The New Economic Policy of 1962

• • • *How Israeli Economists Almost Changed the Israeli Economy*

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ABSTRACT: In February 1962, the Israeli government put in place a far-reaching economic liberalization reform. Had it been implemented as designed by the economists at the Bank of Israel and the Ministry of Finance, the plan could have dramatically changed Israel's political-economic structure. Yet the plan's actual implementation was limited and partial, with the result that economic liberalization was postponed for two further decades. This article examines the political dynamics through which Israeli economists tried to persuade political decision-makers to adopt the New Economic Policy and assesses the political obstructions that organized workers, employers, and the Ministry of Trade and Industry utilized in order to prevent its implementation. This analysis reveals the real yet limited political power that Israeli professional economists possessed in the 1960s, as well as the limits binding the power of the state with regard to organized economic interests.

KEYWORDS: Bank of Israel, economic liberalization, economic policy, Ministry of Finance, political economy, policy entrepreneurship, professional economists

In February 1962, the Israeli government adopted the New Economic Policy, a program for comprehensive economic liberalization reform, which is most remembered for the dramatic devaluation of the Israeli pound that it included. While the Israeli government had previously executed economic liberalization measures—most prominently in the 1952 New Economic Policy (NEP)—the 1962 reforms represented a substantial change from the past. The 1952 reforms, like Lenin's 1925 NEP to which they alluded (Kleiman 1997), were adopted as a necessary evil in the context of

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grave economic conditions (Krampf 2015: 105–108). This time was different, largely because economic conditions had substantially improved. No less important, however, was the fact that the 1962 reform had a long-term goal—comprehensive economic liberalization—that reflected a paradigmatic shift from the prevailing state-led developmentalism. However, this aspect of the 1962 NEP went largely unfulfilled, and Israel's political-economic paradigm shift was postponed for two more decades.

Although never fully implemented as planned, the mere adoption of the plan during the heyday of Israeli economic interventionism—whether defined as 'corporatism' (Grinberg 1993; Shalev 1992), 'statism' (Kleiman 1997; Levi-Faur 2001), or even 'socialism' (Plessner 1994)—is fascinating in and of itself. No less interesting are the specific circumstances that brought about its defeat. While economists have written quite extensively about the economic goals and economic consequences of the New Economic Policy (see Halevi 1994; Halevi and Baruch 1991; Tov 1972), this historic episode has not yet received the comprehensive political analysis it deserves. So far it has been discussed only in passing in the context of broader political-economic analyses (Grinberg 1993: 122–124; Shalev 1992: 215–216).

In addressing this lack, the article first examines the political dynamics through which Israeli professional economists at the Bank of Israel (BoI), at the Ministry of Finance (MoF), and in academia persuaded political decision-makers to adopt the New Economic Policy. For this purpose, I utilize the concept of 'policy entrepreneurship', offered by John Kingdon (1995), which sheds light on the processes through which Israeli economists effectively employed supportive political-economic conditions to promote their long-term economic liberalization agenda.

Following this, the article assesses the political hurdles that several actors set up to foil implementation of the NEP. Despite their political success vis-à-vis the plan's adoption, the economists had hardly any influence on the plan's actual implementation. The political power necessary for monitoring and furthering the plan's implementation remained in the hands of those who might have been damaged by it, namely, the employers, the workers, and the Ministry of Trade and Industry (MoTI).

While most studies discussing the political role of Israeli economists focus on the 1985 Stabilization Plan and its aftermath (Bruno 1993; Keren 1995; Maman and Rosenhek 2007, 2011; Mandelkern 2015; Mandelkern and Shalev 2010; but see Kleiman 1981; Krampf 2010), this analysis reveals the real, yet limited, political power that Israeli professional economists already possessed in the 1960s. It also contributes to the discussion regarding the characterization of Israel during the first decades as 'statist' or 'corporatist' (Grinberg 1993; Levi-Faur 2001; Shalev 1992) by showing the constraints that limited the power of the state vis-à-vis organized economic interests.

The first section provides an overview of the political-economic context within which the New Economic Policy was adopted and of the distinctive political-economic agenda that Israeli economists promoted at the time. The second section then presents the main goals and components of the New Economic Policy. The third and fourth sections analyze the political dynamics through which Israeli economists persuaded decision-makers to adopt the New Economic Policy, as well as the political hurdles that organized workers and employers, assisted by the MoTI, used to foil its actual implementation. Finally, some conclusions are offered regarding the political power of the newly founded local economics profession and of the newly formed state.

