

THE DECLINE OF THE ISRAELI LABOR PARTY: AN ECONOMIC AND POLITICAL CRISIS IN THE YEARS 1967-1977

*Daniel Galily, **David Schwartz

**Dean of student's affairs, Los Angeles University, United States.*

***Political science department, Bar-Ilan University, Israel.*

After the elections of 1973, it became clear that two large blocks of parties were struggling for the government of the State of Israel, Labor and Likud, and both had a diverse social basis in which there are members of the middle and upper classes alongside members of the working class. Because of the multi-class party structure, which commenced in 1965, the arguments on social and economic questions were duplicated into the parties themselves. The differences of approach on questions of social policy now divided between groups in the parties and between one party and another. The phenomenon of the 'class party', such as Mapam and the Liberal Party, had disappeared.^{1;2}

The difficulties of the multi-class party in this period are most prominent on the background of the internal arguments in the Labour Party and on the background of the differences between the government and the Histadrut (Workers' Union) in the years 1974-1977. In this period, the Likud enjoyed the fact that it was in the opposition, since it succeeded in criticizing the government's policy simultaneously from the right and from the left: from the right members of the Liberal Party suggested proposals for a neoliberal policy while from the left representatives of the Mizrachis³ in the party, and especially the head of the faction in the Histadrut⁴, David Levy, raised demands for a more generous social policy.⁵

The Yom Kippur War of 1973 halted the continuation of the rapid growth and hastened economic processes that had begun already in 1967: the balance of payments worsened, the defense and security expenses, the import of capital, and loans for defense greatly increased, and the part of the public sector in the economy and in the national product steadily increased. The inflation

¹ Asher Ben-Arieh; John Gal.(2001) Into the Promised Land: Issues Facing the Welfare State.Greenwood. p. 120-128.

² "Israel Political Parties: Ahdut Ha'avodah". Jewish Virtual Library.

³Mizrachi, from the Hebrew word meaning east, refers to Jews from the countries of the Middle East and North Africa, or the Eastern communities, as opposed to the Ashkenazi Jews, or Jews from the West (Europe).

⁴The 'Blue White' Faction

⁵ Swirski, Shlomo (2004). Politics and Education in Israel: Comparisons with the United States. Taylor & Francis. p. 200-210.

accelerated to the level of 30-40% a year, primarily because of the increase of the public expenses. The reduction of the emigration to Israel and the global energy crisis contributed also to the cessation of the rapid growth. The import of capital from the United States was pledged in advance to defense acquisition of specific products in the United States, and the government encountered difficulties in the finding of sources for the financing of the public and civil services. To maintain the scope of its budgets and services, the government broadened the scope of taxation.⁶

From the attempt to halt the process of the worsening of the balance of payments and to recruit sources of capital to finance the defense expenditures, the government began to cut the subsidies for the basic products and thus hurt the weaker populations. However, more important social implications were known to encourage the export and to bring about the reduction of private consumption. The cuts were accompanied by inflation, and this greatly increased the scope of the subsidy of the raw capital in the unpegged loans. Thus, private industrialists and workers' company received governmental assistance in addition to what they were given indirectly by the increase of the profits that derive from the erosion of salary that came following the inflation. The government even helped employers with the adoption of a policy of the restraint of the salary additions.⁷

The increase of taxes, the trends of a slowdown in the economy, and the government intentions to restrain wages – all these pushed regular workers to a position of defensiveness. In the year 1974 there was a sharp decline in the salary addition, the workers' committees demanded of the Histadrut to lead the struggle against the government's trends to restrain the salary and raise the prices. The Histadrut attempted to recruit the workers' committees to protest actions and to thus hint that the policy of the leaders of the Labour Party, which are hurting the workers and their salaries, make things difficult for the heads of the Histadrut, who may therefore lose the workers' trust. It was also hinted that if the Histadrut would lose its control of the workers the employers would also be hurt.⁸

However, despite the expression of the worker's protest, the Histadrut leadership were recruited for the economic effort of the government and signed in August 1975 a new agreement for the addition of a cost of living allowance for four years. In the agreement between the Histadrut and the coordination bureau of the economic organizations it was determined that the compensation for the erosion of the salary would be paid twice a year at a reduced rate – only 70% of the rise in the consumer price index. The reduction of the cost of living allowance was used by the Histadrut and the private employers as a sophisticated mechanism to bring down the general salary level and to neutralize the influence of the additions that the strong groups in the economy received. The

⁶Portugese, Jacqueline (1998). *Fertility Policy in Israel: The Politics of Religion, Gender, and Nation*. Greenwood. p. 98.

⁷ Ben-Arieh, A.; Gal, J. (2001). *Into the Promised Land: Issues Facing the Welfare State*. Praeger. p. 104-110.

⁸Social Security Administration (1 March 2011). "Social Security Programs Throughout the World: Asia and the Pacific, 2010 - Israel", Retrieved 12 September 2015.

outcome of this policy was that as the inflation was higher, the mechanism of the reduction of the cost of living allowance increased the gap in salary between the strong groups of workers and the weak ones.

