

THE ECONOMIC
AND SOCIAL
RESEARCH INSTITUTE
MEMORANDUM SERIES
NO. 111

IMPRESSIONS OF ISRAEL

by

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(Seminar Paper delivered to ESRI staff on 1 April 1976. This version incorporates some amendments made following the seminar.)

April 1976

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CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. ECONOMIC GROWTH	4
III. INFLATION AND INCOME DISTRIBUTION	9
IV. LABOUR FORCE	15
V. PRODUCTION AND TRADE	24
VI. TYPES OF ENTERPRISE	28
VII. A VISIT TO A KIBBUTZ	32
VIII. SOCIAL TENSIONS	38
IX. CONCLUDING COMMENTS	41
Appendix 1: List of Persons with whom Discussions held	47

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I. INTRODUCTION

It is tempting to treat Israel's economic and social development as sui generis. No other country in modern times has had its very existence threatened so frequently since establishment. Partly because of this unremitting external threat, no other country has such a strong sense of urgency in developing its resources. No other country in this century has experienced such a massive rate of immigration. No other country of its size has been able to rely so heavily for so long on enormous capital inflows for development as well as for defence. These and many other unique features underlying Israel's remarkable economic development and social cohesion place considerable limits on the lessons that can be drawn by other countries from Israeli experience. Nevertheless, this experience is of great interest in itself; and, by sifting through it, I hope that at least some ideas may emerge of potentially wider application.

Size and Population

The State of Israel, which was first established in May 1948, comprises an area of 8,000 square miles¹ or less than one-third of the Republic of Ireland. Two-thirds of the land area consists of desert and barren hills, and there are few natural resources of economic value.

* This paper does not purport to be a systematic study of Israel. Rather, it is a personal report based primarily on impressions derived during a visit to that country from 1-8 December 1975, and on discussions held then with Israeli social scientists, business representatives, trade unionists, government officials, and others, a list of whom is given in Appendix 1. Such examination of the literature and statistics on Israel as I have undertaken was designed mainly to verify personal impressions. While the main purpose of my visit was to study research approaches in various Israeli social science institutions - in particular the Israel Institute of Applied Social Research - I took the opportunity whenever possible to discuss the country's actual economic and social experience, and this report is confined to these aspects.

1. This is essentially the area fixed by the armistice agreements of 1949, and does not include the territories captured in the 1967 War which cover an area more than three times the size of Israel, with a population of about one million. With the exception of East Jerusalem, which has been incorporated into the State, these territories are administered separately and are not considered in this paper.

Prior to independence and at a time when the population was much less than today, the British mandatory authority had concluded that there was "no room to swing a cat" in the much larger area of Palestine.

When the State was first declared, the Jewish population was about 650,000. Just over $3\frac{1}{2}$ years later, at the end of 1951, the Jewish population had more than doubled to 1.40 million, and by the end of 1974 it had doubled again to 2.89 million. Over the period as a whole, this represents a massive average rate of increase of 5.8 per cent per annum, and immigrants comprise 58 per cent of the increase. The non-Jewish population is mainly Arab. In 1948-49, during and immediately following the war of independence, about one million Arabs were displaced. At the end of 1949, the non-Jewish population was 160,000 or $13\frac{1}{2}$ per cent of the total. Since then, the non-Jewish population has more than trebled, and amounted to over 15 per cent of the total in 1974, having thus risen faster on average than the Jewish population. This is particularly remarkable since apart from about 68,000 added in 1967 through the annexation of East Jerusalem, the rise has been only marginally affected by immigration, and is due almost entirely to a much higher rate of natural increase. With a total population of 3.41 million the average density in 1974 was 43 per square mile, which is similar to the EEC average but nearly four times that of Ireland.

Immigration and Other Demographic Features

Unlike most Western nations, Israel strongly favours population increase, particularly through Jewish immigration but also, to some extent, through pro-natalist policies. This approach is motivated primarily by ideological and security considerations, though some economic commentators also justify it on economic grounds provided sufficient capital resources are forthcoming.¹ While Israel depends considerably on the aid and influence of Jews abroad, it makes no secret of its view that the nobler course for all diaspora Jews, with or without means, is to settle in Israel. It now holds 20 per cent of the world Jewish population compared with only 5.7 per cent in 1948.

The first $3\frac{1}{2}$ years of the State were those of highest immigration, with a total inflow of 687,000, a figure in excess of the total net emigration from Ireland in the whole period since World War II. Many of

1. See, for example, David Horowitz, The Enigma of Economic Growth: A Case Study of Israel (New York: Praeger, 1972).

these immigrants were refugees from Europe or were displaced from neighbouring Arab states. Subsequently, from 1951 to 1974 Israel has received a further 862,000 immigrants. Not all immigrants have stayed¹ - a fact which Israel seems rather defensive about - but the vast majority have settled permanently, and immigrants now constitute almost exactly one-half of the total Jewish population. The immigrants can be divided into two broad classes: Sephardim coming from Asia and Africa, and generally poor, unskilled and unlettered; and Ashkenazim from Eastern, Northern and Central Europe and America, many with relatively high levels of skill and literacy, though only a minority with significant wealth.² When the State was founded, the Ashkenazim constituted the bulk of the population. Total immigration since then has been approximately equal between the two classes, though in the first decade the Sephardim were in a majority, whereas in recent years the vast majority have been Ashkenazim, notably from Russia.

The rate of natural increase among the Jewish population is high by Irish standards - 17 per thousand compared to 10 - and far higher than in the EEC countries generally. The birth rate ($24\frac{1}{2}$ per thousand population) is higher, and the death rate ($7\frac{1}{2}$) lower, than in Ireland. Among the non-Jewish population the rate of natural increase is exceptionally high (39), comprised of a birth rate of $44\frac{1}{2}$ and a death rate of $5\frac{1}{2}$. Clearly, these rates are strongly influenced by the structure of population: the median age of the non-Jewish population is only 15.2, or in other words nearly half that population is less than 15 years of age. This compares with a median age of 25.6 for the Jewish population and 27.2 for Ireland.

Population growth of the rate and character experienced by Israel had profound economic and social implications. Immense demand for housing was generated. A significant proportion of immigrants came from high income countries, and although prepared for sacrifices, they would not accept Third World living standards. The need for jobs was so great as to make the Irish target growth rates for the achievement of full employment pale into insignificance. Since many immigrants had no skills,

1. Gross emigration was about 10,000 per annum throughout.

2. Strictly speaking, the Sephardim are those who settled originally in Spain, and many of them, on expulsion from Spain in 1492, went to North Africa. The term, however, is now loosely applied also to a third group, the Oriental Jews, who settled very early in Asian countries.

or found it necessary to begin a new occupation, the training demands were enormous. There was wide diversity in the national and cultural backgrounds of the immigrants. Something approaching 70 different languages could be heard spoken and, unlike the Irish language revival, sheer necessity forced the adoption of a common language. Hebrew was the choice even though for centuries it had been employed only in scholarship and religious observance and its use in secular speech was opposed by some religious Jews. Since 1890, immigrants to Israel had been encouraged to use it as the vernacular. Today, as the first of the three official languages - Arabic and English being the other two - Hebrew is the living tongue of the majority of the population.

In Ireland, we are very conscious of the fact that a high and rising age dependency ratio (i.e. the ratio of the population in the old and young dependent age groups to those in the working age groups, 15-64) has far-reaching implications for living standards and public finances. Like Ireland, Israel has a much higher dependency ratio than most European countries, though at 68 per cent it is rather lower than the Irish figure of $73\frac{1}{2}$ per cent. The Israeli rate would be significantly lower were it not for the extremely high dependency rate (114 per cent) among the non-Jewish population. The size and character of emigration has contributed to the substantial rise in the Irish dependency rate since the War. Israel has had vast immigration in this period; yet the dependency ratio among its Jewish population has risen more than in Ireland - from 48 per cent in 1948 to $61\frac{1}{2}$ per cent in 1974.¹ However, its population structure was rather unusual in 1948, with less than 4 per cent of the population aged 65 and over. Moreover, the character of immigration there was rather different from that of emigration here. The vast majority of Irish emigrants were in the active age groups, whereas in Israel one-third of the immigrants were in the dependent ages.

II. ECONOMIC GROWTH

Against this unpromising background, what progress has Israel made? The average annual growth rate of GNP volume over the period 1950-74 was $9\frac{1}{2}$ per cent per annum, so that even with the massive rise in population, real GNP per capita rose by over 5 per cent per annum.

1. In fact, it reached a peak of $67\frac{1}{2}$ per cent in 1959, so that it rose by nearly 20 percentage points in little more than a decade, compared with a rise of about 11 percentage points in the Irish dependency ratio over the whole post-war period!

Unemployment in 1950 was 11 per cent of the total labour force and remained high for much of the 1950s, but by 1961 was down to $3\frac{1}{2}$ per cent, and has since remained at or below this level except during the recession of 1966-67. Indeed in the early 1970s, unfilled vacancies generally exceeded the number of job seekers. Hence, Israel has managed to combine full employment with rapidly rising living standards in the face of an explosive rise in population and labour force.

How has this been possible? While it would be seriously misleading to give all the credit to demand expansion, one cannot fail to be impressed by the importance of this factor in generating growth. Because of its access to vast capital inflows, Israel has been able to escape the balance of payments constraint that limits demand expansion in many other developing countries, including Ireland. The combined consumption shares of the personal and government sector amounted to about 90 per cent of GNP in several years.¹ Clearly, this implies that gross national savings were small; and yet Israel has also maintained a very high investment ratio - over one-quarter of GNP. Not surprisingly, a large slice of this investment has been devoted to housing and, relative to GNP, Israel has spent more than twice as much on housing as in Ireland.

Given the proportion of resources devoted to aggregate consumption, the only ways of financing such a large volume of investment are by running down assets held abroad or by foreign capital inflow. Israel does not have large external assets or reserves, so that it has had to depend on vast capital inflows. Some idea of the scale involved can be gauged by comparison with Ireland in terms of investment and the balance of payments. In Ireland since the war, we can say in an arithmetic sense that roughly one-sixth of gross fixed investment was financed from abroad. Had we had the same capital inflow relative to GNP as in Israel, all the gross fixed investment could have been financed without any domestic saving. The current balance of payments deficit in Ireland has averaged about $2\frac{1}{2}$ per cent of GNP over the post-war period. In Israel, the average was above the highest level ever reached in any year in Ireland - namely, the figure of 15 per cent in 1951 occasioned largely by the impact of the Korean War.

It should not be deduced from the foregoing figures, however, that dependence on foreign capital has weakened the will of the Israelis to save. In fact, private saving is extremely high, having risen as a proportion

1. It may be noted that in the Israeli national accounts, unlike the Irish, export subsidies are added on to exports and import duties are included in imports. Since the taxes on imports are generally much higher than the export subsidies, this lowers the Israeli GNP somewhat compared with what it would be on an Irish definition; and it pushes up somewhat the ratio of, for example, investment to GNP. Throughout this paper, the Israeli national accounts data have been adjusted to the Irish basis.

of private disposable income from 16 per cent in the early 1960s to 38 per cent in the early 1970s.¹ The government, however, is a substantial dis-saver. In Israel, government current consumption of goods and services (not counting transfers) has rarely been less than 20 per cent of GNP - compared with a post-war average for Ireland of 12 per cent - and in some years has been as high as 40 per cent. The major reason for the difference between the two countries is the difference in the burden of defence. Clearly, it would be extremely difficult, if not impossible, for the Israeli government to finance so large a burden, as well as current transfer payments, out of taxation. In fact, in 1973, the latest year for which figures are available to me, current receipts of public authorities amounted to only 60 per cent of current expenditure. Apart from the borrowing which this entails, the government must also borrow heavily to finance its development budget for infrastructure, industrial and housing loans, etc.

