poor country into one of the thirty most developed countries in the world.

Institutions: The Jewish immigration was not only an act of individuals but also part of a political project, Zionism. The Zionist movement encouraged immigration and created the necessary conditions for successful absorption of the immigrants. It did so by promoting economic growth, which provided housing, jobs, and institutions that improved the lives of immigrants.

Finally, it is useful to compare the Jewish immigration to Palestine and Israel to other migrations in modern history. One similarity is that all migrations are not continuous, but come in waves, since they respond to bad conditions in the countries of origin, like the great Irish famine in the mid-nineteenth century. The immigration waves to Palestine and Israel followed a similar pattern. The waves of immigration followed the terrible conditions in Poland between the two World Wars; the rise of Nazism; the Holocaust; the wars between Israel and the Arab countries; and more recently, the collapse of the Soviet Union.

Another similarity between the Jewish immigration to Israel and other migrations is that good economic conditions in the receiving country are required for immigration. This has been the case for the United States almost throughout its history, and in Europe in this century. Similarly, Jewish immigration to Palestine and Israel declined during the economic crisis of 1927–1928, during the recessions of 1952–1953 and 1966–1967, and during fiscal crisis and high inflation in 1973–1985. Ben-Porath (1986a) also confirms that good economic conditions in Israel encouraged immigration.

However, the Jewish immigration to Palestine and Israel differed from most other migrations in two main aspects. First, most of the immigrants had middle-class backgrounds, education, and moderate financial means far above those of immigrants in other modern episodes. The reason is that while most immigrants leave due to economic hardships, Jewish immigrants left mainly for national and religious reasons. Part I in this book shows that

23. See Cleveland and Bunton (2016).

this was relevant to Israel's economic success. A second difference from other immigrations is that the Jewish immigration was part of a national movement. Zionism, the political movement that encouraged and supported this immigration, was instrumental to its success.

The Israeli-Arab Conflict: The Beginning

As shown above, Jewish immigration to Palestine increased Jewish presence in the country beginning in 1882 and especially since 1924. The immigrants, who came under the umbrella of Zionism, built villages and towns and established institutions like schools, journals, universities, companies, and even defense organizations. The indigenous Arab population soon understood the significance of this development and viewed it as a serious threat.

This was the background to the Jewish-Arab conflict. However, it took time to brew. Some local clashes between Jews and Arabs took place at the beginning of the Zionist settlement, but these were rather random and rare. The clashes evolved into a national conflict only after the British occupation in 1917.²⁴ The Ottomans, who had ruled the country before, established a stable regime that lasted more than 400 years, under which many ethnic and religious groups lived in mostly peaceful coexistence. As many believed that this situation would last forever, they viewed local national aspirations as unrealistic and hesitated to follow them. Only toward the end of the nineteenth century did a general Arab national consciousness begin to develop.

The British occupation of Palestine ended this status quo for several reasons. First, the sudden disappearance of the Ottomans made national aspirations seem more realistic. Second, the British arrived with two conflicting national promises. On one hand, they promised the Arabs independence, in return for their help in winning the war in the Middle East.²⁵ The promise was vague, and it did not refer directly to Palestine; nevertheless, it encouraged the Palestinians to exert pressure on the new British government in their favor. On the other hand, the British delivered to the Zionists the Balfour Declaration in 1917, which promised support of a Jewish national home in Palestine. With Palestine under their rule, they could fulfill the promise. These two conflicting promises caused both sides to hope that

24. See Morris (1999).

25. In the famous McMahon-Hussein correspondence. See Kedouri (2014) for its effect on the conflict. See also Segev (2000).

with enough political pressure, they could tilt the scales in their favor. This explains the first major outbreak of the conflict in 1921.²⁶

Despite the importance of the British promises to both sides, the main motivation behind the escalation of the conflict was Jewish immigration, as shown by the correlation between outbreaks of the conflict and waves of immigration. The events of 1921 happened after the arrival of the Third Aliyah in 1919, and the events of 1929 erupted after the Fourth Aliyah. Interestingly, H. Cohen (2015) describes the events of 1929 as the true beginning of the Jewish-Arab conflict and indeed, the fighting broke out after the beginning of mass immigration in 1924. The Arabs realized that the Jewish presence in the country was no longer negligible but significant and growing fast, due to large influxes of Jews. Similarly, the Arab Revolt of 1936–1939 broke out at the peak of the Fifth Aliyah.

From early on, the Palestinians focused on one main demand from the British: to stop the flow of Jewish immigration. For a long time, the British refused to comply with this demand, which contradicted the Balfour Declaration and the mandate by the League of Nations. However, under Palestinian pressure, mainly due to the Arab Revolt, eventually the British changed their position. The famous White Paper of 1939 imposed severe restrictions on Jewish immigration.