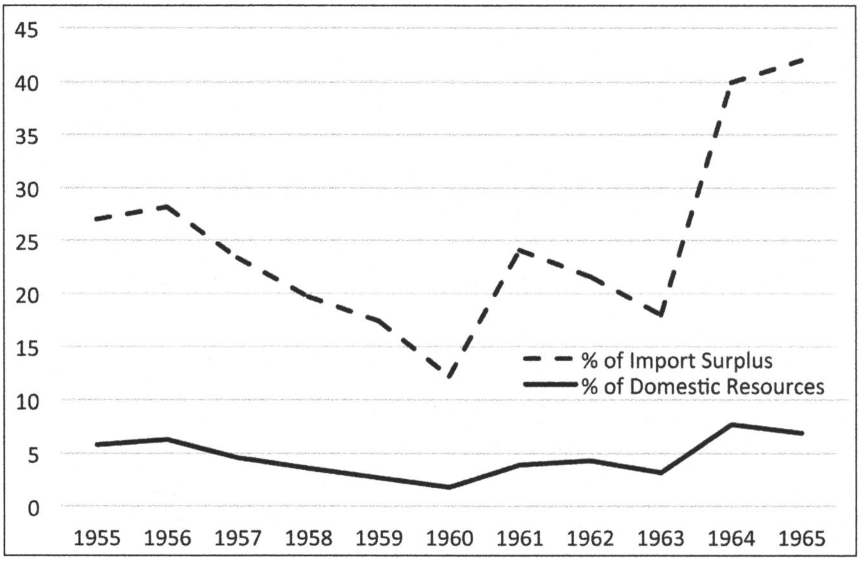
The analysis is based on archival documents and contemporary newspaper articles, complemented by interviews with two of the economists who were involved in the New Economic Policy and by the autobiographies and biographies of relevant personae. These data are supported by materials found in previous economic, political, and sociological analyses of Israel's economic conditions during the 1950s and 1960s.

Economists and the Political Economy of the New State of Israel

During the first 15 years following the establishment of the state, the local economy developed significantly in various aspects, including manufacturing, employment, and overall growth (Halevi and Klinov-Malul 1968). However, Israel's economic development during this period relied heavily on the state, which served as "a motor of economic expansion" (Shalev 1992: 209). The government created direct and indirect demand and operated various instruments of subsidization for business and manufacturing in general and for exporting in particular. The government's demand management likewise resulted in a substantial trade deficit (also known as an 'import surplus', the difference between imports and exports), which, as figure 1 shows, was heavily financed by external resources. Prominent among them were unilateral transfers—German reparations, American financial aid, and Jewish contributions—as well as long-term loans (Patinkin 1967: 51; Shalev 1992: 203).

This pattern of economic development came at a price. Specifically, Israel's economic expansion was accompanied by a structural trade deficit, which is illustrated by the 'import surplus' line in figure 1. This was considered by Israeli professional economists to be Israel's main economic problem and was defined as a 'lack of economic independence' (Krampf 2009). Don Patinkin (1967: 132), the founding father of the economics profession in Israel, famously noted that "the Israeli economy since 1953 has

FIGURE 1 Net Capital Transfers, 1955–1965

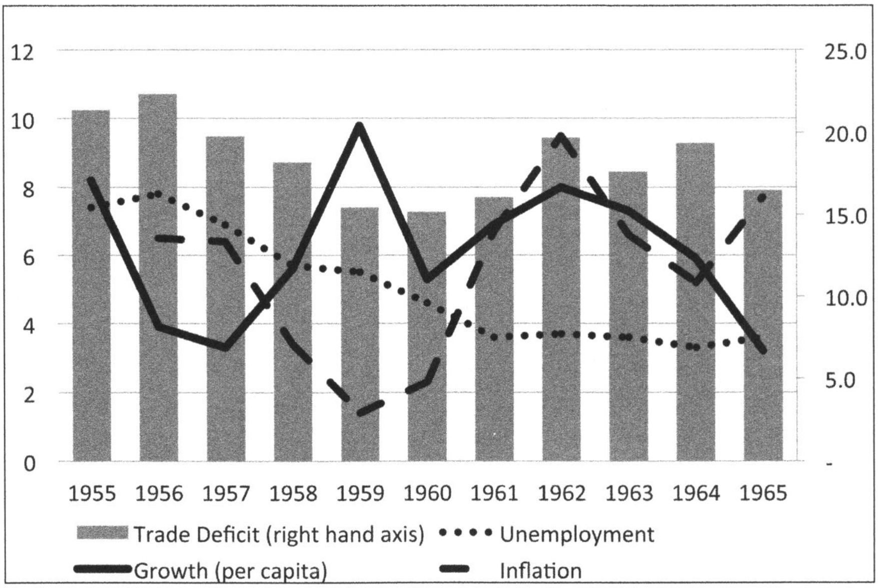


Source: Halevi and Klinov-Malul (1968: 168, table 60).

not moved significantly closer to economic independence ... This represents the major failure of Israel's economic policy in its first decade." In addition, certain structural political-economic issues became more notable in the early 1960s. First, economic expansion was accompanied by low unemployment rates (see fig. 2). Low unemployment rates, especially in the primary and well-protected segment of the labor market, brought about a parallel rise in workers' militancy and wage demands (Grinberg 1993: 113–130). At the same time, the sustainability of the system was under significant threat due to the expected cessation of German reparations and American aid (Shalev 1992: 209).