Israel is anxious to reduce its dependence on foreign capital because of future uncertainty. But for much of the past 25 years, the vast capital inflow involved comparatively small long-term obligations in respect of debt service and repayment. No liability at all arose in respect of German reparations and gifts from the world Jewish community; some of the substantial credit received from the United States government for defence purchases was "forgiven"; and a significant amount of non-commercial borrowing was achieved at zero or low rates of interest. In the 20 years 1950-1970, the capital inflow amounted to \$10 billion, or about \$5,000 per head of the average population; yet at the end of 1970 total foreign debt amounted to only \$3.4 billion. There has been a substantial deterioration, however, following the Yom Kippur War in October 1973.

1. Jack Habib, Meir Kohn, and Robert Lerman, "Some Issues in the Definition and Measurement of Poverty in Israel", paper read to the Fourteenth General Conference, International Association for Research in Income and Wealth, Aulanko, Finland, August 1975. Although Habib *et al.* use the term "personal saving", it is likely that they meant "private saving". Private saving and private disposable income include undistributed profits along with household saving, and there are no separate estimates of undistributed profits - *vide* Michael Bruno, "Economic Development Problems of Israel 1970-1980" in Charles A. Cooper and Sidney S. Alexander (Eds.), Economic Development and Population Growth in the Middle East (New York: American Elsevier Publishing Co., 1972). According to Bruno, "studies at the Bank of Israel have pointed out that household savings behaviour in Israel is not markedly different from that in countries of similar income level and distribution" (p.144). One of the factors underlying the rise in the private saving ratio is that the share of wages in national income fell in most years up to 1972, the propensity to save out of corporate income being usually much higher than in the case of household income.

The Yom Kippur War and the World Depression

Until recently, rapid growth was maintained throughout except in the recessions of 1953 and 1966-67, though the pace of growth was strongly influenced by variations in the flow of immigrants. Since the Yom Kippur War, however, there has been a marked slow-down in the rate of growth and an even more serious deterioration in the balance of payments position. The growth rate dropped below 5 per cent in 1974 and preliminary figures for 1975 indicate a decline of 2 per cent in real GNP, the first fall in over 20 years. The current balance of payments deficit, which was about \$1 billion in 1972, rose to almost \$4 billion in 1975. This is obviously a very worrying factor since the flow of foreign capital that can reasonably be counted on is only of the order of \$2 billion. Foreign obligations had risen to \$10 billion by the end of 1975, or about double the level before the October War.

A major cause of the deteriorating current balance of payments position is the rise in defence costs. In the years ^{immediately} preceding the war, the defence burden amounted to about 20 per cent of GNP; it is now closer to 30 per cent. The cost of the latest war technology has soared at a phenomenal rate: in 1967, for example, three squadrons of 25 of the then latest jet fighters cost the equivalent of 2 per cent of Israel's GNP at that time; today the same number of the latest fighters costs 20 per cent of current GNP.¹ The combined impact of soaring real government spending and rapid inflation is dramatically illustrated by the fact that the government's budgetary proposals (including transfers) for 1976, announced while I was there, exceeded 1975 GNP! Apart from the security situation, Israel's balance of payments has also been affected by the world depression. Both factors probably influenced the decline of 14 per cent in incoming tourists between 1972 and 1974; and there appears to have been a further fall in 1975. The increased Arab leverage on economic policy throughout the world, due to its oil strategy, has put more teeth into the Arab boycott: this has affected not only Israel's trade but also foreign investment there.

Yet, if we look for evidence of the recession in the unemployment figures - one of the most sensitive indicators in other countries - we find very little sign of a deterioration. For that reason the current situation in Israel has been described, paradoxically, as a "full employment

1. Peter Kellner, "Israel: A Grim Fight for Survival", The Sunday Times, 7 December 1975.

recession". The following factors help to resolve the paradox. First, at the beginning of the recession Israel had a tight labour market with labour shortages. The labour market has eased considerably without involving much actual unemployment of Israelis. Second, Israel had a commuting labour force of about 70,000 Arabs from the West Bank and Gaza. Though Israeli unions had ensured that these got equal pay, they were engaged in marginal jobs and bore the major initial brunt of the recession. Third, real incomes have been cut substantially - by 8 per cent in 1974 and a further cut in 1975 - through devaluation and price increases, devaluation being used deliberately to keep real wages in check and maintain exports and import-competing production. Fourth, despite the reduction in real incomes, domestic demand has been supported by high defence spending affecting domestic production as well as imports. And, fifth, immigration dropped considerably, while emigration rose, so that in 1975 there may have been a small net outflow: if so, this was the first time since the 1949 armistice that Israel experienced net emigration. While this may help to keep down the unemployment rate, it is a most unwelcome development to the Israelis,¹ not only on ideological grounds, but also because they have come to associate immigration with economic expansion.

Clearly, the future outlook is rather daunting; yet I did not encounter undue pessimism among economists or others. Perhaps one reason for this is that the Israelis have good cause to distrust scientific prognostications, which have invariably demonstrated future lack of viability and have generally been wrong. The chief long-term forecast that proved to be correct was the visionary one of Theodor Herzl, who predicted in 1897 that the Jewish State would be established in Palestine within 50 years: he was only one year out! Nevertheless, there is widespread recognition that it will not be possible to continue to rely on such large foreign capital receipts as in the past: indeed, this has been recognised for some considerable time, but the recent upheavals have intensified the problem and made a solution more urgent. Hence, there is general agreement about the need for a massive rise in exports relative to imports to correct the enormous imbalance in current external payments. This has, of course, important implications for the progress of living standards and the distribution of resources between traded and non-traded goods.

1. "Next to war, the saddest thing for Israel is a lack of immigration", Mrs Golda Meir, speaking at the World Conference on Soviet Jewry (International Herald Tribune, 19 February 1976).

III. INFLATION AND INCOME DISTRIBUTION

Israel has throughout its history experienced relatively rapid price inflation, the average annual rate from 1948-72 being 8 per cent. The Israelis are rather philosophical about this: they feel that a high rate of inflation is an inevitable, if undesirable, consequence of the rate of expansion they have experienced. The acceleration in inflation in recent years, however, has far outstripped that of most Western economies. Between end-1972 and end-1973, consumer prices rose by 26 per cent and in 1974 by 56 per cent. Though there was a slowing down in the rate for most of 1975, the end-year annual rate of increase of 38 per cent remains very high.

Apart from the pressure resulting from the sustained high growth of demand, prices have also escalated because of the extensive use of devaluation. The currency is linked to the dollar, but there has been a total of seven devaluations between 1948 and the last major one of 24 per cent in November 1974. Since then, devaluation has been proceeding at about 2 per cent a month, which is considered less disruptive than sporadic larger devaluations. Israel is unwilling, however, to float the currency lest the Arabs use some of their oil resources to wreck it.

Devaluation is used consciously not simply as a means of coping with balance of payments problems but also as a longer-term instrument for restraining real wages in the interests of employment.¹ Devaluation enhances the profitability of export and import-competing goods, and it also tends to lower the real wage, since in a small country the domestic price of imports tends to rise by nearly the full amount of the devaluation. Under certain assumptions, the price of labour relative to that of capital will be reduced in the economy; and, in that case, devaluation may help employment creation in two ways: by increasing the output of traded goods through improved competitiveness, and by substitution of labour for capital due to the change in relative factor prices. The main trouble, of course, is that these effects may be eroded by compensatory increases in money wage rates. There is little doubt that the Israeli trade union movement is more conscious than unions in most countries of the need for restraint. This is partly because the trade union movement there developed in a tradition of nation-building rather than one of labour-management

1. At a particular point in time this may mean a cut in the real wage rate, but in the longer-term it usually means, roughly, securing that the real wage rate does not run ahead of productivity increases.

conflict.¹ As I shall explain later, the Histadrut (or General Federation of Labour) is much more than a sectional interest group confined to issues of pay and working conditions. It is closely integrated with all the main political parties and, in some respects, is akin to an organ of the State. Furthermore, because of the need for solidarity, the incessant appeals to patriotism to which Israelis are subjected probably have greater impact than in most countries.

Nevertheless, despite extensive use of incomes policies, there has been strong upward pressure on money incomes. The widespread use of indexation ensures that price increases are quickly compensated by wage increases. What benefit then is secured by devaluation? The Israeli economists lay great stress on the time-lag between the price rise and the compensating wage increase. Even if a devaluation is eventually completely offset, there is, nevertheless, an interval during which the real wage is lowered and competitiveness improved. It is recognised that in order to stretch these time intervals into a lasting check on real wages further devaluation is necessary; and, moreover, that if more than a once-for-all cut is necessary, then devaluation must take place on an increasing scale. Accustomed as we are in Ireland for so long to a stable exchange rate with Britain, this may strike you as an appallingly messy approach - a policy that can justly be characterised as "one hour ahead of the posse".

Recently, however, the Israelis have secured additional leverage over and above that given by time lags. This has been achieved through an agreement to modify the principle of full indexation. It is often argued that indexation should not apply to price increases resulting from two sources: increased indirect taxes and a deterioration in the terms of trade. The argument for excluding the first is that indirect taxes seek to transfer resources from private use to purposes designated by government, and that compensation frustrates this purpose. I did not find unanimous acceptance of this view among Israeli economists: some felt that the exclusion of indirect taxes from indexation would bias the government towards

1. Israel is by no means free of industrial disputes, but the number of man-days lost in relation to employment is markedly less than in Ireland, whether we compare over the last ten, or the last three, years.

excessive use of indirect relative to direct taxation.¹ There was general agreement, however, that the terms of trade effect on prices should not result in wage compensation, since there is no way the nation as a whole can compensate for such a deterioration.

Consideration was given in Israel to the best means of moderating the degree of indexation. With the aid of an input-output table it is possible to identify sources of price increases - though not, of course, in a fundamentally causative sense. It was felt, however, that sufficiently reliable data were not available on an up-to-date basis to do this satisfactorily. There was also a fear that such tampering with the consumer price index - a long-established and widely-accepted statistic - might cause confusion and suspicion among the general public. In the event, the solution was a simple and arbitrary one, with, nevertheless, the supreme virtue of general acceptance: it was agreed that indexation of incomes would be limited to 70 per cent of the rise, from whatever source, in the consumer price index.

Savings invested in government bonds remain fully indexed both as to principal and interest. Indexation of savings was introduced some years ago, not only to increase saving, but also because of fears that savings would be inefficiently used due to the high rate of inflation. Such inefficiency could arise from a social viewpoint through, for example, investment in housing and durable consumer goods beyond what a family would choose where relative returns were not distorted by inflation. Through indexation the government is able to attract funds for the purpose of financing housing for young couples and immigrants, which is effectively subsidised through non-indexed loans. Nevertheless, despite the presumed favourable effects on the level and disposition of savings, their continued full indexation, when wages are only partially indexed, is now increasingly questioned and will almost certainly be modified.