Jewish immigration contributed to the conflict not only by raising Palestinian resentment but also by increasing Jewish self-confidence. As their number increased to a third of the population in the 1940s, and being much better organized than the Arabs, their willingness to fight for independence increased, and their demands became more daring. In the 1940s, the Biltmore Plan already demanded a Jewish state. The Zionists also put significant pressure on the British Mandate by increasing the illegal immigration of ships that arrived by night on the beaches. These developments helped bring the Mandate to its end and expedited the onset of the war of 1947–1949.²⁷

The Main Eruptions of the Conflict

The history of the Israeli-Arab conflict reveals two patterns, which are of great importance to the economic analysis of the conflict. One is that violence is not continuous over time but erupts every few years. The second

26. See Porath (1974).

27. See Segev (2000) for more on the Mandatory period.

is that the conflict has changed its scope and character several times over the years. Recognizing these two types of variation in the conflict can help researchers study and identify the effects of the conflict on the economy.

The following list of eruptions demonstrates the first phenomenon that violence breaks out only once in a few years, while between these eruptions, the conflict is contained.²⁸

THE EVENTS OF 1921

The events²⁹ broke out in Jerusalem following the Nebi Musa celebrations but expanded to other areas, such as Jaffa (among those murdered was the famous writer Y. H. Brenner).

THE EVENTS OF 1929

These events followed clashes over the prayer arrangements at the Western Wall in Jerusalem, and quickly spread to other places. The most deadly attack was in Hebron, where Arabs killed dozens of Jews, and Jewish life ceased to exist there afterward.

THE EVENTS OF 1936–1939

These were more intense and longer than earlier events, and indeed, the Palestinians call it “the Arab Revolt.” The Palestinians fought not only against the Jews but also against the British, demanding that Jewish immigration be stopped. The British brutally suppressed the revolt, but the publication of the British “White Paper” in 1939 shows, that despite its military failure, the revolt achieved its main political goal.

THE WAR OF INDEPENDENCE, 1947–1949

The war began immediately after the UN resolution on the partition of Palestine in November 1947. Its first stage was limited to a war between the Jewish and Arab communities. In April 1948, it became clear that the Jews were winning, and most Palestinians from the area intended for the Jewish

28. Further information on the history of the conflict is in Tessler (2009) and Morris (1999).

29. “Events” (Me’oraot) is the Israeli term for clashes during the Mandatory period. I try to also give the Palestinian term whenever I can. However, this book focuses mainly on the effects of the conflict on Israel.

state left their homes or were expelled by force. That started the problem of Palestinian refugees, and it is why the Palestinians call this war “Nakba” (“disaster”). As the British left and the Yishuv declared the State of Israel in May 1948, Arab armies from Egypt, Jordan, Syria, Iraq, and Lebanon invaded the country and joined the war. At its end in 1949, Israel controlled 78 percent of the territory of Palestine, more than it got under the UN plan. The Armistice Agreements with the neighboring Arab countries set the temporary border of this territory, the “Green Line,” which survived for 19 years. The number of Israelis who died in the war was about 6,000, close to 1 percent of the population.

THE SINAI CAMPAIGN, OCTOBER 1956

In this war, also called the Suez Campaign, Israel attacked Egypt after a long period of border clashes due to infiltration of Palestinians into Israel and to Israeli retaliations. The attack was coordinated with Britain and France, who planned to conquer the Suez Canal and return it to their control after Egypt had nationalized it. Israel conquered the Sinai Peninsula within a week, but it had to withdraw back to its previous borders within a few months, due to joint pressure by the United States and the Soviet Union. Israel lost 172 soldiers in the war.

THE SIX-DAY WAR, JUNE 1967

In May 1967, Egypt sent army forces to Sinai in violation of the demilitarization agreements, removed the UN forces from the border, and closed the Red Sea to Israeli ships. These moves created great tension between the sides; after a few weeks, Israel attacked Egypt and conquered the Gaza Strip and the Sinai Peninsula up to the Suez Canal. As Jordan and Syria joined the fighting, Israel captured the West Bank from Jordan and the Golan Heights from Syria as well. Israel lost 776 soldiers in the war. Unlike the Sinai Campaign, Israel remained in the occupied territories without much pressure to withdraw, partly due to growing US support. This led to two important results. First, Israel now controlled, for the first time, all of Palestine and the Palestinians who lived there, which changed dramatically their role in the Israeli-Arab conflict. Second, remaining in the territories after the war increased the tension between Israel and its neighbors, which led to an escalation in the Israeli-Arab conflict.

WAR OF ATTRITION, 1968–1970

As the Arab world did not accept the results of the 1967 war, the War of Attrition began soon after. This was a static war, mainly with Egypt along the Suez Canal, but also with Syria on the Golan Heights and along the Jordan River against the new Palestinian organization, Fatah, which was part of the Palestinian Liberation Organization (PLO). In the War of Attrition, Israel suffered 1,424 fatalities, twice as many as in the Six-Day War.

YOM KIPPUR WAR, OCTOBER 1973

This war, also called the “October War” or the “Ramadan War,” began when Egypt and Syria attacked the Suez Canal and the Golan Heights, respectively. The attack was part of the Arab effort to force Israel to withdraw from the territories occupied in 1967. The war was fierce. It lasted three weeks, and Israel suffered a great loss of life, 2,297 soldiers. It also lost much equipment and ammunition, so the economic cost of the war was heavy as well. In retrospect, we can say that this war paved the way to the 1979 Peace Agreement with Egypt, where Israel withdrew from Sinai in return for full peace, mutual recognition, and diplomatic relations.