State-economy relations were characterized not only by the general dependence of economic activity on state support, but also by the distinctive pattern of this support. The government's economic policies were marked by an ad hoc bias, that is, direct intervention that reached industry and even firm levels. A prominent expression of this micro-level management that is particularly relevant for the current discussion was the system of multiple effective exchange rates (Halevi and Klinov-Malul 1968: 224–248). This system was referred to by professional economists as *shitat me'a she'arim*, meaning the 'one hundred exchange rates system' while concurrently alluding to the famous ultra-Orthodox Jerusalem neighborhood. This phrase reflected the economists' condemnation of the complex trade

FIGURE 2 Macro-economic Indicators, 1955–1965



Source: Halevi and Klinov-Malul (1968: 168, table 60, Trade deficit equals import surplus percentage of domestic resource; 66, table 14, Unemployment as percentage of domestic labor force; 101, table 35, Growth per capita [percentage of yearly change]; 276, table 84, Inflation equals consumer price index [percentage of yearly change]).

barriers and export premiums that served to make the official exchange rate irrelevant (Barkai and Liviatan 2007: 128n5; Kochav 2006: 77–82).

The specific positions that Israeli professional economists took regarding the problem of 'economic independence' and the 'hundred exchange rates' reflected a wider political agenda that encompassed not only specific policy issues but also comprehensive institutional reform. The object of this agenda was the structure of economic policymaking in Israel, and its central aims were economic liberalization and the rationalization of economic policymaking (Ben-Porath 1982). Professional economists in Israel did not deny that economic policymaking in Israel could, and even should, be guided by Zionist and national goals. Yet—in contrast to accepted wisdom and practice—they contended that these goals should be prioritized and constrained in accordance with the country's scarce economic resources. In the words of David Horowitz, the governor of the BoI: "Economics is a science of setting priorities. What is better: expanding consumption or broadening investment? Broadening production capacity or raising housing standards? Increasing exports or transferring additional goods to the local market? All these [questions] require choices and decisions that are especially acute in a country with limited natural resources and production factors."[1]

Thus, management of economic policymaking was emphasized. Specifically, the professional economists' position was that economic policymaking should be guided by long-term professional considerations instead of short-term political ones.[2] This is well exemplified by the characterization of the economists' task according to David Kochav, a senior official at the BoI and MoF and formerly one of Patinkin's students:

> And to solve [the economic problem of a certain enterprise] the economic adviser must forcefully detach himself from the specific circumstances of that enterprise, to shut his ears to its "cry [for help]"—justified as it may be—in order to concentrate on gathering the other data at the general level. And this is done under his [Kochav's] supervision by a team of some twenty economists employed by the Bank of Israel and the Ministry of Finance. His people assess the reciprocal influences, estimate the results, and formulate matching recommendations. And these recommendations will not revolve around benefits to this or that element, but rather around systematic change, the creation of different conditions, and the direction of public action to new horizons.[3]

Kochav's account clearly demonstrates the economists' promotion of economic policy that focuses on general economic measures and directs the economy as a whole rather than relying on intervention at the industry and firm level, which has distorting effects. This position is further demonstrated by the words of Ephraim Kleiman, a professor of economics at the Hebrew University, who, in a discussion on economic policy, emphasized that the university's economists did not oppose government intervention, but rather sought a different kind of intervention. As Kleiman put it: "[T]here is no disagreement regarding the obligation of the government to intervene in economic activity. The controversial question is how to intervene ... the government itself, due to its intervention methods, invites the formation of pressure groups the more it negotiates with particular factories and organizations instead of employing general guiding measures."[4]

From this perspective, it becomes clear that professional economists at the BoI, at the MoF, and in academia supported economic liberalization not necessarily because they were biased against government intervention per se, but rather because it was a precondition for the rationalization of economic policymaking. Economic policy could hardly be effective in a system in which distorted prices replaced market mechanisms (see, e.g., Halevi and Klinov-Malul 1968; Patinkin 1967).

Furthermore, a rational and professionally guided economic policy requires, in practice, additional reliance on economists in the policymaking process. Thus, it is hard to detach the ideational position of professional economists in Israel from the aspiration (which we can presumably attribute to them) to exert greater influence on decision-making and to delegitimize the political influence of interest representation processes. Indeed, depoliticizing economic policymaking would be a central characteristic of economic liberalization from 1985 onward (Maman and Rosenhek 2011; Mandelkern 2015).

The New Economic Policy

In line with the economists' agenda and against the political-economic background mentioned earlier, the government adopted a comprehensive reform program in February 1962. The New Economic Policy reflected an effort to shift the Israeli economy from a developmental and interventionist growth model toward a more liberal and export-based growth model. The program included both immediate and structural policy measures that were supposed to enhance the influence of market mechanisms on economic activities, at the expense of the state's subsidization and direct intervention, eventually boosting Israel's 'economic independence'.[5]

The main immediate measure was a 67 percent devaluation of the Israeli pound (from 1.8 to 3.0 per US dollar). Its execution—with no preliminary announcement, as was customary—signaled the launch of the program.[6] The structural measures, which aimed at economic liberalization by exposing local manufacturing to international competition, included a shift from administrative protection against imports (i.e., restrictions and quotas) to tariff protection, as well as a general lowering of all protection (Halevi and Baruch 1991: 81). At the same time, premiums for exports were supposed to be abolished (Halevi 1994). As a result, the formal exchange rate was meant to become the single effective exchange rate.