1. Indirect tax increases may cause a primary and a secondary rise in prices. The primary effect is the initial price rise that results from increased indirect taxes; while the secondary effect is the further rise in prices that will take place if money incomes are raised to compensate for the primary effect. Direct taxes also, however, even though they do not have an analogous primary price effect, may have a secondary price effect through increases in money incomes to compensate for the cut in disposable income - though arguably this tends to be less than for an equal increase in indirect taxes. There could, therefore, be an anomaly if agreement were secured to forego compensation for indirect tax increases, but no such agreement applied to compensation for direct tax increases.

Apart from general devaluations, Israel has also made widespread use of multiple exchange rates to foster the export of particular products, as well as extensive protection to develop home industry. Exchange control is also maintained which suggests that the Israeli pound remains overvalued so that rationing of foreign currency is necessary. Allowances for travel abroad, for example, are highly restrictive. As with all forms of rationing, a black market has developed; and being recognised as a visitor, one is approached from time to time on the street with offers of a much more attractive exchange rate than can be obtained officially.

Living Standard and Income Distribution

Comparison of living standards in different countries is hazardous at any time;¹ and, in view of the distortions in the Israeli exchange rate, such a comparison between Ireland and Israel is particularly heroic. In the absence of a better indicator, however, it may be noted that in 1973 GDP per capita (at market prices) in Israel was \$3,000 compared with \$2,100 in Ireland. To allow for, inter alia, Israel's larger defence commitment, however, a more appropriate comparison may be in terms of private consumption per capita: the figures are \$1,600 for Israel and \$1,400 for Ireland. All one can safely deduce from these figures is that living standards in the two countries may not be very different on average - a conclusion which would be in line with my own personal impression.

It is generally agreed that income and wealth are distributed more equally in Israel than in most Western countries.² There are a number of reasons for this. First, the mines and most of the land are owned by the State. Second, the majority of the population arrived in the country within the last 30 years; and while some immigrants brought with them considerable wealth, most had little or no financial resources. There

1. Vide I.B. Kravis, A. Heston, R. Sommers, and A. Civitello, "The Three Phases of the International Comparison Project", paper read to the Fourteenth General Conference, International Association for Research in Income and Wealth, Aulanko, Finland, August 1975.

2. Vide Bruno, op.cit.

are, therefore, few large inter-generational transfers of wealth - a major source of inequality in the Western world. Third, the prevailing philosophy is egalitarian. There is much questioning of the life style of managers, higher officials and elected representatives. When, for example, Mrs Golda Meir as Premier visited New York and was reported as dining in an expensive Chinese restaurant, this provoked voluminous critical comment and correspondence in the press.

The egalitarian spirit is itself the outgrowth of various influences. It is rooted in the basic ideology underlying the State, namely to create a home for all Jews without distinction. The immigrants from the West brought with them the liberal and leftish views generally held by the majority of Jews in these countries. Security considerations give special prestige to the soldier regardless of his social background. The fact that every citizen without exception must perform extended military service is a strong levelling influence. While one does not ordinarily associate the military with equality, the special quality of the Israeli army - with its need for flexibility, initiative and high skills to compensate for small numbers - demands a much more egalitarian approach. Furthermore, military service often requires and evokes different talents from those valued in civilian life, so that it gives a chance of achievement to some persons who might otherwise remain complete misfits in an exclusively civilian environment: such talents are all the more likely to emerge, and all the more highly appreciated, in an army that has been so frequently operational.

While the distribution of income is more equal in Israel than in the West generally, there is, nevertheless, a significant amount of poverty - at least in relative terms. In 1969, 11 per cent of families were found to be poor on the basis of a poverty line equivalent to 40 per cent of median disposable income; while with a near-poverty line of 50 per cent of income the proportion of poor families was 21½ per cent.¹ Moreover, although in Western countries the distribution of income has possibly narrowed somewhat in the last 30 years, in Israel it has widened - a widening which is reflected not so much in pay as in fringe benefits, and has aroused widespread resentment.

1. Quoted from Habib, et.al., op.cit.

Taxation

The structure of government current revenue in Israel is rather similar to Ireland, as may be seen from Table 1. Like Ireland, Israel relies very heavily on indirect taxation; but takes a rather higher share of GDP than Ireland through direct taxation and social security contributions. The system of income taxation has recently been thoroughly overhauled. A complex network of allowances had developed over time, which, taken in conjunction with social welfare benefits, resulted in very high marginal rates at various points along the income scale - even at low incomes. The overhaul was accomplished with admirable speed. A small government-appointed commission under the chairmanship of an economics professor, Ben-Shachar, reported in three months and their recommendations were implemented almost in full within the following two months. The reaction I encountered to the new scheme from businessmen and trade unionists was favourable.

Table 1: Current Revenue and Expenditure of General Government in Relation to GDP at Market Prices in 1972

	Israel	Ireland
	%	%
CURRENT REVENUE		
Indirect Taxes	18.9	19.4
Direct Taxes	10.7	8.8
Social Security	4.7	2.3
Other	3.3	2.5
Total Current Revenue	37.6	33.5
CURRENT EXPENDITURE		
Goods and Services	29.1	15.2
Defence	18.5	1.6
Other	10.5	13.6
Subsidies	4.6	4.3
Social Security and Assistance	8.3	7.6
Other (including debt interest)	5.0	6.1
Total Current Expenditure	47.0	33.2
SAVING	-9.4	+0.3

Source: UN Yearbook of National Accounts Statistics 1974. The breakdown between defence and other expenditure on goods and services is taken, for Israel, from the administrative budget accounts in Statistical Abstract of Israel 1975, and, for Ireland, from National Income and Expenditure 1973. The GDP figure for Israel was adjusted in regard to the point made in the footnote on page 5, preceding.

Although current government receipts amount to a significantly higher proportion of GDP than in Ireland, the government is still a substantial dissaver in Israel, as may be seen from Table 1. The major difference in the structure of current expenditure¹ between the two countries relates to purchases of goods and services and is largely explained by the difference in defence commitments. Since 1972, the year to which the figures in Table 1 relate, the share of defence in GNP has increased in both countries but at a vastly greater rate in Israel.

IV. LABOUR FORCE

The activity rate² in Israel is slightly less than one-third, much lower than the Irish figure of $37\frac{1}{2}$ per cent which is itself a low figure by European standards. A major reason for the low rate in both countries is the high proportion of children. Apart from this, however, the participation rate³ is rather lower in Israel than in Ireland - $48\frac{1}{2}$ per cent as against 53 per cent. This may seem surprising given the higher participation rate for women generally, and married women in particular. In Israel, $28\frac{1}{2}$ per cent of married women are in the labour force as against only $7\frac{1}{2}$ per cent in Ireland. The difference in the overall female participation rate, however, is much less - 31.3 per cent in Israel compared with 27.3 per cent in Ireland - a major reason being, of course, the much higher proportion of single women in Ireland.

Two other factors are important in explaining the lower overall participation rate in Israel. One is the higher proportion of the population aged 14 and over in full-time education: 11 per cent in Israel as against 9 per cent in Ireland. But a much more significant factor is military service. Apart from the large regular army, all boys

1. Figures are not available on a comparable, national accounting, basis for government capital spending in Israel. Comparisons based on the administrative accounts may be misleading because of very different systems of classification. It is clear, however, that, relative to GNP, public capital expenditure was much higher in Israel, where the large foreign capital inflow came mainly through public institutions, and in particular through the government "development budget".

2. Defined here as the ratio of the civilian labour force to the total population. All data in this and the following two paragraphs relate to 1974 for Israel and 1971 for Ireland.

3. I.e. the ratio of the civilian labour force to the total population aged 14 and over.

undertake three years military service and all girls two years, starting at age 18 in both cases. Although I have been unable to get reliable figures, I am satisfied that the numbers involved, when added to the civilian labour force, would raise the Israeli participation rate to at least equality with the Irish rate. The Israeli labour authorities have tended to view military service as a necessary nuisance, but totally unproductive and disruptive in the economic sense, especially since there is a subsequent commitment to a substantial amount of reserve training. Mr Katz of the Ministry of Labour conceded, however, that military service was not a complete write-off in economic terms. The 21-year-old emerging from three years of army service has acquired a measure of training, discipline and maturity; and whether he enters a civilian job or embarks on third-level studies he is then potentially more productive than the callow 18-year-old.

Because of these influences, the proportion of the total population in civilian employment is lower in Israel than in Ireland - 32.0 per cent as against 35.4 per cent - despite the much lower unemployment rate there. The proportion of the employed in both countries is, of course, very low by reference to many European countries and implies a relatively heavy dependency burden: each civilian worker, on average, has to support 2.1 "dependants" in Israel, and 1.8 in Ireland, as compared with, for example, only 1.3 in the United Kingdom and 1.1 in Denmark.

The Histadrut

Most workers in Israel are members of the Histadrut, or General Federation of Labour, which was founded in 1920. It is open to all workers who join as individuals, and they pay dues of $2\frac{1}{2}$ - $4\frac{1}{2}$ per cent of wages to cover all activities. The membership is now $1\frac{1}{4}$ million, slightly more than the total gainfully occupied! The figure includes, however, over 300,000 wives who have membership status. Apart from the membership, over 100,000 young persons under 18 belong to an affiliate organisation.

In addition to the normal collective bargaining functions relating to pay and conditions of work, much of which is carried out through affiliate unions representing particular groups of workers, the Histadrut has three other major activities. First, it is a substantial industrial and commercial enterprise, an aspect which I shall develop later. Second, it has an important role in social welfare, operating pension and provident schemes for members, and using the funds to finance the establishment of

its own businesses. The Histadrut also controls the largest health service in Israel, operating 14 hospitals, 17 convalescent homes and over 800 clinics, and directly or indirectly meeting the health care of three-quarters of the population.¹ This gives rise to an interesting political anomaly. In most countries, advocacy of comprehensive State provision for health is synonymous with a left-wing stance. In Israel, however, it is the right-wing which advocates this course, their motive being to curb trade union power.

Finally, the Histadrut has extensive educational and cultural activities. It operates some 30 technical high schools, coordinates immigrant education courses, produces its own documentary films, has its own theatre company as well as numerous choirs and folk-dance groups, and arranges concerts and distribution of films in rural centres.

Sectoral Composition of Employment

The distribution of civilian employment in Israel among the major sectors of the economy is given in Table 2 for 1955 and 1974, with

Table 2: Composition of Civilian Employment in Israel and Ireland, 1955* and 1974

	Israel		Ireland	
	1955	1974	1955	1974
	%	%	%	%
Agriculture, forestry, fishing	17.6	6.5	38.6	24.0
Manufacturing, mining	21.9	25.1	16.2	21.9
Electricity, gas, water	2.0	1.0	1.0	1.3
Construction	9.3	8.1	6.5	7.6
Services	49.2	59.3	37.7	45.2
Total	100.0	100.0	100.0	100.0
Total Employment (000)	586	1,089	1,146	1,058

* This is the first year for which I could get the relevant Israeli data. The figures may not be exactly comparable with those for 1974, but the differences are not of major consequence for my purpose.

Sources: Israel: 1955 shares from Horowitz, *op.cit.*; 1955 total numbers and all 1974 data from Statistical Abstract of Israel 1975.

Ireland: 1955 data from Economic Statistics, Budget 1964; 1974 from Review of 1974 and Present Outlook. I have not troubled to exclude the armed forces from the Irish figures since it makes only a marginal difference in both years.

comparable figures for Ireland. The overall employment trend in the two countries has been vastly different: in Israel total employment nearly doubled, whereas it fell by 8 per cent in Ireland. As to the sectoral composition, the major difference is the much higher share in agriculture, and the much lower share in services, in Ireland: the Irish pattern in 1974 is more akin to that of Israel in 1955. Indeed, if we exclude agriculture entirely in both countries and in both years, then the services share of non-agricultural employment is very similar in all cases at about 60 per cent.