THE 1982 LEBANON WAR

Israel began the war with two main goals. The explicit goal was to push the PLO forces from southern Lebanon, from which they could fire rockets on Israeli towns and villages in the north. The PLO forces settled in Lebanon, after they escaped Jordan in the “Black September” of 1970. An additional implicit goal of the war was to intervene in the Lebanese civil war, which began in 1975, in support of the Maronite Christians. Israel achieved the explicit goal within a few months, when the PLO forces left Beirut and Lebanon, mainly to Tunisia. The other goal of the war failed completely. Not only did Israel fail to impose the Maronite militias on Lebanon, but it also created a new enemy. The Shiites in southern Lebanon formed a strong militia, Hezbollah, which began a guerrilla war against Israeli forces in Lebanon. In 2000, 18 years after it invaded, Israel withdrew completely from Lebanon, after suffering 1,216 fatalities in this war.

THE FIRST INTIFADA, 1987-1993

This was the first widespread Palestinian uprising since the Israeli occupation of the Palestinian territory in 1967, and in fact the first direct Palestinian-Israeli confrontation since 1948. The Intifada began with demonstrations, stone throwing, strikes, and boycotts of Israeli goods, but later deteriorated to the use of arms. The PLO directed the Intifada from abroad, but soon a new force emerged, Hamas, the Palestinian branch of the Islamic Brotherhood. Some 200 Israelis and 1,200 Palestinians died in the First Intifada. In 1988, the PLO agreed to partition into two states, thus paving the way for peace talks with Israel. The negotiations between Israel and the PLO began after the election of Yitzhak Rabin to be the Israeli prime minister in 1992 and led to the Oslo Agreements in 1993. The agreements included mutual recognition, establishment of temporary Palestinian Autonomy in the territories, and promised to reach a Final Status Agreement within five years. The Oslo agreement also enabled the peace agreement between Israel and Jordan in 1994.

THE GULF WAR, 1991

Following the occupation of Kuwait by Iraq, the United States led a large coalition of countries to fight Iraq in “Operation Desert Storm.” Israel was not part of the coalition, but Iraq fired many conventional missiles at Israel. Israel held back and did not respond, so its part in the war was passive, and it suffered very few casualties.

THE SECOND INTIFADA, 2000-2005

In July 2000, negotiations on the Final Status Agreement between Israel and the PLO at Camp David failed. Tensions between the sides increased, and in September, the intifada began (the Palestinians call it the “Al Aksa Intifada”). The Second Intifada was more intense than the first, with greater use of firearms, and hence it caused more fatalities: 1,100 on the Israeli side and close to 5,000 on the Palestinian side. Israel suppressed the intifada by the use of large military campaigns. The Second Intifada ended in 2005 with the Disengagement from the Gaza Strip. This was a unilateral withdrawal from the Gaza Strip, including demolition of the settlements there.

THE SECOND LEBANON WAR, 2006

This was a relatively minor war between Israel and Hezbollah. It erupted mainly due to unsettled issues from the previous war in Lebanon, such as the status of the remaining Lebanese prisoners in Israel and border issues. Israel suffered 170 fatalities in this war.

THE OPERATIONS IN GAZA, 2006–PRESENT

Israel left the Gaza Strip in 2005 but continued to control its borders by land, sea, and air. In fact, Israel put Gaza under a siege, which intensified after Hamas' victory in the Palestinian Authority elections in 2006, and further after Hamas took over the security forces in Gaza in 2007. The Gazan answer to the siege was the development of "Qassam" rockets that enabled Hamas to harm routine life in Israel around the Gaza Strip. The tension along the border between Israel and Gaza is high and has led to several eruptions in 2006, 2008, 2012, and 2014. The heaviest fighting took place in 2014, killing 73 Israelis and more than 2,000 Palestinians.

Figure 1.2 presents the annual number of Israeli military fatalities. It demonstrates the pattern of eruptions in the Israeli-Arab conflict and between them years of relative calm. Note that figure 1.2 also shows a trend of rising fatalities over time in calm periods, as the number of fatalities includes not only soldiers killed in action but also in accidents. This leads to an upward trend, as the population and the size of army grow. Figure 1.2 also shows a marked rise in the number of fatalities in the years 1967–1977, when the Israeli-Arab conflict intensified significantly.

Changes in the Type and Intensity of the Conflict

Until 1948, the conflict was between two ethnic communities in the same country. Militarily, it was a conflict between militias, because neither side could build a real army, as it was illegal under the British rule. Thus, until 1948, it was a narrow conflict, only between Israelis and Palestinians, with low costs, in terms both of human life and of arms and ammunition. In 1948, with the invasion of Arab armies, the conflict expanded from a narrow to a wide conflict between Israel and all Arab countries.