The exposure of local economic activity to international competition, as well as the removal of international trade restrictions (and incentives), reflected a wider political-economic agenda. Lower levels of protection meant that Israel's manufacturing sector would have to become more attuned to the discipline of international markets and hence to lower manufacturing costs, including labor costs. Devaluation, which was aimed at increasing the profitability of exports vis-à-vis that of imports, was also expected to increase local prices and reduce real wages. In short, both measures reflected the MoF's aspiration to put an end to the systematic dependence of economic activity on state funding and to impose market discipline on Israeli economic actors. This goal had wide political-economic implications, which the minister of finance, Levi Eshkol (1966: 138–139), had already hinted at in 1959:

> Certain strata, in fact those that are strongest economically and have enjoyed economic growth more than others, are the first to make demands [from the government] … they do not hesitate to apply pressure in order to achieve their goals. This pressure may be economic and direct, through lock-outs and strikes, or political in its character, through the parties that represent these strong strata or that wish to represent their demands in order to win their electoral support.[7]

In an exchange with Pinhas Sapir, several months after the program was launched, Eshkol further claimed:

> [The need to speed up the removal of trade protections] is becoming increasingly important, given the struggles we expect to face over wages and cost-of-living allowances. I have no doubt that we will not be able to prevent wage rises if it is not clear that we shall deal with price reductions and the prevention of excessive protection for local manufacturers with the same vigor and decisiveness. This might be the right time to close or reduce the production in a factory that lacks competitive capacity, 'to make an example of it' [*lema'an yir'u ve'yira'u*; lit., 'so that people shall see and beware'].[8]

These statements clarify that the 1962 program was not merely an attempt to improve economic conditions; it aimed at changing the rules of the game through the abolition, or at least the significant reduction, of the reliance of economic actors and economic pressure groups on government subsidies. Referring to the recession policy of 1966–1967, Shalev (1992: 217) was to describe the government's essential goal as being "to shift the crisis out of its own jurisdiction and into the domains of labour and capital." The 1962 program was based on a similar logic, as it essentially intended to shift the costs of an uncompetitive economy from the government's jurisdiction to the domains of organized workers and protected manufacturers.

Policy Entrepreneurship and the Adoption of the New Economic Policy

Considering Eshkol's public and private statements, it is clear that he genuinely embraced the liberalization program.[9] However, it was professional economists from the Hebrew University, the BoI, and the MoF who designed the program and promoted it long before it was adopted by Eshkol and approved by the government (see also Goldstein and Dayan 2010: 110). How did the economists manage to persuade Eshkol and other political decision-makers to adopt economic liberalization?

In order to analyze the mechanisms by which these economists were able to convince Eshkol and his fellow political decision-makers to adopt the 1962 New Economic Policy, I employ Kingdon's (1995) model of 'policy entrepreneurship'. In Kingdon's model, policy entrepreneurs are political agents who persistently promote their policy ideas and programs. When the moment is ripe, they attempt to set the political agenda by framing their policy proposals as matching prevalent norms and beliefs and coupling them with mounting policy problems and new political opportunities.

Based on their expertise, and conforming to the Kingdonian model, Israeli economists in academia enjoyed an authritative position that provided them with access to decision-makers (Michaely 2007: 437).[10] Together with the economists at the BoI and the MoF, they had, since the mid-1950s, 'softened up' decision-makers by persistently promoting the need for major devaluation and trade liberalization (Goldstein and Dayan 2010: 110; Kochav 2006: 83–87).[11] David Horowitz had already promoted these lines of action in 1955, and the first concrete discussions held by a committee of elected officials and economists from the BoI took place in 1958.[12]

This 'softening up' was required due to the reluctance of Eshkol to adopt a program that might cause unemployment (Ginor 2002: 147; Kochav 2006: 84) and because, by and large, the general notion of economic liberalization contrasted strongly with the basic ideological perceptions of political decision-makers, as well as with their political interests and practices (Kimmerling 1982: 123–148; Levi-Faur 2001). Clearly, the economists had to undertake serious marketing efforts in order to 'sell' their economic liberalization program. As Kochav (2006: 84) states: "[O]nly after significant efforts at persuasion by the economists from his Ministry, and the later improvement in employment conditions, was Eshkol convinced of the need for devaluation."[13]

In addition to the first committee, which operated in 1958, two additional committees were formed along the way. The first, in 1959–1960, was comprised of several senior civil servants, most of them professional economists from the MoF and the BoI.[14] The one notable opponent in this committee to devaluation and liberalization was Michael Tzur, director general of the MoTI.[15] Despite Tzur's reservations, an additional committee was formed before the 1961 elections with the authority to draw up a detailed program. This committee consisted entirely of MoF and BoI economists.[16] Its report, which served as the basis for the program that would later be approved by the government (Kochav 2006: 87), opened with the following words:

> We think that the current situation—a non-realistic official exchange rate—causes great damage to the economy and distorts the production and investment structure by giving excessive support to industries whose competitiveness relies on premiums or administrative protection at the expense

> of potential industries that cannot gain sufficient support and protection. In the current state of affairs, the fate of industries and factories is determined administratively and not according to any economic criteria ... We are sure that if the current system (of multiple exchange rates) persists, within a few years these distortions will become significantly worse ... and even the government's administration will not be able to make any sense of the entanglement of rates and special arrangements ... We think that correcting the exchange rate is one of the most important conditions for our true economic independence.[17]