In several Western countries, a debate is in progress about the need to curb the relative growth of the services sector. Various arguments, which are partly interrelated, have been advanced in favour of that course. One is that service activities are chiefly derivative, in the sense that in the main they are either induced by the output and incomes generated in the material goods sectors, or, like the public sector, they depend on taxation raised from the community at large; and that there is a danger, therefore, that the growth of the services sector might out-run the capacity of the rest of the economy to support it.¹ This danger, it is argued, is inherent in the operation of "Baumol's disease", namely that while productivity in many service activities rises less rapidly than in the economy generally, or does not rise at all, incomes rise at much the same rate, so that the sector's claim on resources tends to increase relatively even if its share in real output remains constant. For example, if there is no productivity increase in the public sector but civil servants get the same pay increases as everybody else, then maintenance of the public sector share in output involves a rise in its employment share, and the tax burden increases. In fact, the public sector share of output, rather than falling, has been rising in many countries. There are related fears about the effect on economic growth and the balance of payments. If more and more resources are channelled to an area with little scope for technological change and productivity growth, this would lower the overall rate of growth of real income and real income per capita. Moreover, many services are not exportable, so that concentration there of an increasing proportion of resources may have adverse implications for external balance. It is held

1. It may be noted that in Ireland the burden on those supporting public services is greater than the public sector share in total activity would indicate, since the agricultural sector and profits from manufactured exports are so lightly taxed.

that this may happen particularly in a tight labour market because the non-market service activities - notably the public sector, where relative expansion has generally been much greater than in other services - will bid up wages. Export and import-competing industries will not find it so easy to raise pay, and the outcome may be a squeezing of both profits and wages in the balance of payments sectors, making it difficult for them to retain resources, let alone attract new ones.

While there is merit in these arguments, it seems to me that the debate has followed excessively simplistic lines. Some services are major exporters (e.g. air and sea transport, the tourist trades). Others provide a direct input into tradeable goods (e.g. advertising). Still others are aimed at raising productivity generally (e.g. manpower training). Moreover, the problem cannot be divorced from employment policy: if there are no other employment opportunities, is it worse to have people employed in services than unemployed? The more fundamental issue that arises, however - and, unfortunately, it is a most neglected one in the case of public services - is what benefit is yielded by each service, and over what time span the benefit matures. For example, does education contribute any increased resources? And, if the benefit only matures a generation hence, say, is the discounted benefit greater than that of more immediately productive resources? The answers to these questions will not be decisive as regards the appropriate amount of education, since education is also an important consumer good, and society may well elect for higher consumption standards in education rather than in material goods. But that presupposes restraint in its living standards in terms of material goods. I think this formulation places the issue in its proper context: the problem is not that society is demanding too many services, but that it is demanding too much generally - it wants more services as well as increasing its material living standards. Viewed in this light, the appropriate solution is not necessarily restraint in the expansion of services, but more generally in the growth of incomes and consumption, including, of course, government consumption. The matter is, therefore, one of social choice.¹

1. To say this, however, is not to imply that such choices can be readily resolved. Nor is it to deny that there may be an entirely legitimate economic basis for the fears about the increasing scale of government activity. Because of its essentially non-market nature, the public sector may be pushed by sectional interests beyond the point that is socially optimal; services may continue even when they have outlived their main function; and, in the absence of clearcut criteria and incentives, its administration may be less efficient than in corresponding private sector activities. Such conclusions, however, should be based on specific investigation of these issues: they do not necessarily follow simply from the trend in the public sector share, no more than the social benefit of a market activity can be decided simply on commercial viability without regard to such matters as the distribution of income and externalities.

Whatever the merit of the "anti-services" arguments as applied to the advanced Western economies, however, they have far more force in the case of Israel, where a similar debate is in progress. This is because of Israel's qualitatively different political and economic situation and aspirations. Perhaps I might illustrate the difference as follows. Let us suppose countries were asked to choose between the following growth paths:

	<u>Average Annual Growth Rates (%)</u>		
	<u>GNP</u>	<u>Population</u>	<u>GNP per Capita</u>
(a)	4	0	4
(b)	10	5	5

There is little doubt that countries such as the United Kingdom, Denmark or the United States would adopt course (a). While concerned with the growth of living standards, these countries would probably regard the smaller growth in GNP per capita in (a) as a small price to pay for avoiding both the environmental effects of the much higher GNP growth, and the social problem - as they would see it - of the high rate of population growth, in (b). Israel, on the other hand, would certainly choose (b). The absolute size of its GNP and population matter a good deal to its security; and even apart from this, Israel aspires, on ideological grounds, to provide a home for all Jews throughout the world. The two growth paths outlined above probably have rather different implications for the distribution of activity because, in general, the faster the overall growth rate, the greater the degree of structural change. If the rapidly increasing employment implied in (b) were to be channelled mainly into services, as heretofore,¹ the strain on the economy could be immense, and the prospects of attaining a satisfactory rate of productivity growth greatly diminished. Israel's security situation is relevant also to the distribution, as well as to the overall growth, of activity: in preparing for war, for example, an additional armaments factory is often much more useful than another administrative agency! Finally, the outlook for Israel's balance of payments is of a vastly different character from that of Western economies. All that the latter require is maintenance of balance, or at most a correction at the margin, though the marginal correction is often very difficult to attain. Israel, on the other hand, if it is to reduce its dependence on foreign capital, needs a vast and sustained rise in exports relative to imports.

1. Of the 504,000 net increase in employment in Israel in the period 1955-1974, 350,000 was in services.

Hence, it is not surprising that the debate in Israel centres, not on whether the relative expansion of services should be checked, but rather on how this can be achieved. There is much discussion of the need to reduce incomes in services (particularly in the public sector) relative to the other sectors. Not surprisingly, I encountered strong support for this line at the Manufacturers' Association, a private sector body combining most of the functions performed in Ireland by the Federated Union of Employers and the Confederation of Irish Industry. Not surprisingly, also, the matter was put to me in a different light by Mr Moshe Bar-Tal, head of the Union of Public Service, Clerical and Administrative Employees, the largest individual union in the country and representing the majority of the services employees. He accepted the general need to switch resources from services to industry, and the importance of relative pay and working conditions in achieving this. He did not feel, however, that all services should contract: indeed, he saw a need to expand some, such as nursing and teaching, if Israel were to sustain its basic ideology as a state that cared deeply about all its people. Moreover, he pointed out that the dichotomy was not simply inter-sectoral: within manufacturing itself, the service functions were significant and growing, and were accorded higher rewards and status than work on the factory floor. In his view, the divergence in pay had arisen not because the services sector had moved too rapidly but because the private manufacturers had failed to keep pace in the case of their industrial workforce. That being so, I asked, would his members now accept a pause to allow the factory workers to "catch up"? His view was that it would be easier to secure a relative improvement in the living standards of production workers through changes in conditions of employment other than pay. Services employees, for example, had a shorter working week: if this were extended to factory workers, there would be no repercussions from his members. Moreover, he felt that the physical and social environment of the factory floor could be improved so as to remove, or at least reduce, the relative attraction of office employment for young people.

Mr Katz of the Labour Ministry was not hopeful that pay differentials as such could easily be altered, but he felt that much could be done to raise the status of industrial employment through improved conditions of work. In his view, however, the chief means of redistributing employment would be a cut in the government budget for various public services. He agreed with Mr Bar-Tal's view that it would be undesirable

to reduce certain services; and cited administration itself as the major area where cuts could be made - particularly in the level of clerical and secretarial support services. Inevitably, the measures would have to be somewhat ad hoc, as he was sceptical about the potential of rigorous manpower forecasting in Israel - not surprisingly, given the vast uncertainties affecting defence and immigration.

Education

Education has always been regarded as such a strong Jewish tradition that it would be easy to overlook the fact that half the immigrants came from countries with low education levels and that many of these were illiterate. On the other hand, the European and American immigrants were relatively highly educated, so that at the other end of the scale the proportion of the total population with third level education is among the highest in the world.

Not surprisingly, in view of tradition, Israel has laid strong emphasis on education and training. At second level, however, while the overall participation rate is similar to Ireland, the emphasis on vocational education seems to be quite different: among the Jewish population in the age group 14-17 the proportion of the population in vocational schools is marginally higher than in secondary schools, whereas in Ireland the ratio is nearly 3:1 in favour of the secondary schools. The relative shares in Israel changed markedly in the last 15 years, when there was a six-fold rise in numbers at vocational schools as against a little more than doubling of secondary numbers; and, indeed, in the last five years the absolute numbers in secondary schools have been going down. Interestingly enough, the position is quite different in Arab second level education in Israel, with secondary outnumbering vocational by 6:1.

I must confess that I did not have sufficient opportunity to probe the reality underlying these figures. But, it was admitted that, despite the figures, secondary education in general enjoys the higher status in the eyes of the population, as in Ireland. This is evident from the fact that the participation rate in secondary education for children of European and American origin is nearly double that in vocational, whereas the reverse is true for children of African and Asian origin. Moreover, the fact that persons attend vocational schools does not mean that they go into technical employment eventually: I was told that many aspire to the relatively prestigious office jobs. Nevertheless, the bias is clearly not as

great as in Ireland, and places in some high-grade technical institutions are as keenly sought as in the best academic schools. Some large enterprises, such as the Post Office, run their own vocational schools which also enjoy high prestige.

The number attending third level academic institutions is now 53,000 - over $2\frac{1}{2}$ times the figure for Ireland - and, of these, 55 per cent are studying the humanities and social sciences. As in most countries, university education is mainly for the better-off classes: among Jews, the participation rate for those of European and American origin is five times greater than for Africans and Asians.

A further major difference from Ireland is the much greater degree of flexibility in the Israeli education system. The system there is more tolerant, for example, of persons beginning any level at an older age. This again is largely a consequence of necessity, since many immigrants came with little education or skill, and a high proportion had to find work in occupations different from those held abroad. Due to universal military service, the starting age of most university students is at least 2-3 years or so older than in Western countries. In addition, the regular army officers tend to be retired young, and at that stage many commence or resume third level education.

The Productivity Institute

Among the extensive training and other activities of the Productivity Institute - a body combining many of the functions of the Irish Management Institute and the Irish Productivity Centre - the part that I found particularly interesting was their approach to small businesses. Mr Meidan, the Director of the Institute, said that there was little hope of getting the small businessman to attend formal courses: since he was often the only manager, he simply could not get away from the firm, and, in any event, would be ill at ease in the classroom climate of a formal management course. Hence, in order to reach these persons, the Institute had to establish an extension service, with an advisor calling on them in their own firm.

Even then, however, there were many difficulties in instruction. The small businessman was most receptive to instruction when he faced a particular problem. Generally, however, he combined in himself all the specialist functions of the large firm - production, quality control, finance, marketing, etc - and frequently did not distinguish these functions

conceptually. When he had a problem in production, it was worse than useless if the instructor could only tell him about marketing. On the other hand, if the instructor could solve his production problem, the businessman was then much more disposed to hearing how his marketing could be improved; but he preferred to hear it from the same instructor, rather than be referred to another specialist in whom he did not yet have confidence. Hence, it was necessary to develop advisors who could range over any and all aspects of the business. In general, the most suitable persons for the purpose were engineers with further training in financial, marketing and personnel aspects. It had proved much more difficult for those from an economic or social background to master the production aspects.