It is hard to explain this expansion of the conflict. The Arab countries claimed that they invaded Palestine to help the Palestinians, but they may

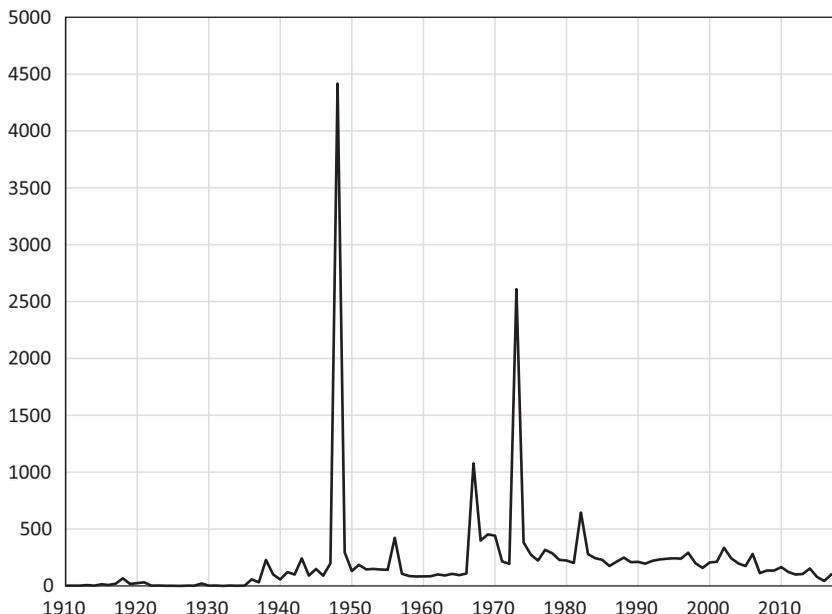


FIGURE 1.2. Annual military fatalities, 1910–2018.

Data are from the Ministry of Defense. See Freedom of Information (2018).

also have hoped to grab some Palestinian territories, as Jordan captured the West Bank and Egypt the Gaza Strip. Another explanation is that the establishment of Israel, in its exceptional location, divided the Arab world into two separate areas, thus harming it significantly. A fourth explanation is that Palestine was holy and had been important to Islam for more than 1,300 years. Whatever the explanation, the change in the conflict in 1948 was not only political but also military and economic. From a militia conflict, it upgraded to a conventional military conflict. Thus, it became much more costly in human life, arms, and ammunition, as fighting involved not only infantry, but also tanks, artillery, air forces, and navies.

The Israeli-Arab conflict remained wide for more than 30 years, until the 1979 peace with Egypt. This was peace with one country only, but it was with the strongest Arab country militarily. Since forming an Arab fighting coalition against Israel became impossible without Egypt, the wide Israeli-Arab conflict ended de facto. Chapter 5 supplies additional evidence that the wide conflict indeed ended in the 1980s.³⁰

30. A similar observation appears in Gelvin (2006).

The Palestinians were early to recognize that the wide conflict with the Arab countries ended and that no one would fight for them any more. This realization triggered the First Intifada in 1987. Since then, the conflict has returned to its pre-1948 shape, as a narrow Israeli-Palestinian conflict. The type of fighting changed as well, from conventional warfare to militia fighting. Although it is the army that fights on the Israeli side, it uses mainly infantry, which is similar to using a militia. On the Palestinian side, there are two major militias since the First Intifada, Fatah and Hamas. A conflict between militias is much less costly than the conventional wars of the past.

The list of eruptions together with figure 1.2 show that even during the period of the wide conflict, there were large variations in military activity. The 10 years after 1967 were years of a significant rise in the intensity of the conflict. Instead of one eruption in a decade, as before 1967, this decade saw three wars: the Six-Day War, the War of Attrition, and the Yom Kippur War, and all three were costly. A plausible cause for the rise in intensity of the conflict after 1967 is that Israel did not withdraw from the territories it had conquered in the war, unlike after the 1956 Sinai campaign. As a result, Egypt, Jordan, and Syria continued to apply military pressure on Israel to withdraw from these territories. The high intensity of the conflict after 1967 had many economic consequences, as shown in chapter 5.

Building a New Nation

The new nation of Israel built many institutions: economic, governmental, social, and cultural. Over the past 100 years, Israelis have invested a huge creative effort in these institutions to support the Zionist goal of absorption of the immigrants and their integration into a nation. The history of these institutions is important not only in itself but also helps to understand the present as well, since institutions have strong inertia and change slowly over time. Thus, understanding many current Israeli institutions, like the Histadrut (General Union of Workers in Israel), the Labor Party, or the Jewish Agency, requires knowledge of how these institutions began and what their original purposes were. The conditions in which these institutions were born have long changed, but the institutions themselves have changed too little and too slowly since then. In general, institutions are of great importance for the functioning of the economy.³¹

31. For a recent book on the importance of institutions for development and growth, see Acemoglu and Robinson (2012).

The brief discussion in this chapter cannot cover all aspects of Israeli institutions, so it focuses on four issues only. The first is that the institutions established by the Zionist movement were for Jews only. The second is the great role of the political parties in Israel. The third issue is how the labor movement dealt with the tension between its two ideologies, Zionism and Socialism. The fourth issue is the gaps between European Jews and Jews from Arab and Muslim countries.