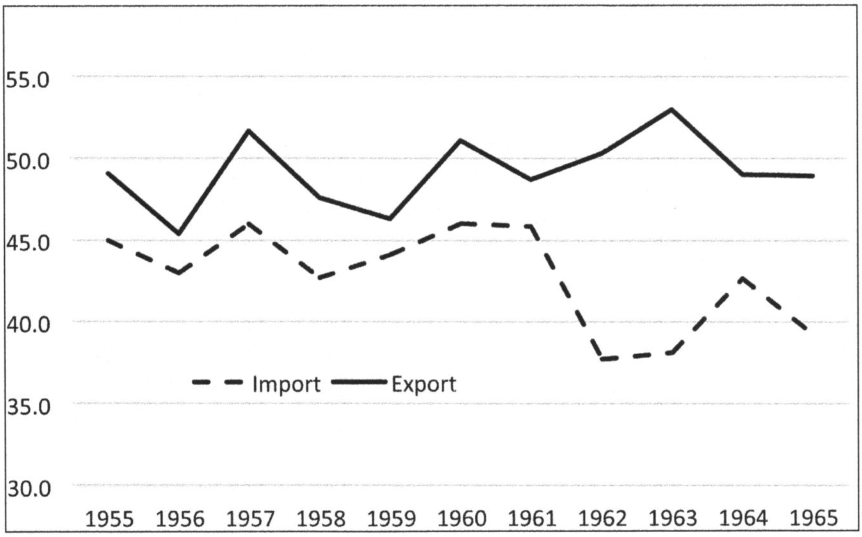
The efforts of the economists in the state administration were supported by those academic economists who had met with Eshkol and other ministers on a regular basis[18] and by economists at the International Monetary Fund (IMF). As would be the case with the 1985 stabilization plan (Maman and Rosenhek 2007), local economists thus utilized the support of international bodies for economic liberalization as a means to further promote their own policy agenda.

But mere efforts at persuasion by the economic experts were probably not enough, and the adoption of the New Economic Policy was enabled by the substantial economic problems that Israel was facing, as well as some relatively conducive political circumstances. These problems and supportive circumstances together reflected the opening of a 'policy window' (Kingdon 1995: 166–172), within which the economists managed to couple their policy proposal with decision-makers' rising awareness of the mounting economic challenges.

One such challenge was the imminent cessation of foreign support. The end of both US economic aid and German reparations was approaching and hence would hinder, or at least significantly test, the government's ability to maintain its prevailing economic growth model (Halevi and Baruch 1991: 80; Shalev 1992: 209). A second economic challenge was the advancing formation of the European Common Market. Since the lion's share of Israeli exports was sent to Western Europe (see fig. 3), and especially to the six countries that then formed the European Common Market, this new development posed a potential risk to Israeli exports. In response, Israel was pursuing the grant of a special status with the Common Market that would guarantee its economic interests. The economists convinced Israeli policymakers that economic liberalization could significantly support Israel's demands on European decision-makers (Halevi and Baruch 1991: 81; Kimmerling 1982: 129).[19]

The political leadership, and especially Eshkol, was strongly committed to attaining that goal, and a great deal of effort was invested in trying to persuade the Common Market countries to support Israel's request to join them.[20] This commitment was used by the economists to convince

FIGURE 3 Israeli Trade with Western Europe, 1955–1965 (% of total international trade)



Source: Halevi and Klinov-Malul (1968: 298, appendix table 11).

decision-makers to adopt the liberalization reform, arguing that trade liberalization was a necessary condition for joining the Common Market (Krampf 2010).[21] This is well demonstrated in comments made by Nadav Halevi, an economist at the MoF in the late 1950s: "joining to the Common Market would oblige the economy to go through a process of recovery and would bring us closer to economic independence" (cited in ibid.: 526). Indeed, this justification was also put forward by Eshkol to Mapai's leadership, as well as to the public.[22] As Eshkol (1966: 151) asserted on the day it was launched: "This program sees us 'taking up a place in the corridor' before we knock on the drawing room door of the European Common Market."

In mid-1961 a general election took place, which was followed by the formation of a new government in November 1961. This provided an immediate political context that was relatively conducive to the enactment of an economic reform that might have unpopular effects, due to its consequences in terms of real wages and unemployment (Halevi and Baruch 1991: 81). The economists thus managed to effectively use this policy window of mounting problems and conducive politics by framing their preferred policies as conforming to the common mainstream Israeli-Zionist discourse. First, the widening trade deficit was portrayed, as noted, in Zionist-patriotic terminology as a 'lack of economic independence', and trade liberalization was, against that, portrayed as a crucial condition for achieving economic independence.[23] This was an interesting 'twist' to the concept that political decision-makers had emphasized as an important goal but had usually presented in terms of building autarkic economic capacities, rather than moving toward international integration (Kimmerling 1982: 115).