V. PRODUCTION AND TRADE

Agriculture

In 1950, half of the population's food supply was imported, and a country with such unpromising soil, and so few persons with an agricultural background or tradition, might be expected to remain heavily dependent on food imports. Instead, Israel now supplies about 90 per cent of its own requirements even though population much more than doubled, nutritional levels are much higher, and agricultural exports (mainly citrus) have increased considerably. This has been accomplished by a phenomenal growth in output averaging $9\frac{1}{4}$ per cent per annum since 1950. The cultivated area has risen from 400,000 acres in 1948/49 to over one million acres, of which nearly half is irrigated, representing a six-fold increase in the area under irrigation. This, of course, puts immense pressure on water resources. Of the total of 1.6 billion cubic metres of water used in 1973/74, 1.2 billion was used in agriculture, and on future projections Israel faces a water crisis unless new sources, such as the economic desalination of sea water, are developed.

Apart from the enormous investment in land reclamation and water resources, there was also substantial investment in mechanisation. Yet, investment alone would not have been sufficient to achieve such a high growth rate in the absence of such factors as the drive of the early settlers, the degree of training and the application of technological knowledge. This is clear from the fact that in the period 1953-65, when real GDP in agriculture rose by over 11 per cent per annum, total factor productivity (i.e. the productivity of labour and capital inputs combined) rose by nearly 6 per cent per annum.¹ No more than in Ireland, however, agriculture in Israel is no longer a source of new jobs. In fact the numbers engaged in agriculture there have been declining since the early sixties, and the farming co-operatives and collectives have had to initiate industrial activity to create employment.

1. Bruno, op.cit.

Industry

The volume of manufacturing output has risen on average by nearly 11 per cent per annum since 1950. Import substitution was the approach adopted in the first decade or so, pursued through a wide range of instruments - quotas, tariffs, tax benefits, and subsidised credit. By 1958, the proportion of imports in the total supply of manufactured goods had fallen to 26 per cent from 46 per cent in 1950.¹ There was a crucial difference between the Irish and Israeli experience of protection in regard to the expansion of the home market. The Irish firms established under protection found themselves, after the initial import substitution phase, facing a declining population, with the growth of home demand further restricted by undue official concern with the level of external reserves and unwillingness to borrow abroad. Israeli producers, on the other hand, were serving a market in which population and aggregate demand were expanding at very high rates. The degree of success attained by protection in Ireland would surely have been much greater had it operated in domestic demand conditions similar to Israel.

Nevertheless, the Israelis themselves began in the late 1950s to shift towards a strategy of export expansion. Export subsidies based on value added were introduced and by 1972 the subsidies, on average, amounted to 23 per cent of value added. Tariffs, though reduced, remained high, however: in 1967 the average nominal tariff was 80 per cent and the average effective rate over 150 per cent. Through agreements with the EEC, Israel is now committed to a substantial reduction in tariffs with that area.

The Israeli government provides a wide and substantial range of direct aid to industry in the form of loans and grants, tax holidays, accelerated depreciation allowances, etc. Relatively more use is made of low interest loans, and less of grants, than in Ireland. Because of the high rate of inflation, however, these loans, which are not indexed, represent a significant capital subsidy. Foreign investment is strongly encouraged because of the capital it brings in, and is entitled to the full range of incentives as well as some additional tax concessions, including an upper limit of 25 per cent to income tax on profits. In practice, however,

1. David Morawetz, Capital Utilisation in Israeli Industry (Jerusalem: Falk Institute Discussion Paper No. 753, June 1975), p.15.

most foreign enterprise in Israel is undertaken by way of joint venture with native enterprises. There are virtually no measures encouraging labour intensity, presumably because the country has for many years enjoyed full employment and, indeed, has suffered up to recently from labour shortages.

The capital intensive bias, nevertheless, has not been without its critics,¹ who argue that it has led to a waste of capital in two ways, through building plants that are more capital intensive than necessary, and, more important perhaps, through low plant utilization rates.² As long as Israel enjoyed such massive capital inflows and full employment, however, the approach was not without its merits. The policies take on an entirely different complexion where there is sustained unemployment and capital is scarce. Indeed, Israel itself, because of the unpromising future outlook for capital inflow, may be forced to reconsider its approach.

Trade

The fact that Israel has had such an "unfavourable" current balance of payments position does not imply that it had a poor export performance. In fact, over the period 1950-74, the current dollar value of total merchandise exports rose by about 18 per cent per annum, on average - nearly twice as fast as in Ireland. Citrus exports accounted for half the total in 1950, but although they have risen considerably in absolute terms, their share has fallen to less than 10 per cent. Manufactured exports now constitute more than three-quarters of the total and have grown on average by 20 per cent per annum. Polished diamonds, a traditional industry, is the largest category, accounting for one-third of total merchandise exports, and exports of other traditional industries, such as clothing and textiles, are also important. For the last few years, however, exports of chemicals, machinery and transport equipment have grown particularly rapidly.

Up to 1967, the growth of merchandise exports greatly exceeded the growth of imports and the ratio between the two improved from

1. See Morawetz, *op.cit.*, and Zvi Sussman, Development Strategies in Semi-Industrial Countries: Israel (Jerusalem: Bank of Israel, mimeographed, 1974).

2. Morawetz, who provides evidence on the predominance of single shift operation, shows that the average utilisation in Israeli industry lies between 35 and 47 per cent, as compared with average rates of 62 per cent in the Philippines, 71 per cent in Malaysia and 79 per cent in Columbia.

12 per cent in 1950 to nearly 70 per cent in 1967. Since then, however, the growth of imports exceeded that of exports and the ratio of merchandise exports to imports has fallen back steadily to little more than 40 per cent. Total exports, visible and invisible, form a somewhat higher proportion of total imports - 53 per cent in 1974. Invisible exports are less in absolute terms than invisible imports but, as in Ireland, invisibles represent a much larger proportion of total exports than of total imports.

But for the political situation, Israel's natural trading partners would be its Arab neighbours. Although more trade may be carried on with some of these countries than is distinguished in official statistics, Israel is forced to look further afield. Its major trading partners are the EEC and the United States, which together supply about two-thirds of its imports and take more than half its exports, and the value of EEC trade is roughly double that of the United States. Israel also has important export markets in Iran, Hong Kong, Japan and Switzerland, the latter two being also important import suppliers. In the last few years, Ireland has developed significant exports - mainly beef and veal - to Israel, which is now one of the comparatively few countries with which we have a trade surplus: according to the Irish data,¹ Irish exports to Israel in 1975 amounted to £5.2 million and imports to £3.8 million. The Manufacturers' Association expressed to me their strong interest in developing mutual trade with Ireland.

1. The disparity between the Irish and Israeli figures on mutual trade seems very large, even allowing for the fact that both countries value their own exports f.o.b. and their own imports c.i.f. Following are the figures for the years 1972-1974:

Year	Israeli Data			Irish Data		
	Exports to Ireland	Imports from Ireland	Trade Balance Surplus + Deficit -	Exports to Israel	Imports from Israel	Trade Balance Surplus + Deficit -
	\$ million*					
1972	0.66	1.41	-0.75	0.46	5.16	-4.70
1973	0.94	14.17	-13.23	11.46	6.94	+4.52
1974	0.78	7.26	-6.48	6.01	7.92	-1.91

* Conversion rates used for Irish £ as follows: 1972: \$2.50 = £1; 1973: \$2.45 = £1; 1974: \$2.34 = £1.

My colleague, Dr R. C. Geary, assures me, however, that "these kinds of discrepancies are found everywhere, always, mainly due to entrepôt trade", and points out that "Israeli imports from Ireland" are, by the standard of such data, reasonably consistent with "Irish exports to Israel". The large discrepancies in the other pair of data arise presumably because most Israeli exports to Ireland come to us indirectly through third countries and the final destination is unknown to the Israelis.

In Denmark, I was highly impressed by the degree to which the Danes had carved out a major comparative advantage through high quality design - both in artistic and industrial goods.¹ Israeli design, at least in so far as I could judge it from shop windows, is not impressive; and the business representatives with whom I spoke did not foresee this as an activity in which the Israelis were likely to develop expertise. Rather, they saw the science-based industries involving significant research and development - such as electronics, chemicals, irrigation systems - as the ones in which they were most capable of developing a major comparative advantage. Their confidence in that regard rests on the high general level of education, the relatively low salaries of engineers, scientists and technical personnel, the outstanding quality of the scientific faculties of the Israeli universities, and the establishment of important research and development links between these faculties and industry. The military interest in scientific equipment may also have an industrial pay-off - at least to the extent of encouraging physical scientists to think on practical uses.²

VI. TYPES OF ENTERPRISE

Enterprise is a quality commonly associated with the Jews and, moreover, many immigrants developed "a propensity for entrepreneurship which seems to be characteristic of uprooted persons in many parts of the world".³ The generality of the enterprise of the diaspora Jews, however, was on a small scale, and this finds its reflection in Israel in a vast number of small scale enterprises. Of the 21,000 establishments in mining and manufacturing, for example, 90 per cent employ less than 20 persons and account for 26 per cent of employment; the figures for Ireland are 50 per cent of establishments and 7 per cent of employment.⁴ What is

1. Kieran A. Kennedy, "Impressions of a Visit to Denmark", Central Bank of Ireland Quarterly Bulletin, Autumn 1975 (ESRI Reprint No.42).

2. In the social sciences, the military need for knowledge on such matters as morale among the population has stimulated important social psychological research. For a vivid account of this work, see the introductory chapter on the history of Institute, written by its Scientific Director, Professor Louis Guttman, in Haya Gratch (Ed.), 25 Years of Social Research in Israel: The Story of the Israel Institute of Applied Social Research (Jerusalem: Jerusalem Academic Press, 1973).

3. Morawetz, op.cit., p.5.

4. The figures are not fully comparable in that the Irish data in general do not include establishments with less than 3 persons engaged, whereas the Israeli data are comprehensive. If, however, we consider only establishments with 5 or more persons engaged in both countries the contrast still holds: establishments with 5-19 persons engaged make up 70 per cent of the total (excluding those with less than 5 persons) and account for 18 per cent of employment in Israel, as compared with 42 per cent of establishments and 6½ per cent of employment in Ireland.

of greater interest, perhaps, is that Israel has pioneered important new forms of enterprise, of which the most unusual is the Histadrut (or trade union) sector which accounts for about 20 per cent of national product.

Trade Union Enterprise

The umbrella of the Histadrut covers most forms of enterprise stemming from groups of workers, including the agricultural based cooperatives and collectives, discussed further below. But the Histadrut also initiates new industrial enterprises which are neither cooperative nor collective, but often operate on much the same lines as private enterprise and may be best characterised as "trade union capitalism". The share of these enterprises in the total industrial value added is nearly 20 per cent,¹ and the Histadrut owns some of the largest industrial establishments in the country. Its chief manufacturing conglomerate, Koor Industries, operates 70 plants, chiefly in metals, chemicals and electronics, and is ranked among the 300 largest manufacturing companies outside the United States. The largest Histadrut concern, however, is Solel Boneh in the construction industry, which is involved in housing, roads, harbours, etc., and has carried out projects in other Asian, African and Middle Eastern countries. Among its other activities, the Histadrut operates one of the largest banks (with over 200 branches) and, through affiliated cooperatives, has a virtual monopoly of bus transport, the dominant form of passenger transport in Israel. It is also an important partner in El Al (the Israeli international airline) and Zim (the Israeli navigation company).