ZIONIST INSTITUTIONS

The Zionist movement made great efforts to absorb the immigrants successfully, hoping that it would encourage immigration of more Jews. To achieve this goal, it built institutions that were by nature for Jews only. An example of such institutions were the Zionist political parties, which helped absorb new members on arrival in the country. These were clearly Jewish parties. After the establishment of the State of Israel, these parties remained the leading political parties, and they kept their Zionist character. As a result, only few Israeli Arabs could join these parties, which remains the situation today.³²

Another example of institutions for Jews only is the Jewish Agency and its related institutions. The Jewish Agency was the representative of the Yishuv before the British authorities, and it actually functioned as a government of the Yishuv. After the establishment of the State of Israel, the Jewish Agency remained active, with two main goals. One was to promote Jewish immigration to Israel, and the second was to build new settlements. Naturally, these settlements were for Jews only. A related institution was the Jewish National Fund, which purchased land for Jewish settlement during the Mandatory period. After 1948, this institution controlled a large share of the land in Israel. As such, it contributed to discrimination against Israeli Arabs in land use.³³

The discrimination was much worse in the early years of Israel, especially due to the military rule imposed on Arab towns and villages, which lasted until 1966. Discrimination declined over time, but it has never fully ended. One channel is through labor markets, as described in chapter 13, where Arabs find it hard to find jobs in firms that work with the defense establishment. However, the toughest discrimination is in the area of land development and housing, as described above.

32. For a recent survey of Israeli politics, see Galnoor and Blander (2018).

33. See Yiftachel (2006).

The Yishuv also established educational institutions: primary schools, high schools, and even two institutions of higher learning (the Hebrew University of Jerusalem and the Technion, a technology institute in Haifa). All schools taught in Hebrew and were open to Jews only during the Mandatory period. With the establishment of the state, these schools became a public education system that consists of three separate systems: state, state-religious, and Arab, while only universities are open to all. Hence, to understand why Israel has separate educational systems for Jews and Arabs, it is necessary to keep in mind the Mandatory period and the separate settlements of Jews that began very early.

The Zionist movement established many more institutions. A major one was the general labor union, the Histadrut, which also created additional institutes that supplied jobs; housing; pension funds; and health care, such as Kupat Holim and its hospitals.³⁴ The Histadrut organized only Jewish workers during the Mandatory years. After 1948, it accepted Arabs in a separate “Arab department.” Only after 1966 did Arab workers become full members of the Histadrut. The Zionist movement created additional health-care and housing institutes outside the Histadrut as well, like the housing company Rassco (Rural and Suburban Settlement Company), the Hadassah hospitals and other health funds. It also created institutes to promote science, such as the Weizmann Institute, the Academy of the Hebrew Language, and the National Library. Other institutions, like publishing houses, newspapers, and theaters, promoted culture and the arts. Most of these institutions continued to operate after 1948, and many remain exclusively for Jews to this day.

Hence, the story of how separate institutions for Jews began is not just history but is part of the explanation of how Israel operates today. The separation was understandable under the British Mandate, in a period of immigration absorption and national consolidation. As institutions are highly inertial, many still remain separate. Nevertheless, the separation is also a longstanding policy of the Israeli government and not only a result of the inertia of institutions. There are many examples of this policy, like the widespread land confiscations in 1976 and the recent attempts to evacuate Bedouin settlements from their land. These policies reflect how the continuing conflict between Israel and the Arab world affects the relations between Jews and Arabs in Israel. Part of this policy operates by keeping the separating institutions active.

34. Kupat Holim is a health fund, which provides both health insurance and health care.

THE STRONG PARTIES

Among the institutions built in Palestine, the Zionist parties were uniquely strong, far more so than political parties in other countries. These parties used to own and operate school systems, health funds, newspapers, publishing houses, banks, and even militias.³⁵ How did the Zionist parties acquire such organizational and economic power? One explanation is that since Zionism was a national-political project, parties played an important role in it. The Zionist movement formed in 1897 and soon became a coalition of Zionist parties, which covered the full political spectrum: left, center, right, and religious.

To understand better the strength of the Zionist parties, it is important to consider their mode of operation. Each of them functioned on a dual basis, in Palestine and in the Diaspora. This enabled them to encourage and organize their supporters abroad to immigrate to Palestine. Even the British Mandate officially recognized this role of the Zionist parties as recruiters of immigrants. The British, who issued immigration permits (called “Certificates”), granted these to the Jewish Agency, which divided them among the various parties.

Hence, the parties acted as importers of the two main factors of production in every modern economy: labor and capital. Most of the immigrants became workers in Palestine, and they came mainly through the parties of the labor movement. However, many immigrants brought with them some wealth, though mostly modest. They arrived mainly from Poland and Germany and belonged to the centrist Zionist parties. These immigrants invested in domestic projects and thus imported capital. They invested in industry, commerce, citrus growing, and other economic areas. During the Mandatory period, immigrants’ money funded these investments. In agriculture, the labor movement built the settlements, *kibbutzim*, and *moshavim*, and supplied the labor, but the financing came from Zionist donations, organized by all Zionist parties. Hence, being importers of labor and capital to the growing economy gave these parties a lot of strength.