At the same time, the economists also interpreted the IMF's support for economic liberalization in the context of the customary notion of what other, Western countries would expect from Israel. This is clearly demonstrated in the public statement by Ya'acov Arnon, then director general of the MoF, upon his return from the IMF conference in 1960: "The *goyim* [Gentiles] are dissatisfied with us. They are not happy with our 'one hundred exchange rates [system]'. They oppose our complicated premiums system and object to the tariff barriers that suddenly rise here. In short, they are dissatisfied with our general monetary development" (cited in Goldstein and Dayan 2010: 108; see also Halevi and Baruch 1991: 80).

The Political Economy of the Plan's Partial Implementation

Nonetheless, while the economists successfully persuaded decision-makers to enact the New Economic Policy, the program's actual implementation was characterized by substantial difficulties. The main reason was that the political power for monitoring and furthering the plan's implementation remained in the hands of those who might have been damaged by it: the employers (represented by the Manufacturers' Association), the workers (represented by the Histadrut, the main labor federation), and the MoTI. All of these actors officially agreed to the adoption of the New Economic Policy; however, their political-economic interests and constraints eventually led them to act in a way that placed significant hurdles in the path to liberalization.[24]

The Manufacturers' Association, to begin with, "was divided between those who feared their enterprises would be harmed by competition and those who believed the step necessary despite some possible unfortunate consequences" (Drezon-Tepler 1990: 70). In practice, the Manufacturers' Association countered government attempts to cut back and eventually eliminate actual protection. This was the case in April 1962, two months after the official launch of the program, when the government announced that it was about to start implementing tariff reductions.[25] The Manufacturers' Association resisted the government's efforts and insisted that any reduction in the protection of any product would be subject to the approval of the Advisory Committee for Locally Produced Goods.[26]

This committee, and other subcommittees and appeals committees that dealt with the opening up of the economy to international competition, were comprised of representatives of the employers' associations, including the Manufacturers' Association, the Histadrut and Hevrat Ha'ovdim (the Histadrut's holding company), and the government (Drezon-Tepler 1990: 70–72; Tov 1972).[27] This meant that any progress in dismantling protection—that is, trade liberalization—was subject to the cooperation of precisely those who expected to be harmed by it. At the same time, the economists from the BoI and the MoF, the program's entrepreneurs, could not effectively monitor and control the implementation of the New Economic Policy. The outcome was that protection removal proceeded at a very slow pace, and most administrative measures (restrictions and quotas) that were removed were replaced by other—mainly fiscal—measures, such as tariffs (Halevi and Klinov-Malul 1968: 196; Tov 1972).

As stressed by Tov (1972), the MoTI played a pivotal role in the actual steps that were supposed to lead to trade liberalization for two main reasons: first, the operation of the above-mentioned committees largely followed the work of the MoTI's own divisions, and, second, the committees were headed by MoTI officials. This constituted another obstacle to the implementation of the program, as the Ministry's leadership was reluctant to adopt and implement it (see Halevi and Klinov-Malul 1968: 247). As mentioned above, both the minister and the Ministry's director general had opposed the 1962 program from the very beginning.[28] While Sapir formally withdrew his persistent objection to the program (as well as his threat to quit office were it to be adopted), he contributed nothing to its implementation.[29] The following statement by Sapir in the Knesset in March 1963 (after the program's enactment) is illustrative: "[O]pening all products to a uniform tariff is totally absurd … In the exposure process, we should treat every factory as a single child and provide it with protection so that it will not be subject to open competition without a thorough, detailed and comprehensive examination" (cited in Tov 1972: 130).

The opposition of the MoTI leadership was probably related to the patron-client relations between Sapir and the industrialists (Drezon-Tepler 1990: 47–60) and to the expected decrease in the MoTI's political power, should trade liberalization indeed be implemented (see also Grinberg 1993: 230n34). In this respect, the MoTI may be seen as yet another interested party that stood to lose from the reform's implementation.

An additional channel of objection to the 1962 program—the one that probably received most of the attention due to its vocal manifestations—was that of the organized workers. The workers' objection was mainly directed at the impact of devaluation on prices. Due to tariff reductions, the effective devaluation rate was 37, lower than the formal devaluation rate (Halevi and Baruch 1991: 37). Still, such a vast devaluation was expected to lead to the erosion of real wages and gave rise to resistance on the part of militant rank-and-file workers (especially those in the primary labor market), who demanded compensation by means of a cost-of-living allowance.[30] Grinberg (1993: 113–130) details how the workers' opposition was channeled through the unions to the Histadrut's leadership. Eshkol recruited the latter's support before the program was launched, and there were efforts to rein in the workers' demands (see also Medding 1990: 114–115).

However, the Histadrut, despite its powerful political-economic position, had only limited effective control over wage settlements. Labor militancy soared significantly between 1962 and 1965 (Shalev 1992: 224), and individual unions, factories, and competing political parties in many cases bypassed the established wage settlement mechanisms of the Labor Federation.[31] After devaluation was launched, and in the context of full employment, the ability of the Histadrut's leaders to resist and restrain the workers' demands was minimal. The threat of international competition, which the economists and their political allies hoped would influence both workers and employers, was hardly credible without significant trade liberalization.[32] The result was that real wages increased on a yearly average between 1962 and 1966 by 7.3 percent (Halevi and Klinov-Malul 1968: 276, table 84).