How did this come about? Mr Bar-Tal explained that apart from the influence of the philosophical and sociological ideas underlying the kibbutz, which are discussed later, it was in many ways an ad hoc development - a response to the needs of the situation. Before the establishment of the State, Israeli immigrants found it essential to band together to provide themselves with various goods and services. Thus, housing cooperatives developed because of the advantages people found in pooling their labour to build their own accommodation. The same was true of transport. In agriculture, the Jews realised early on that as individuals they could not compete with Arab farmers who were prepared to accept a

1. In addition, the manufacturing activity of the kibbutzim, most of which are affiliated to the Histadrut, is considerable. The private sector, however, still accounts for the major share of industrial value added - about 65 per cent. Government industrial activity is mainly confined to public utilities, mines and minerals, and defence equipment.

much lower standard of living. Hence, they grouped together to improve efficiency through scale economies, specialisation and the application of modern technology. These developments laid the path for progress into larger entrepreneurial activities. The need to create employment was also a major stimulus to trade union enterprise, especially in the 1920s and 1930s when the Jews did not have their own government to assume that responsibility. With the massive immigration following independence, the requirement for jobs intensified, and trade union enterprise had by then sufficient impetus to maintain and expand its entrepreneurial role rather than leaving responsibility for employment creation solely to the government and private industry. Mr Bar-Tal believed that an important feature facilitating such an approach was that the trade union movement in Israel had not developed in an atmosphere of class conflict, as in many other countries: it was too conscious of the enemy without to become obsessed with management as the enemy within.

Collective bargaining in trade union enterprises thus takes the unusual form that the movement is essentially bargaining with itself. I was told that workers in such businesses have pay and conditions similar to their counterparts in the private sector, and generally comparable with the best practice there. Managers, however, receive lower rewards than in the private sector. Did this mean that the trade union enterprises were left with inferior managers? Not necessarily. Some managers, of course, would be enticed by the more attractive salaries and fringe benefits in private industry. But individuals vary in their response to economic stimuli, and are motivated by factors other than the purely monetary. Thus, some who could command much higher rewards in the private sector prefer the general environment of trade union enterprise; and there is no evidence that trade union managers in general are inferior to their counterparts in private industry.

The Farm Cooperatives and Collectives

The moshavim and kibbutzim are cooperative enterprises which are primarily farm-based. In the moshav, purchases of materials and sales of output are undertaken cooperatively, but production itself is an individual enterprise. The collective moshav goes further in the direction of communal living, with production undertaken cooperatively, but the income produced is shared out and consumption remains individualistic. The kibbutz is a total collective with all three aspects - trading, production, and consumption - organised communally. These three types of enterprise account for a substantial share of total agricultural production.

There are now about 350 moshavim and 260 collective moshavim and kibbutzim, of which less than 30 are collective moshavim. The members and dependants in the moshavim represent 4 per cent, and in the collective moshavim and kibbutzim, 3 per cent of the total population. Even though they have been growing in absolute terms, this growth has been considerably less than in the State as a whole, so that their share in total population is decreasing.

The Kibbutz

Of all the forms of economic and social organisation in Israel, the kibbutz probably holds most fascination for the visitor. It is, of course, much more than a form of organisation: it is a way of life. Moreover, it is not a recent phenomenon. The first kibbutz in Israel - Delgania in the Jordan Valley, now known as the "mother of the kibbutzim" - dates from 1910, but the underlying philosophy goes back to the 19th century. It has its origin in the disenchantment with industrial capitalism felt then by several European thinkers - Jewish and otherwise - who sought a communist approach, though a communism based on true sharing rather than totalitarian rule. The full development of the personality, it was argued, required the integration of manual and intellectual endeavour. Particular value was attached to work on the land - no doubt, partly a reaction to the dominant trend towards urbanisation inherent in the industrial revolution. When these ideas were fused with Zionism, the objective crystallised: the establishment, in a Jewish State and on the ancestral lands of the Jews, of self-supporting communities sharing the means and fruits of production with the full participation of all members in community government.

There are, in fact, six separate kibbutz movements, which were founded at different times and trace their origins to different parts of Europe. There are important differences in ideology between these movements: one, for example, embraces strict religious adherents, while another is an integral part of the Labour Party. Each of the movements has a central organisation for such matters as purchasing, marketing, training and education, mutual aid among the component kibbutz settlements, and the development of new settlements. Five of the six movements came together in 1963 to form a federation which organises a great variety of co-operative activities. Although the kibbutzim of any one movement share certain common principles and basic structures, there is, nevertheless, a great deal of variety among them, depending on such factors as location and type of economic activity as well as the conjuncture of personalities.

Though the kibbutzim hold less than 3 per cent of the total population, their significance is far greater than this figure would indicate. Their strong ideological commitment, which is assiduously fostered in their children, together with their solidarity and high morale, has made them a spearhead for difficult and dangerous assignments. Many of the settlements were located in border areas of maximum danger; and today they are establishing new settlements in regions occupied during the 1967 war - sometimes in outright conflict with the government's wishes. One of the movements, Hakibbutz Hameuchad, played a central role in the events leading to independence - establishing the Palmach (shocktroops), bringing in Jewish immigrants illegally, military actions against British rule, and fighting as individuals, or in the Haganah (the Jewish secret army), or in Israeli army units during the War of Independence. In the struggle since then, the kibbutzim afford effective temporary bases for troops. Their commitment to agriculture and land reclamation is also crucial to security as well as to economic development. Finally, their network of links with other kibbutzim, with the parent movement, and with the Histadrut, makes them far more adaptable to changing conditions than in the case of individual proprietors. This is illustrated by their progress into industrial and commercial enterprise. A majority of the kibbutzim now operate an industry - in addition to their farm activity - in such diverse groups as food, plastics, chemicals, metals, electronics, printing, textiles, etc, while over 20 kibbutzim run a guest house.

VII. A VISIT TO A KIBBUTZ

Having sketched the kibbutz movement in general, it may be of some interest to describe in greater detail the operation of one kibbutz, Hatzerim, where I stayed overnight. There is a serious danger that the experience of one kibbutz will be taken as general to all, and I must reiterate that there is considerable variety among the kibbutzim. Furthermore, no matter how close the observation or how persistent the inquiries, there are likely to be serious deficiencies in any account based on no more than 24 hours of study! With due regard to these dangers, there is, nevertheless, an advantage in writing from personal experience however limited, namely, that one can clothe the abstractions in some local colour.

Kibbutz Hatzerim is situated at the northern end of the Negev Desert, about 6 miles from the town of Beersheba. The total population is about 400, of whom about half are members. Children become members

on coming of age, while others wishing to join serve an apprenticeship before acceptance by a vote of the members. In addition, there are about two dozen "volunteers" - mostly young people from abroad, who stay for varying periods from a few months to a year, participate in the work and social activity, and in return are maintained by the kibbutz. Membership is not confined to Jews or to Israeli citizens, though the overwhelming majority of the members are Israeli Jews: most of the volunteers, however, were not Jewish. New arrivals, whether as volunteers or prospective members, are normally channelled through the central federation, which tries to allocate applicants in accordance with their broad preferences. In addition, however, members who immigrated from abroad often wish to bring their parents to live with them - normally when they retire or are too old to look after themselves properly - and the kibbutz generally arranges this directly.

Government

The members constitute the government of the kibbutz but, as might be expected, many decisions are delegated to an elected council and day-to-day decisions are entrusted to an elected Secretary. The post of Secretary is an onerous one which is held for only one year, during which time he (she) is on call day and night. In no sense, however, is the Secretary the governor (or even director!) of the kibbutz, but rather an influential spokesman for, and interpreter of, the policies laid down by the council and members. Even the council cannot be regarded as the governing body since all major policy decisions are debated and voted on by the members collectively.

There is no doubt that the kibbutz secures a degree of participation in decision-making that is qualitatively different from that achieved in most forms of industrial democracy in the West. A major reason for this is that communal decisions arise not only in relation to production but also the whole way of life. A person may be prepared to leave production decisions to an acknowledged expert, but he is much less likely to be indifferent about matters affecting his personal life intimately.

A concrete example may serve to illustrate the foregoing point. While I was there, a debate was in progress of great personal significance to the members of Kibbutz Hatzerim, namely, whether the children should continue to sleep communally, or remain at night with

their own parents. The existing arrangement is that once they are about three months old, all children sleep in the separate children's quarters: they come to the parental home at 4 p.m. each day, when work and school have ended, and are put to bed in the children's quarters by the parents, immediately before the latter go to dinner at 8 p.m. The advocates of change are mainly the young parents, especially the mothers, who dislike parting with their children at night. Although two women remain on duty all night as baby sitters, the mothers worry that their own child may be neglected if three or more children are crying at the same time. Also, since the younger children sleep four to each room, there are usually four sets of parents in the room at bedtime, each possibly reading a different story to their own child: this atmosphere is felt by some to be unsettling for the children, though in my own observation it seemed to be unsettling rather for the parents. The opposition view is that the change would be corrosive of the basic idea of communal living. Friction, rivalry and jealousy would be more likely to arise among the children and this, in turn, would have adverse reactions on the attitudes of parents to each other. They also feel that it would place an undue burden on parents starting work early in the morning after attending during the night to a waking child.

A vote on the issue just before I arrived resulted in a majority of 55 per cent in favour of change. This, however, was insufficient to secure the desired change, since on major policy issues a majority of two-thirds is required. But neither does this mean that the issue has subsided. Far from it. Discussions will continue, the pros and cons will be thrashed out fully among individuals and at group meetings, and further votes will probably be held until such time as the change is accepted or it is clear that it has no hope of achieving sufficient support.

However passive a person may be, the kind of issue mentioned is likely to draw him (her) into an active role in community decision-making. And once involved in this way, the person is more likely to play a part in shaping policy on general issues that affect him less intimately. I have no doubt whatever that such participation in community government has many beneficial effects on the development of personality. But there are undoubtedly costs as well as benefits. The major cost is that a great deal of individual autonomy is given up in the first instance, so much so that I venture to suggest that this degree of shared decision-making will

never appeal to more than a minority - those who need, or prefer, a highly supportive environment. To argue this, of course, is not to oppose all forms of participation and power-sharing. But, speaking for myself, at least, I would regard it as an intolerable restriction of liberty that someone else in the community, who might not even be a parent, should have a voice in deciding where my children slept!¹

The degree of participation in the kibbutz could not function without genuine and complete equality, and that indeed is the case. The Secretary may have the most onerous duties, but he or she has no special prerogative or reward. That there was a fundamental equality of spirit as well as of practice was impressed on me by one incident. As it so happens, the Israeli Minister for Education is a member of Kibbutz Hatzerim, where he returns most weekends. He was there during my visit, taking his turn washing dishes as does everyone else. What impressed me most, however, was that my hosts, who went to endless pains to show me everything that in their view was notable, took no notice of this, and it was by accident that I learned of his presence. Had it dawned on them that I would have been eager to meet him, they would have hastened to arrange an introduction.