Of all the Zionist parties, the most powerful and energetic were the Zionist-Socialist parties, which formed the labor movement. In their center was Mapai (the Party of Workers of the Land of Israel), led by David Ben-Gurion. To their left was mainly Hashomer Hatzair, which later became Mapam. From the early 1920s, the labor movement became the leader of

35. See Ben-Porat (2011), p. 74.

the Yishuv and of the Zionist movement in general. They led the process of nation building, all the way to the establishment of the state in 1948, and then through shaping the young country, until 1977. The leadership of the labor movement was widely supported, and they presided over a broad coalition of parties. This coalition included the two liberal parties, the General Zionists at the center-right and the Progressives at the center-left. The coalition also included the religious-Zionist party, Hamizrahi and even a Zionist-Socialist branch of the Ultra-Orthodox party, Poalei Agudat Yisrael. The main opposition to the labor movement during the Mandatory period was the Revisionist party of Ze'ev Jabotinsky on the far right, which even left the World Zionist Organization. After the establishment of the state, the revisionist party became Herut, under Menachem Begin. Later, it joined forces with the General Zionists, who left the coalition with the labor movement, to form the Likud Party. In 1977, they won the elections, formed a government, and ended 60 years of leadership of the labor movement.³⁶

THE LABOR MOVEMENT BETWEEN ZIONISM AND SOCIALISM

What explains the rise to power of the labor movement? What enabled it to reach leadership so quickly, even though the movement was far from the center? Without pretending to give a full answer to this question, I would like to offer one explanation, which also connects to later economic policies of the labor movement. It focuses on the movement's flexibility and its ability to adapt to the changing conditions in Palestine.

Workers' movements elsewhere responded mostly to the distress of workers in their workplaces, and hence, struggled mainly for better labor conditions, shorter workdays, and unionization. However, the situation in Palestine was very different. The main problem of workers was not how to cope with the employer in the workplace but rather to find a job. This difference is due to two main reasons. The first was the rapid flow of immigrants, which required a rapid buildup of new jobs. The second was competition for the few existing jobs with the domestic Arab workers, who were willing to work for less and were more experienced, especially in agriculture, which was a large sector at the time. The labor movement developed two main ways to cope with the lack of jobs, which drew a sharp difference between it and typical Socialist parties. The first was to create jobs by itself, by becoming an

36. See Galnoor and Brander (2018).

employer, and the second was to launch a campaign against hiring Arabs, termed “Avoda Ivrit” (Hebrew Labor).

In agriculture, the labor movement created jobs by establishing cooperative settlements, known as *kibbutzim* and *moshavim*. This was the preferred solution for Jewish agricultural workers, because once they owned the settlement, they could ensure that only Jews worked there, while the older *moshavot*, which were privately managed, often employed Arabs. Hence, the cooperative settlements were not only the outcome of labor ideology but also of the desperate need to create jobs for immigrants. However, building settlements required funding for purchase of land and for construction. The funding came from donations, which arrived mainly from centrist Zionists. This cooperation between Socialists and centrists led the labor movement to inevitably compromise on its socialist principles, since it had to convince its partners that the cooperative settlements were not part of a socialist revolution but rather of a national revolution—Zionism.

The labor movement created jobs not only in agriculture but also in other sectors. The Histadrut, the general labor union of Jewish workers in Palestine, founded in 1920, built a network of companies called “*Chevrat Haovdim*,” namely, the “company of workers.” It included construction companies like “*Shikun Ovdim*,” an infrastructure company “*Solel Boneh*,” a financial institute “*Bank Hapoalim*,” a produce distribution company “*Tnuva*,” and many more. By willing to build jobs and by becoming an employer, the labor movement demonstrated its flexibility in adapting to the conditions in the new country. This brought it broad support, not only of the workers but also of others, who realized that the labor movement was working for national rather than for class interests, as it gave Zionism top priority.

The labor movement not only created new jobs but also struggled against hiring Arabs in Jewish workplaces, under the slogan of “*Avoda Ivrit*.” They demanded that Jewish employers should not employ Arabs but Jews, even if it harmed their profits. The wide Jewish public viewed this struggle as support of Zionism and not as an act of narrow class interests. It thus gave the labor movement further popularity, despite its cruelty. In 1929, David Ben-Gurion, then secretary general of the Histadrut, wrote the following, insisting on 100 percent of Jewish labor not only in Tel Aviv but in the *moshavot* as well:

The situation of the Jewish worker who immigrates to the country is the opposite of that of any migrant worker in other countries, such as North America, Canada, Australia and more. In these countries, the local

worker is at a higher stage of development than the immigrant is. The latter's level of life is lower, and he makes do with little and appears from this as a competitor that harms the local worker and lowers his wage. In this country, the situation is reverse. The immigrant's standard of living, needs and culture are immeasurably higher than those of the local worker. The Jewish worker cannot and does not want to work in the inferior conditions of the Arab worker, and if the Jewish economy does not guarantee jobs to Jewish labor, Jews have nothing to do in this country.³⁷

Clearly, such policies of creating jobs, to the extent of becoming a big employer and discrimination on a national-ethnic basis, were very different from the long tradition of socialist movements and trade unions in Europe, where the labor movement originated. This departure reflected the very different conditions of Jewish workers in Palestine and the leading role of the Zionist-Socialist parties in the Zionist movement. The Jewish workers in Palestine, who were new immigrants, accepted and embraced these policies. They understood that such policies helped them obtain jobs. They also agreed with the priority of national over socialist goals, since they understood the importance of the great national project in which they took part.³⁸