As if these pressures against economic liberalization were not enough, the economists also lost an important persuasion anchor that they had previously utilized—namely, the possibility of joining the Common Market and the need to accommodate economic structures accordingly. By mid-1963, it was quite clear that Israel would not be joining the Common Market as an associate member in the near future due to the refusal of the European countries.[33] In the face of the various forces that worked against the durable implementation of the program, the economists who had promoted the New Economic Policy thus found themselves quite powerless.

Conclusions

In retrospect, Kochav (2006: 92–93), one of the most prominent policy entrepreneurs who had designed and promoted the 1962 program, admitted that the New Economic Policy had failed. Almost none of the relevant ministries implemented the program's measures as they were supposed to, real devaluation was negligible, and the system of multiple exchange rates continued to operate (see also Goldstein and Dayan 2010: 112). The political-economic conditions that the New Economic Policy was supposed to restructure remained unchanged.

In fact, this eventual political failure had an even more dramatic effect, since later the failure to implement the 1962 program led the government to adopt the recession policy of 1966–1967 (Greenwald 1972; Shalev 1992: 186–235). This was the first year since the program was launched in which real wages declined. As Krampf (2010: 529) suggests, the economic ideas at the root of the recession policy can easily be found in Patinkin's discussions of Israel's economic problems. The analysis offered here further supports that claim and also suggests that this radical policy solution was preceded by the more moderate New Economic Policy.

One wider historical lesson concerns the role of Israeli economists in local political and social issues. Israeli economists are often characterized as having enjoyed only a marginal social and political role before the 'lost decade' (1973–1985) and the implementation of the 1985 stabilization plan. The analysis here, however, suggests that such a dichotomous view of economists' political influence before and after 1985 would be wrong. The economists were able to significantly influence the political agenda, even during a period marked by strong suspicion toward their profession and its ideational fundamentals (see also Krampf 2009, 2010). Israel's social, political, and economic transformation toward Americanization and neo-liberalism, as in many other areas, has roots that are longer than we usually suspect (see, e.g., Molcho 2005).

Another historical lesson concerns the political role of the state, which served as the power base of the economists, as it provided them with the material and symbolic resources that allowed their profession to flourish.[34] While the Israeli state has been previously described as an almost omnipotent political institution of economic developmentalism (e.g., Levi-Faur 2001: 88–104), the 1962 New Economic Policy episode reveals its limitations.

Rather than simply contradicting those studies emphasizing the power of the state, however, our findings suggest a more dialectic development. In at least two aspects, the limits to Israeli state autonomy and power seem to stem from its previously very strong political power. First, state power stood behind the government's ability to nurture the economy and bring it to full employment. Yet full employment eventually resulted in empowering the workers and allowing them to compromise reform efforts (see also Grinberg 1993; Shalev 1992). Second, the consolidation of the new state also meant the creation of internal divisions within it, for example, between the MoTI, the MoF, and the BoI. Professional economists played an important role in all of these bodies, yet their different institutional positions led to the development of differing interests.[35]

Among other factors, these interrelated limits—to the political power of the economists and to the political power of the state—meant that a substantial political-economic reform, in which economists would play a crucial role, would have to wait for two more decades (Bruno 1993; Keren 1995; Maman and Rosenhek 2007; Mandelkern 2015; Mandelkern and Shalev 2010). Nonetheless, the ideational and political roots of that reform, which would eventually begin to unfold in 1985, can already be seen in the 1960s.

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NOTES

1. "The Road to Economic Independence," *Davar*, 3 June 1955, 9. See also Horowitz (1958) and Patinkin's remarks in a discussion with Prime Minister Ben-Gurion, quoted in Ohana (2003: 234; see also 230–231).
2. The promotion of this principle parallels a campaign for professional micro-management in Israeli managerial discourse during the 1950s and onward (Frenkel 2005).
3. "The Doctrine of Advice-Giver," *Davar*, 24 April 1959, 3. For a detailed personal account, see Kochav (2006).
4. Press release, 16 June 1966, Hebrew University Archives 266/1966.
5. The program is detailed in Eshkol (1966: 142–157) and in the Knesset Minutes (KM), meeting 89, 12 February 1962: 1217–1220. The current discussion is also based on Halevi (1994).
6. The program was formally approved by the government on 9 February 1962, and the devaluation was executed that night.
7. See also "Notes for a Lecture in the Va'ad Hapoel [the Histadrut's 'Parliament']," 2, Israel State Archives (ISA) 80.0/49/9. The author is grateful to the Archives staff, and in particular to Arnon Lamprom, for allowing the use of the collection of documents prepared in the Israel State Archives for the book

Levi Eshkol, the Third Prime Minister: Selected Documents (1895–1969) (Rosenthal et al. 2003). All citations were translated from Hebrew by the author.