Production

Like all kibbutzim, Hatzerim is engaged in agriculture and, in addition to farming several thousand acres, also produces fruit and flowers for market as well as for its own use. It is inspiring to view at first hand the wonders of irrigation: in the semi-desert of the Negev, I saw fields as green as any in Ireland, and looking all the greener in contrast with the adjoining brown scrub. The different agricultural activities are separately costed, and the profit or loss position of each reviewed annually. An activity such as the gardens would not necessarily be terminated if found to be unprofitable, since they provide an attraction in themselves. But the use of good accounting principles is a vital safeguard where there might be a temptation to overlook costs: it enables the kibbutz to decide explicitly whether, and to what extent, it can afford the luxury of loss-making activities.

1. To put the matter in an Israeli perspective, however, it is only fair to add the rejoinder to this view by a colleague pointing out that those "who might not even be a parent" often bear the main brunt of defending the community and so ensuring that the children are still alive at all.

The major economic enterprise of the kibbutz, however, is not agriculture but an immensely successful factory, with substantial exports, producing an irrigation system for tropical trees. The product consists simply of plastic pipes, but its technological value lies in the way the water is fed out, and is based on a scheme developed by a professor at the Hebrew University in Jerusalem, from whom the kibbutz purchased the patent. The product is marketed as a system, so that the kibbutz is involved not only in the manufacture but also in the installation of the product.

Though the membership in general is involved in decisions on overall production strategy, individuals have considerable autonomy in production decisions. Thus, the job of factory manager is not a recurring, elective post: he holds office permanently, and the same is true of many specialised production jobs. Some tasks, however, are shared by all without exception. Everyone, male or female, does a month's stint in rotation at the unpopular dining-room and kitchen jobs - serving and cleaning-up, respectively. Many of the activities are run by people who have had no previous experience either at the technical or the economic end. To compensate for this, great emphasis has been placed on training in the practical skills needed for performance at a high level of efficiency.

Work has a high ethical value, and every effort is made to find tasks which will make even the helpless feel they are pulling their weight. For instance, though most of the factory work is mechanised, and the factory workforce consists of only twenty, there are adjacent work benches set up for three old men from the Argentine, who perform a light but repetitive task while conversing together in their native Spanish: though the task is useful, it would probably be dispensed with, or automated, were these men not available for its performance. The children maintain their own garden, under the supervision of an adult, and use the revenue from sales of vegetables to purchase equipment for the school and playroom.

Do they have any problem with idlers? To the outsider, work incentives seem to be slight: an individual will not be rejected by the kibbutz no matter how little he does; and, no matter how much he does, he receives nothing extra. The answer given to this question was that, at the upper end of the scale, persons with exceptional creative, organisational, or managerial talents were not deterred by lack of monetary incentives: personal satisfaction and social recognition provided sufficient recompense. At the other end of the scale, however, there were people who did not pull

their weight, but this was less prevalent than might be expected. The social censure of the community, even though often unspoken, would generally be keenly felt. I suspect also - though this was not said - that such censure might be manifested in more tangible ways: human nature being what it is, it would be surprising if someone, who was remiss during his stint of kitchen or dining-room duties, got a wholly sympathetic service for the remainder of the time. It was pointed out that every organisation, no matter what the rewards and penalties, has its quota of idlers. The kibbutz is very tolerant of those who cannot work, but because of its determined effort to find tasks that anyone can do, it may have a lower share of misfits than most bodies. There remain the few who will not work satisfactorily, and the kibbutz simply resigns itself to the fact that there will always be some such.

Life Style

Each household has separate accommodation - generally a house for the marrieds, and an apartment for the single. The buildings are all in one "compound", on an open plan, but there is a comfortable amount of space between each building and the standard of accommodation is good, neither lavish nor spartan. A member's parents will normally stay with the family if only on a visit, but if remaining permanently will generally be allocated a separate apartment. The dining and recreational facilities form the centre of the compound. Although most people take their meals communally, there is no obligation to do so. Food may be taken, free of charge, from the store and cooked and eaten in the house or apartment, but this facility is used mainly for light snacks between meals. I can testify on personal experience that there is no shortage of food in Kibbutz Hatzerim!

Most other necessities of life are available gratis from the store. This does not mean that one can have as much as one wishes: there is a quota limit on each item. If, for example, one requires shirts, one can select these at the store up to the prescribed number. If dissatisfied with the variety available, one can get a voucher to purchase shirts in the town shops within a specified sum. Transfer of quotas between different items is not permitted, however. Thus, if one does not want furniture, one is not allowed to use the furniture allocation to exceed the limit on shirts. The underlying view is that the quotas are designed for reasonable needs, and the fact that someone wants less of any particular item should

not be a basis for exceeding the reasonable needs of other items. Despite these limitations, there is a fair degree of variety in the way people dress and furnish their homes, though probably somewhat less than for Israelis generally with the same overall level of consumption. Rather more complex arrangements apply to the acquisition of such goods as tape-recorders, record players, television sets, etc.

Thus, nearly all consumption is in kind. Each person, however, receives a small amount of pocket money - equivalent to about £1 sterling a week. This is entirely discretionary, but is expected to cover annual vacations! It seemed to me an impossibly small sum to provide a holiday, as well as other discretionary spending, but I was assured it was adequate. The quota system is so extensive that most goods can be acquired thereby, while there is communal sharing of the more expensive ones - such as cinema projectors, motor cars, etc. As regards annual vacations, the younger people generally take with them a sleeping bag and large quantities of food and camp out on a Mediterranean beach, or at Eliat on the Red Sea. Families, on the other hand, often swap homes with those in the cities and towns eager to spend a holiday in a kibbutz. Over and above annual vacations, the kibbutz finances a prolonged overseas vacation (up to three months) each year for three families on a rota basis.

Kibbutz Hatzerim is essentially a secular kibbutz. Though readings from the Old Testament and other Jewish religious literature are sometimes conducted at mealtime, and though the study of Jewish history and tradition is accorded a high value, this is a matter of culture rather than religion.

VIII. SOCIAL TENSIONS

Despite the strong sense of social cohesion in Israel, there are underlying tensions which would, undoubtedly, surface more vigorously in the context of peace. Indeed, one occasionally hears the view that if the Arabs really wanted to destroy Israel, they would leave it in peace. This is certainly a gross exaggeration, but the germ of truth it contains is that internal dissension tends to be artificially restrained by the need for solidarity.

What are the sources of these underlying tensions? I mentioned earlier some of the cultural differences between the two broad streams

of Jewish immigrants - the Ashkenazim from Europe and America, and the Sephardim from Asia and Africa. Though it would be quite wrong to exaggerate the dichotomy, nevertheless the differences in origin, language and education are reinforced by economic, demographic and social differences. A much higher proportion of the poor are concentrated in the Sephardim, and particularly so in the case of children since they tend to have larger families. They have a higher proportion of families in overcrowded accommodation: 24 per cent of families whose head came from Asia or Africa live in accommodation with more than two persons per room, whereas the corresponding figure for Europeans and Americans is only 2 per cent. The incidence of crime follows a similar pattern: the crime rate for convicted adult offenders (aged 17 and over) is 10 per thousand population among the Asians and Africans as compared with $2\frac{1}{2}$ per thousand among the Europeans and Americans.

The divisive nature of the socio-economic differences are compounded in Israel by a number of factors. First, the strong egalitarian ethic makes continued poverty less bearable than if it were accepted as a norm. Second, though nearly half of those in poverty are households with an aged head having little or no labour force participation, the working poor also constitute a significant proportion. It is considered particularly repugnant that a person willing to work, and actually at work, still remains in poverty. Third, the beneficiaries of personal war reparations from Germany were almost exclusively Ashkenazi Jews. Fourth, there are always problems in ensuring that the poor are adequately compensated for rising prices, and this problem is intensified in Israel because of the rapid rate of inflation. Fifth, the level of government aid to immigrants has tended to rise through time as living standards rose. Since in recent years the overwhelming majority of the immigrants are from Europe and America, often well-educated and sometimes well-off, this arouses some resentment among the Israeli poor, many of whom arrived when the degree of assistance was far less. Finally, there is the danger of the development of a sub-culture of poverty that would be self-perpetuating. A record of juvenile delinquency, for example, may block admission to military service and thus create a lasting barrier to achievement.

A different source of potential conflict arises from the dominant religious influence on laws that in most democracies are treated as civil. The majority of Israeli Jews are not religious in any normal meaning of that term, but the religious minority exerts powerful pressure.

The religious Jews themselves are by no means a homogeneous group. At one end of the scale, there is a tiny minority of ultra-orthodox who refuse to recognise the State, which they hold can only be established with the coming of the Messiah. These are chiefly congregated in one area of Jerusalem, spend much of their time in prayer and study, dress very traditionally, and live a frugal life. They refuse to undertake military service, though they are by no means non-violent: if one were unfortunate enough to walk through their territory on the Sabbath, and particularly so if inappropriately dressed, one would be liable to be forcibly ejected. Indeed the police mount guard at the entrance points on the Sabbath to discourage the unwary from wandering in. The ultra-orthodox are tolerated and allowed to go their own way unmolested, but with much ill-concealed hostility from the public at large. At the other end of the religious scale is an ultra-liberal element, seeking to find ways around the legal restrictions for those who do not accept them. But the central religious influences are organised in powerful political pressure groups to ensure adoption of religious law as the normal civil code.

In siege conditions, it is inevitable that the "true believers" will always enjoy power and influence far beyond what they can command in normal peacetime circumstances. Deep down, it is probable that every Jew, no matter how irreligious himself, feels that the religious adherents represent the central core that has kept the notion of Jewishness alive throughout the ages. It is for this reason, I think, that the religious minority has been allowed to impose its will to a surprising degree. The religious courts in Israel - Jewish, Moslem, Christian or Druze - have exclusive jurisdiction in marriage and divorce, and marriage can only be performed by a minister of religion. Under Jewish religious law, the treatment of bastards - narrowly defined as the illegitimate child of a married woman - seems exceptionally harsh: bastards can only marry other bastards. Inter-marriage between those of different religion can raise the most frightful complications: for example, under Jewish law the religion of a child is defined by that of the mother, but under Moslem law by that of the father. There is no public transport on the Sabbath - a factor which has an incidental, though unintended, social class bias in that the better-off can travel in their own car, whereas the poor may not have private transport.

I should add that these laws are generally less repressive in their operation than in the strict letter. A person can usually find a rabbi

who will, as Louis Guttman put it, reinterpret the data, or discover additional data, or even invent new data to facilitate a satisfactory resolution of the problem - a modus vivendi not unknown among Irish Catholics. But many non-religious Israeli Jews feel that such stratagems should not be necessary in the first place. Indeed, in most countries the Jews are to the forefront in liberal causes affecting civil rights; and I suspect that, given lasting peace in Israel, the majority would not tolerate indefinitely what they consider to be a serious infringement of civil liberties. But, they would still face a stiff contest with the religious group.

I would not wish, however, to exaggerate the potential for social conflict. The astonishing feature of Israel is rather that social tensions are relatively moderate, given the vast number of immigrants of such diverse origin, language, social philosophy, education and economic status.

IX. CONCLUDING COMMENTS

Small countries generally have much in common. But, as one looks at Israel through Irish eyes, one may be impressed as much by the contrasts as by the similarities. Both countries have much the same population today, but Israel has experienced massive immigration in the last 30 years, whereas Ireland has had substantial emigration. Both countries sought to revive an ancient language, but more because of necessity than desire, they have had very different records of success. Both countries have security problems, but of a vastly different scale and character. The population of both countries represents a minority of a wider ethnic group scattered throughout the world, with similarities that fascinated James Joyce; but the bonds of this wider community with the homeland bring far more tangible benefits to Israel than to Ireland. Nevertheless, with due regard to the contrasts, I believe that there is still much in Israeli experience from which we could learn with profit through further study.