However, the policies of the labor movement created an inevitable tension between Zionism, which won precedence, and Socialism, which remained behind. Zeev Sternhell (1998) wrote about this tension: "Socialism was soon a tool for achieving national goals and not a means of creating a new social order." Sternhell is more critical than I am and claims that "the inability of the labor movement and its failure to build an egalitarian society stemmed not from objective constraints but from a conscious ideological decision." The departure of the labor movement from the Socialist tradition began early in the 1920s, when the Histadrut was established, but it deepened over time. When the labor movement gained control over the Jewish Agency in 1931 and solidified its leadership of the Zionist movement, David Ben-Gurion published a book titled *From Class to Nation*, which says it all.³⁹ After 1948, the process deepened when Ben-Gurion formed a new ideology, "Statism" (Mamlachtiut).⁴⁰ It called to grant superiority to the new

37. Ben-Gurion (1931), p. 169 (my translation).

38. Only a small minority of the workers rejected these deviations from classical socialism. They usually joined the Communist Party of Palestine, the PKP, and some even immigrated to the Soviet Union.

39. The book is Ben-Gurion (1933).

40. See Galnoor and Brander (2018). Ben-Porat (2011), chapter 5, contains a thorough analysis of this ideology and its role in the shift toward capitalism in Israel.

institutions of the state, over sectoral loyalties. This ideology weakened the labor movement significantly. At the Eighth Conference of the Histadrut in 1956, David Ben-Gurion said: “The State is a more efficient, powerful and comprehensive instrument than the Histadrut.”⁴¹

As argued above, the choice of the labor movement to give priority to the national interest was unavoidable. It was necessary for the success of the Zionist project and for the absorption of immigrants, especially workers. However, the labor movement paid a dear price for this choice later. Already in the 1960s, Viggo Kampmann, former prime minister of Denmark, noticed after a visit to Israel:

What the Histadrut does and what the State does is not Socialism. This is capitalism of the government and capitalism of the trade unions. You created socialist societies in agriculture, but not in industry. It does not matter if the employer is the state, the Histadrut, or a private employer. The relations between the worker and the employer are similar in all cases, and the wage is similar. There is no ideological content in enterprises of the state or of the trade unions, because they have to compete with the private industry.⁴²

The price that the labor movement paid later was much harsher. It led the national revolution and built the state, but once this mission was accomplished, it found itself empty. It could not become a regular Social Democrat party, not only because it abandoned much of this ideology long ago but also because of the profound social changes in the country. The mass immigration in the first years of the state pushed up much of the previous regular members of the labor movement to positions of managers, directors, and professionals. Their previous working positions were taken by the new immigrants, who came mainly from Arab countries. These new immigrants accepted initially the hegemony of the labor movement, but soon realized that its Socialist rhetoric was empty. The Histadrut marched annually on May Day, but it was one of the largest employers in the country. Thus, the ideological tension became a socioeconomic tension between the labor movement and the new working class. Furthermore, the tension was also partly ethnic, between the veteran East Europeans and the immigrants from Arab countries.⁴³

41. The Ben-Yeuda Project, <https://benyehuda.org/read/19057>, accessed on April 5, 2021.

42. Kampmann (1968), p. 143 (my translation).

43. For a thorough analysis of these tensions, see Grinberg (1993).

These tensions between the Socialist rhetoric and the capitalist practice, and between the new working class and a party that consisted increasingly of a new elite of managers and executives, together with the tension between East Europeans and new immigrants from Arab countries, gradually eroded the support of the labor party. Not only the new working class abandoned it, but later the managers and the executives also abandoned it, as they no longer needed the socialist rhetoric. They preferred to support centrist neo-liberal parties directly. That led to a long process of decline, until recently, when the leading party of the past won only three to seven seats out of 120 in recent election rounds and almost faded away.

ASHKENAZI VS. MIZRAHI JEWS

Of the 483,000 immigrants who arrived in Palestine during the Mandatory period, only 45,000 came from Asia and Africa, while 90 percent emigrated from Europe. After 1948, the picture reversed. In the first 20 years of the State of Israel, 1948–1968, 53 percent of the immigrants came from Asia and Africa, namely, from Muslim countries, like the Arab countries, Iran and Turkey.⁴⁴ This had significant effects not only on Israeli demography but also on its economy and society. Immigration led to significant gaps between European (or Ashkenazi) immigrants and Mizrahi immigrants from Muslim countries. Some gaps carried over to subsequent generations as well. Many have claimed that some of these gaps were due to discrimination against Mizrahi Jews, and this is a major issue in Israeli discourse. While we discuss these gaps economically later in the book, here we describe some of their institutional and cultural aspects.

One possible explanation for these gaps is that the institutions from the Mandatory period created automatic preference for Ashkenazi over Mizrahi immigrants. The people who operated these institutions were mainly East Europeans, and it is possible that when the great immigration arrived in the early years of the state, they treated the European immigrants preferentially, since they shared with them memories, acquaintances, language, and culture.