8. Letter from Eshkol to Sapir, 28 August 1962, ISA 43.22/5/55. See also Rosenthal et al. (2003: 384).
9. In addition to the specific sources that are mentioned in the text, the description of this series of events is provided in the draft of an essay by the journalist Yoel Marcus, commented on by Shlomo Amir, the MoF's spokesman at the time. See ISA 80.0/49/9.
10. Information was also obtained during an interview with Micha Michaely conducted by the author at Hebrew University of Jerusalem, 23 October 2006.
11. See Marcus in ISA 80.0/49/9. See also "Yoman Kalkali," *Davar*, 22 June 1960, 3.
12. The committee included several politicians (Eshkol, Sapir, and Minister without Portfolio Peretz Naftali, from Mapai) and several BoI representatives (Horowitz, Kochav, and Fanny Ginor).
13. See also "Economic Diary," *Davar*, 22 June 1962, 3.
14. The committee was chaired by Ya'acov Arnon, the director general of the MoF. It included Ariel Arieli and David Golan (MoF), David Kochav (MoF and BoI), Fanny Ginor (BoI), Michael Tzur (MoTI), and S. Gilo (affiliation unknown).
15. See also Tzur's "Memorandum on Devaluation and Economic Policy," 16 January 1962, ISA 80.0/49/9. The objection of the MoTI people—Sapir and Tzur—is discussed further below.
16. The members of this committee were Kochav (chairman), Moshe Sandberg (later Sanbar) and Nadav Halevi (MoF), and the MoF's legal adviser.
17. Cited by Marcus in ISA 80.0/49/9.
18. Interview with Michaely, 2006. See also an exchange between Kochav and Tzvi Ofir, Haim Barkai, Amotz Morag, and Michaely, June and July 1962, ISA 80.0/30/22.
19. Information was also obtained during an interview with Nadav Halevi conducted by the author at Hebrew University of Jerusalem, 27 June 2010. See also "I Hope This Will Be the Last Devaluation," *Davar*, 2 February 1962, 5.
20. To this end, Eshkol and Sapir, as well as various high-ranking officials in their ministries, participated in many discussions with Common Market representatives. See, for example, "Summary of Eshkol's meeting in the U.S. and Europe regarding the European Common Market," January 1962, ISA 43.22/5/53; "Incoming Telegram from Washington," 17 September 1962, ISA 43.22/5/55.
21. Information was also obtained during the interview with Halevi, 2010.
22. "The Finance Minister Hopes for Arrangement with Market Countries," *Davar*, 12 March 1962, 2; KM, 12 February 1962, 1217–1220, and 6 November 1962, 59–65; "Party Secretariat Meeting," 2 February 1962, ISA 43.22/5/53.
23. See Marcus in ISA 80.0/49/9. See also Krampf (2009).
24. These were not the only parties to object to the plan. Also prominent were protests from homeowners related to the plan's impact on household expenses, such as those expressed by borrowers of US dollar–indexed mortgages, whose debt greatly increased overnight. Public pressure led the government to allow the conversion of such loans to Israeli pound–indexed loans, using the pre-devaluation

exchange rate. See "Legal Battle on the Indexed Mortgages Expected," *Ma'ariv*, 13 February 1962, 1; "Thousands of Indexed Mortgage Borrowers Amass at Banks to Get Loans," *Ma'ariv*, 14 February 1962, 1. However, these mechanisms of compensation did not undermine the reform's essential goals.

25. "Eshkol Opens Discussions for the Practical Implementation of the Economic Program," *Davar*, 6 April 1962, 1.
26. "Public Committee for Protection of Local Production Will Be Formed," *Davar*, 29 April 1962, 3.
27. The Higher Appeals Committee was comprised of the ministers of finance, trade and industry, labor, and interior; the director general of the MoTI; the chair of the Manufacturers' Association; the director general of Koor (Hevrat Ha'Ovdim's industrial conglomerate); and a representative of the Chamber of Commerce (Tov 1972: 131). The bias toward local manufacturers' interests can also be clearly seen in the fact, noted by Yakir Plessner (1994: 144), that there were many occasions when continued high protection was given approval on the condition that the parties applying would subsequently form a cartel.
28. See also an excerpt from Ben-Gurion's *Diary*, 6 February 1962, ISA 43.22/5/53.
29. This is apparent from Eshkol's implied accusation in the above-cited exchange with Sapir from August 1962 (see also Goldstein 2003: 441–445; Rosenthal et al. 2003: 384).
30. "Price Rises Expected in Many Branches," *Ma'ariv*, 12 February 1962, 1.
31. "We Shall Stop the Price Increase and Become a Productive Society," *Davar*, 1 January 1963, 6. See also Grinberg (1993: 113–130) and Medding (1990: 114–115).
32. "There Will Not Be Any Wage Raise But There Will Be a Tax Raise," *Yediot Aharonot*, 27 June 1962; "What's There to Protect?" *Davar*, 18 July 1962, 3; Zvi Ofir and Haim Barkai, "Annex to Opinion on 'Measure for Executing the New Economic Policy,'" ISA 80.0/30/22.
33. In 1964, Israel and the European Common Market signed a partial agreement that was far from what Israel had originally sought. A full free trade area agreement was not signed until 1975.
34. For example, the state provided support for their academic training and research and, perhaps most important, a wide array of positions in the state administration (Kleiman 1981).
35. Note also that, according to Michaely (2007), there was a perceptional gap between the economists recruited to the BoI and the MoF and those recruited to the MoTI.

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