In 1975 ELAL workers went on strike and caused severe damages to the company. The Workers' Committee of ELALA initiated towards the end of the year the assembly of the workers committees in the economy in protest against the economic situation, hoping that they would in the future come to their aid. The assembly was a warning sign to both the Histadrut and the government, an attempt to clarify to them that their economic policy may push the workers' committees to joint action. However, the initiators of the assembly reached the conclusion that the initiative was not to be continued, since the workers of the business sector were too weak and too dependent on the institutions of the Histadrut and thus would not dare to rebel. As we will see in the continuation, the failure at the organization of the regular workers initiated by the ELAL Worker committees in 1975 was the basis of the manner of organization that they initiated a few years later in 1979.⁹

Because of the workers' grievances, the Histadrut became unwillingly the main factor of expression of the economic claims against the government. The frequent differences between the Histadrut and the government transformed the governing party into an arena of the tussle between the heads of these two institutions. The party was demanded to compromise between the hawks and to shape policy, and for this purpose the Labour Party established the party decisions committee, composed of seven government representatives, seven Histadrut representatives, and seven party representatives.

Alongside the attempts of the government and the Histadrut to rein in the salary increases through a centralized policy, the workers in the public sector attempted to bypass the centralized agreements using what was called 'salary creep', or in other words, using different additions and increases in rank that were achieved in agreements on the level of the branch, the office, and the department, and on the personal level. 'Salary creep', which greatly increased from the year 1974, continued to increase the salary gaps between the groups of workers and to inspire the resentment of the deprived groups. In the year 1976 there was another worsening in taxes, the public consumption and private consumption decreased, the investments lessened, but the import surplus also decreased.¹⁰

⁹ Lazin, Frederick A. (1994). *Politics and Policy Implementation: Project Renewal in Israel*. State University of New York Press. p. 15-22

¹⁰ Alisa C. Lewin and Haya Stier (25 April 2002). "Who Benefits the Most? The Unequal Allocation of Transfers in the Israeli Welfare State". *Social Science Quarterly*. Southwestern Social Science Association. **83** (2). Retrieved 12 September 2015.

Two months before the end of the salary agreements in the business sector the Histadrut and the Coordination Bureau of the economic agreements signed a collective salary agreement that gives a ceiling of addition of 3% in the year 1976 and 3% in the year 1977. However, in the public sector the salary demands were far higher, and the sides found it difficult to restrain them, especially with the elections coming up. Agreements that deviated from the framework agreements were signed with the nurses, doctors, and taxation system workers, and following the Labor Court Ruling the engineers received the approval for an 'education compensation' payment. At the end of December 1976, the government passed at first hearing a proposal for the Mandatory Arbitration Law, which could have seriously harmed the public of workers, and first and foremost the Histadrut as an organization that represents the workers. This attempt at legislation was the most severe open conflict between the Histadrut and the government and it indicated the lack of the governing party's ability in the two institutions to compromise between them. When the Mandatory Arbitration Law threatens the heads of the Histadrut, the Prime Minister, Yizchak Rabin, and the General Secretary of the Histadrut, Yerucham Mashal, signed a 'package deal' to freeze prices, profits, taxes, and salary agreements.

The economic and political crisis was accompanied not only by arguments in the party and between its representatives in the government and its representatives in the Histadrut but also by the revelation of corruption of the Labour Party people in the institutions of the Histadrut and the government offices. One of these discoveries ended with the suicide of the Housing Minister, Avraham Ofer. The Prime Minister, Yizchak Rabin, resigned following the discovery of a bank account that his wife held abroad, unlawfully. The crisis in the Labour Party and the fear of the loss of the votes of the low income workers to the Likud led people who were connected to the Labour Movement, including people of the defense establishment, the Histadrut economy, and the private economy, professionals, and academics, to organize separately with the approach of the 1977 elections and to establish a center party called 'The Democratic Party for Change'¹¹.

This party aspired to be the factor with the power to tip the scales between the two blocs, hoping that after the elections it would determine who would assemble the government and under which conditions. DASH attained the impressive achievement of fifteen seats. However, the scope of the collapse of the Labour Party was so great that it was not possible to prevent the assembly of the government under the leadership of the Likud. A sharp change in the positions of the Mafdal also occurred, when the Mafdal grew very close to the Likud – the result of the 1967 war and the appearance of the Messianic movement in religious Zionism, which was expressed in the settlement in the West Bank and the Gaza Strip.¹²

¹¹The Democratic Party for Change was known by its acronym in Hebrew, DASH.

¹² Gal, John (2001). "Values, Categorical Benefits and Categorical Legacies in Israel". In Asher Ben-Arieh; John Gal. Into the Promised Land: Issues Facing the Welfare State.

To conclude, in the year 1977 the Labour Party lost the elections and about one-third of its electoral strength, not only because of isolated decisions that hurt certain groups. In other words, Labour collapsed as the ruling party. This was not a system of elections in which the conjectural situation has only slight influence but the collapse of a party and a movement that had led the enterprise to build the nation and the State for decades. The elections in the year 1977 showed that most of the public, including the party activists themselves, had lost the belief that the Labour Party had the power to provide an answer to the problems on the national agenda, both in the social-economic field and in the political field.¹³

¹³Yaar, E., & Shavit, Z. (Eds.). (2001). Trends in Israeli society (Vol. 1). Tel Aviv: Open University of Israel. (in Hebrew) (Eds.).