We may first of all take heart from the fact that pressure of events can call forth constructive responses far beyond what "rational" calculation might suggest. This is not unimportant at a time when the longer-term economic and social problems we face seem even more daunting than the present malaise. Chief among these problems is the task of providing enough jobs and the potential for social unrest if this goal

is not achieved. While there is no law ordaining that such social pressure is inevitably progressive, Israeli experience suggests that neither is it, as some feel, inevitably destructive. Indeed, Israel provides ample evidence of what is so often overlooked in relation to economic development, namely, the importance of the human element. While, undoubtedly, they would not have achieved so much without such large capital inflows, their performance in agriculture alone underlines the prime role of human ingenuity, skill and receptivity to new ideas; and, it demonstrates further that these qualities may be evoked by social pressures and developed out of sheer necessity.

More specifically, we might look to Israeli experience for some new ideas on how to solve what is generally agreed to be our most serious deficiency - the scarcity of industrial enterprise. The excellent advisory service for small businesses operated by the Productivity Institute in Israel seems to go well beyond comparable arrangements in Ireland, though it resembles the extension service for Irish farmers provided by the agricultural instructors. A similar extension service for small industrial concerns might have a significant effect in developing native enterprise. If successful, it might be extended beyond the manufacturing sector to, for example, selected wholesale and retail firms with a view to uncovering further entrepreneurial talent that might then be encouraged to initiate new industrial activities.

Irish trade unions might ask themselves whether, like their Israeli counterparts, they could undertake a direct role in initiating new industrial enterprises. The unions in Ireland have often enunciated their concern about employment; they have shown considerable initiative and organisational ability; and, if they once tried, it is possible that some of them would have the capacity for successful industrial enterprise. Were they to attempt this, I have no doubt that they could call on their Israeli counterparts for technical advice on all aspects of trade union enterprise. A major secondary benefit of such enterprise is that it would give the trade unions a more thorough understanding of the needs of industry, including the role of profit - a function only very imperfectly fulfilled by putting union representatives on the boards of State-sponsored bodies. It is quite true that the circumstances leading to trade union enterprise in Israel were in many respects different from those prevailing in Ireland. But even where exceptional circumstances give birth to a particular development, the example of that development may inspire its replication elsewhere. Other interest groups in Ireland, such as the farming bodies, might also consider the initiation of new industrial enterprises.

While "trade union capitalism" in Israel was largely a pragmatic response to pressure of events, this is not true to the same extent of the moshavim and kibbutzim.¹ These have a strong ideological motivation and would obviously be much more difficult to emulate. Nevertheless, they would be worthy of study here at a time when the notion of industrial participation has received a fresh impetus from our entry to EEC. While the notion is a worthy one, we have little experience to draw on and there is a danger that it might become simply a catch cry. Its implementation in a thoughtless fashion, without regard to the problems and opportunities involved, would damage the whole concept. Examination of Israel's extensive and diverse experience in industrial participation might provide insights that would reduce the amount of costly trial and error needed to perfect our own arrangements.

Israel has probably used a wider battery of policy instruments than most small countries, and the success and failure of these might afford some guidance. It is noteworthy, for instance, that despite their solidarity, they have not been able to rely solely, or even mainly, on incomes policy to moderate the rise in real incomes and maintain competitiveness. This raises the question whether Ireland, if it is to progress towards full employment, may not have to extend its range of instruments in this regard. In Israel, devaluation has been used repeatedly for that purpose, and it is one of the chief instruments that we are still free to adopt under EEC regulations. Israeli experience, however, confirms the price inflationary consequences of such an approach, and the social tensions generated thereby. Following the large devaluation and other price increases in November 1974, "the immediate reaction was a burst of demonstrations and strikes. In one working class district of Tel Aviv, a crowd of 1,000 broke through police cordons, looting local shops".² Since then, as already mentioned, Israel has adopted smaller and more frequent devaluations, but has also secured agreement to only partial wage compensation for the resultant price rise. Thus, it would appear that, whether or not Ireland contemplates devaluation, pay restraint remains essential if priority is to be given to employment.³

1. Professor Louis Smith of University College Dublin assures me, however, that the development of the kibbutz was influenced by co-operative experiments in 19th century Ireland!

2. Kellner, op.cit.

3. A fortiori, unless employment is to suffer even more, pay restraint would be essential in the case of revaluation, which has been mooted mainly by those concerned with price inflation.

A small economy may have more limited options than a larger one in deciding in which activities to build its industrial comparative advantage. The small scale of its home market generally means that it must look eventually to exports. Yet, because of the fact that many successful export industries require initial home market development, it may find it hard to compete in mass-produced items; or, in other words, it may find it difficult to produce them at a high enough rate of efficiency to yield the level of incomes that its people expect. Denmark evolved a major comparative advantage based on high quality design in consumer goods aimed at the upper end of the market, and on technological innovation related to industrial design. Israel sees its major comparative advantage in future in science-based industries involving substantial research and development. Ireland may not be able to follow either of these particular models on a large scale. But what is important is that we try to decide where we can best evolve such a strategy. What particular strengths can we build on or adapt? Is it really agriculture-based industrial production? How far can we go in building downstream industries based on our other chief natural resources - minerals, forests, and fisheries. Can we do more to develop services exports? As of now, there appears to be little systematic thinking on these matters. Such thinking requires considerable skill in project evaluation, in which few Irish economists have the necessary training and experience. The World Bank Research Department is probably the leading agency in developing techniques of project evaluation, and has unrivalled experience of the use of these techniques in a wide range of countries. Consideration might be given at government level to inviting the Bank to second a team of suitably qualified personnel to work with task forces drawn from Irish agencies such as the Department of Finance, the Industrial Development Authority, the Agricultural Institute, the Institute for Industrial Research and Standards and the Economic and Social Research Institute.

Israel's achievement in agriculture raises some questions about the allocation of land in Ireland. The massive development which took place there was achieved by people who in the main had no prior farming background. They had nothing to unlearn and could, therefore, be trained to apply the most modern techniques. In dividing land in Ireland, the Land Commission has invariably reallocated it only to those of a farming background, and usually from the same locality. To do otherwise would undoubtedly provoke local opposition. Yet, few approaches could be more certain to limit the prospect of innovation and increased efficiency. There are no such limitations on people entering the fishing industry: An Bord

Iascaigh Mhara advertises training courses for future trawler hands and skippers without regard to location or prior experience. Should the re-allocation of land in future not be tied more closely to the urgent need for development of our chief natural resource?

It is worth noting the contribution of building, and particularly housing, to economic development in Israel. In the words of the man who was Governor of the Central Bank of Israel from 1949-69:

"Building has acted as a channel through which purchasing power is pumped into economic life and effective demand stimulated... There was never enough housing for a multiplying population and, as each wave of immigration broke on its shores and its economy went forward, provision of homes was Israel's chief preoccupation."¹

Without the sustained high growth of home demand, primed to a considerable extent by building activity, it is doubtful if Israel could have reached and maintained full employment. It may be retorted that this is no consolation to the country that cannot support such expansion because of limitations on capital from abroad. Nevertheless, the point is worth making since it is sometimes denied that building can make a long-term contribution to raising employment. Even given the more limited capital resources available to us in Ireland, building activity, including housing, would have a significant role to play in any long-term plan for full employment.

Israel's success in using the Jewish connection abroad provokes the question whether Ireland could make more systematic use of the Irish connection, particularly in the United States. The large capital inflows from Jewish sources abroad have been referred to already. These do not happen purely spontaneously. Rather, they are chiefly the fruit of intensive planning and organisation. Public bodies and voluntary groups in Israel have devised all kinds of schemes, large and small, to attract support. There is, for example, a widely publicised scheme urging the visitor to "plant a tree in Israel" at a modest fee. The many educational and research institutions established and financed from overseas contrast with the virtual absence of any corresponding contribution here from the Irish abroad. In relation to funds for social research, for example, the Israelis might not have secured much had they confined themselves to writing appeals and applications for funds. Instead, they arranged with American Jewish scholars to set up the American Committee for Social Research in Israel, consisting of leading social scientists in the United

1. Horowitz, op.cit., p.37.

States. The purpose was to keep them informed of the research being done in Israel and to use their backing in getting grants from American foundations. At the political level, the Jewish lobby in the United States is generally considered to be one of the most effective political pressure groups there, ensuring that Israel's interests are cogently brought to the attention of American politicians seeking the Jewish vote.

Because of the differences between the two countries and in the nature of the ties with their respective ethnic communities abroad, it would be foolish to imagine that Ireland could command assistance on such a large scale as Israel. Nevertheless, a more systematic attempt to use the Irish connection abroad could yield significant benefits. No doubt, some would consider this approach demeaning. But, the matter cannot be dismissed so lightly when there is evidence of substantial Irish-American aid to undesirable purposes here, such as that given to the illegal republican groups. It is probable that many subscribers to such causes, as distinct from the organisers, are contributing out of an emotional desire to help the motherland rather than to support violence. Attempts to stop this may be unsuccessful in that they simply frustrate the emotional desire: it might be better to provide alternative outlets to re-direct the drive into more worthy causes.

These then are some of the chief areas where Ireland might profit from further study of Israeli experience. Many other such areas could be cited. For instance, the debate in Israel about the appropriate size of the service sector, and in particular the public sector, is one that is going on in many other countries, and is already under way in Ireland also; while the recent reform of the income tax system in Israel would merit more examination than I could devote to it. My emphasis on possible lessons for this country will not, I hope, be taken as reflecting a traditional Irish inferiority complex which regards everything foreign as superior. I have no doubt that Israel could also learn much from Ireland, but I feel it would be somewhat impertinent for me to suggest such lessons: they can do that best for themselves. My purpose in this paper has been rather to give Irish people an exploratory account of economic and social development in an excitingly different country which, nevertheless, has enough in common with Ireland for mutually productive interchanges.

APPENDIX 1: LIST OF PERSONS WITH WHOM DISCUSSIONS HELD

Professor Louis Guttman (Scientific Director)	}	The Israel Institute of Applied Social Research
Mrs Ruth Guttman		
Mrs Haya Gratch		
Mr Samuel Shye		
Mrs Tsiyona Peled		
Dr Jack Habib	}	Brookdale Institute of Gerontology and Adult Human Development in Israel
Dr Robert Lerman		
Mr David Katz (Director)		Manpower Planning Division, Ministry of Labour
Dr Rivka W. Bar-Yosef (Director)		Work and Welfare Research Institute, The Hebrew University of Jerusalem
Dr Yoram Ben-Porath		Falk Institute for Economic Research
Professor Don Patinkin		Israel Academy of Sciences and Humanities.
Professor Aaron Antonovsky		Department of Medical Sociology, Ben Gurion University of Beersheba
Mr Israel Meidan (Director)		The Israel Institute of Productivity
Miss Zehavit Weiser (Head, International Department)	}	The Manufacturers' Association of Israel
Mr Arnon Tiberg		
Mr Giora Giladi (Economist, International Department)		
Mr Joseph Hausman (Head, Labour Section)		
Mr Moshe Bar-Tal (General Secretary)		Union of Public Service, Clerical and Administrative Employees in Israel
Mr Clive Pick		Kibbutz Hatzerim