The issue of ethnic discrimination is always high on Israel's public agenda. Nonetheless, there are not many historical studies on it. Recently, a film on the history of Development Towns in Israel has made public some documents of the Jewish Agency from the 1950s and 1960s, which were

44. See Central Bureau of Statistics (2019), table 2.53. The figures include Jewish immigrants from South Africa as well, who were of East European origin, but their number was negligible.

previously confidential.⁴⁵ The documents reveal that the Jewish Agency sent immigrants from North Africa directly to the new Development Towns in the periphery, while it sent immigrants who arrived from Poland at the same time to the center. Another indication for institutional discrimination is from the 1970s, when the Likud began to accumulate political power, first in local and then in the central government. Many Mizrahi Jews reached positions of power and influence through the Likud party, which indicates that they have previously faced serious barriers to social and political upward mobility.

The immigrants from the Arab countries not only faced institutions run by people who were alien to them and even discriminated against them, but they also confronted harsh cultural barriers. The Jews in Arab countries, especially those who lived in large coastal cities, were exposed to Western culture, French in North Africa, Italian in Libya, English in Iraq, and more. However, they were closely connected to the Arab culture in their home countries as well. In general, Jews fared better overall in Islamic than in Christian countries. While the Jews in the latter suffered from severe persecutions, Jews were safer in Muslim countries, although life was far from perfect for them. They were subject to various legal restrictions, some of which were abolished during the nineteenth century, but they enjoyed basic security and were much more integrated in society in general than they were in Christian countries.⁴⁶

The establishment of the State of Israel in 1948 put the Jews in Arab countries in a terrible dilemma between their people and their neighbors. Most chose their Jewish brothers and sisters and immigrated to Israel.⁴⁷ When these immigrants arrived in Israel in its early years, a significant part of their culture was Arab, as they spoke Arabic, read Arabic, and listened to Arab music. They came to a country that had just finished a bloody war with the Arab world, in which Arabs were the enemy across the border. Furthermore, following the victory in the war of Independence, Israelis

45. The film, released in 2017, is “Salah, This Is the Land of Israel” by David Edri, Doron Galezer, and Ruth Yovel.

46. See M. Cohen (1994), which is a comprehensive historical comparison of Jews under Islam and under Christianity. Recently, some, like Trigano (2018), claim that Jews suffered from strong anti-Semitism in Islamic and especially in Arab countries. However, even the articles in Trigano (2018) agree that the deterioration in relations between Arab and Jews was a result of the Colonial occupation of the Middle East after World War I and especially after the intensification of the Israeli-Arab conflict in 1948. Even these articles confirm that Jews “held central positions in all areas, social, economic and cultural” (Trigano 2018, p. 38).

47. See Trigano (2018) for detailed descriptions of these immigrations.

developed contempt toward Arabs. Some of it spilled over to Jews from the Arab countries, whom they viewed as primitive and of low culture. In the first decades, Arab culture was taboo in Israel. To integrate into the new country, Jews from Arab countries had to give up large part of their culture. This is always difficult, and when it comes with the general difficulties of adapting to a new country, especially for immigrants who face condescension, the absorption process becomes much harder.

Overall, the process of integration of the Jews from the Islamic countries to Israel has been a great success story. The immigrants and their children occupy many important positions in the country, and the economic gaps between them and the Jews of European origin have declined significantly.⁴⁸ However, the gaps have not yet fully disappeared, not even at the second generation, born in Israel, as chapter 13 of this book shows. Furthermore, the feelings of exclusion and discrimination still linger and have a large effect on the discourse in Israel, both in standard and in social media.

Success and Its Costs

The historical background in this chapter is actually one of the great success stories of the twentieth century: Zionism. The Jewish national movement was a reaction to the great Jewish distress in Eastern Europe, and it succeeded in directing a large part of the Jewish immigration to Palestine, a poor and dangerous country at the time. This movement built flourishing agriculture by immigrants who had no previous farming experience in their countries of origin. This enabled the movement to get control over vast areas of the country, which was vital to its success. The movement built a rich system of political, social, and economic institutions that amplified the power of the small community. Without prior military experience, it succeeded in coping with the Arab military threat and in establishing a state during a bloody war, and later even became a regional power. Another important move was bringing in the Jews from the Arab countries in a short period. This move increased the population of the young state and helped solidify its existence in the Middle East. The Peace Agreement with Egypt also contributed significantly to the security and the economy of Israel.

It is impossible to understand the Israeli economy without considering the background of the Zionist project. As Don Patinkin, the founder of academic economics in Israel, wrote in the introduction to his book on the

48. See Dahan (2013).

30 CHAPTER 1

first decade of the Israeli economy: “The ingathering of the exiles. This is the policy and the reality that has left its deepest mark on every aspect of Israeli society.”⁴⁹

This book shows that just as Zionism has been a unique success story, so is the Israeli economy. However, the success of Zionism exacted a heavy price from many, primarily the Palestinian people, who left a large part of their country and did not reach independence until this day. The Jews from the Arab countries also paid a price during the process. These costs keep hurting the progress of Israel to this day. The Israeli-Arab conflict has not yet been resolved, and the inner ethnic gaps are still hurting. This book shows that the same issues for which Zionism failed—the Israeli-Arab conflict and the large gaps within Israeli society—challenge the Israeli economy as well.

49. Patinkin (1967), p. 19.

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