**Populism in Power and the Logic of its "Thin" Heterodox Economy**

1. **Introduction**

This paper explores the connection between the current wave of populism and economic policy. We ask what kind of economic policies populists in power tend to pursue, and whether there is a discernable type of populist political economy. Populists have not developed a theoretical alternative to the grand, established economic theories and are not uniformly committed to particular policy content. Nonetheless, when in power they must move from words into action. Because populists are committed to winning elections and also rhetorically committed to alleviate the evil the establishment elite has perpetrated on the *demos*, their capacity to retain power is based, at least to some extent, on their achievements in office.[[1]](#footnote-1) Indeed, study of populist parties in government in the past few years indicates that their performance on economic issues has common core characteristics. The aim of this paper is to theorize the dynamic between discursive populism and economic policy and examine it empirically through a case study.

Our argument is that, since the 2000s and within the context of the dominant neo-liberal model globally, the chief characteristics of populism make it more probable its proponents will adopt economic policies in power that deviate from orthodox neo-liberalism. Because they claim to be the true representatives of the *demos* and because of their anti-establishment rhetoric, populists in power are more likely to challenge the socioeconomic elite's agenda. As long as the elite is associated with neo-liberalism, populists are more likely to deviate from it in order to demonstrate their commitment to the interests of the *demos*. Populists are therefore more likely to adopt some kind of heterodox economic approach. This may be not heterodox in relation to classical economy, but rather in deviating from the prevailing elite's agenda and forms of governance. Populists in power are very likely to put forward a "thin" heterodox economic approach, rather than a coherent worldview about the management of the economy, incorporating a policies that evince a sensitivity to what to do to improve the conditions of the *demos* immediately. Populist parties and governments today are more likely to adopt a combination of increased state intervention in the economy, more expansionary fiscal policies, and elements of market populism. They will often combine these with exclusionary and/or conservative welfare policies, in response to the progressive neo-liberalism of elites that preceded them in power. The populist agenda does not seek complete control over the economy or even to fully politicize it. Yet populists are more likely to intervene in the economy in a prompt manner and to redistribute resources in a way that reduces economic inequality (at least among those that are considered as belonging to "the people").

We shall concentrate here on Israel as a case study for our theoretical claims. This is not to suggest that Israel is entirely representative of Western democracies or the political forces within it of the populist trend. However, Israel serves as a good case study for two key reasons: Firstly, Benjamin Netanyahu is widely recognized as a paradigmatic populist leader[[2]](#footnote-2) who has managed to remain in government since 2009; Secondly, various aspects of Israel—including its political system, Western orientation, the intensity of its populist discourse, and economic policies in recent decades—make it a good subject for studying relations between populism and political economy.

In addition to contributing to the study of Israeli politics, we aim to make two contributions to the literature on populism. Firstly, we closely explore the connection between the current wave of populism, governance, and economic policy. This has been understudied until very recently[[3]](#footnote-3) because there were few cases of sustained success, especially in more advanced economies. We focus on the consequences for populists' policies once in government, on neo-liberalism, redistribution, inequality and governance, rather than on the economic dimension as a cause of the rise of populism. Unlike recent empirical works that have focused on the political economy of particular populist regimes, we explain these connections theoretically. Secondly, in analyzing populist political economy, we hope to shed light on the appeal of populism without presuming simply that people are irrational.

Section 2 presents a review of the literature and also our theoretical arguments. Research on populism is extremely broad and it would be impossible to review all of the relevant literature. Traditional categorizations of the conceptualization of populism do not claim to be exhaustive and focus on one dimension or issue, such as ideology, style, strategy, discourse. Our research, with its conceptual as empirical aims, has found the familiar categorizations limited. These rarely distinguish between populism in opposition and power and gloss-over the connection between economic approaches and conceptual development. Because examining the relations between the development of the political economy and the conceptualization of populism is crucial to our study, we have organized the review according to five schools of thought on populism. This allows us not only to explore how the literature conceptualizes populism, but also to focus on populism in power and its relation to political economy and government policy. Section 3 briefly examines the affinities between populism and policies that deviate from orthodox neoliberalism. We present the Israeli case in the Section 4, and the last section draws on the Israeli case study in order to theorize the connection between populist policy and its discursive element, concluding with the implications of our findings for a better understanding of the political economy of populism, its electoral success and failures, and its future as a distinct regime type.

1. **Conceptualizations of Populism and the Marginalization of the Economy: a Literature Review**

The first two modern expressions of populism emerged in the late nineteenth century in the form of agrarian populism (the People's Party in the United States and the *Narodniks* in Russia).[[4]](#footnote-4) These did not achieve governmental power at that time, however. Research on populism becomes significant and more systematic in the early 1960s[[5]](#footnote-5) after the consolidation of the first wave of populist regimes in Latin America in the 1940s and 1950s. Though scholars have emphasized the ideological or organizational aspects of populism,[[6]](#footnote-6) it has focused on the relationship between populism and the production process,[[7]](#footnote-7) considering populism as the expression of the sentiments of mass popular classes, the result of "backwardness," and an obstacle to development. Gino Germani saw populism as the expression of the views of the working classes in peripheral countries that underwent "late" modernization processes.[[8]](#footnote-8) Di Tella[[9]](#footnote-9) conceived of populism as a movement against the *status quo* rooted in the experience of the impoverished masses in Third World countries. Canitrot[[10]](#footnote-10) considered populist economic policies as an answer to recession. When resources and labor are not fully employed, there is room for an alliance between labor and the industrial bourgeoisie. This alliance is viable until the economy achieves full employment, at which point populist policies lead to inflation. For Cardoso and Faletto,[[11]](#footnote-11) who worked within the Dependence Theory paradigm, populism was the way by which groups linked to the process of import substitution (and not to the traditional single export model) attempted to gain political power through the state at a time when the new national industries significantly increased the size of the working class through internal migration. Similarly, Vilas understood populism as a strategy of capital accumulation based on a "national industrial bourgeoisie" producing mainly for the internal market and thus ready to support (at least temporarily) real terms increases in workers' wages.[[12]](#footnote-12) To summarize, this first wave of literature about populism considered economy the central feature.

Following the decline of Latin American populist regimes in the 1960s, researchers in the 1970s and 1980s considered populism a phenomenon of the past.[[13]](#footnote-13) Some scholars speculated that, in an increasingly globalized world, populist ventures would become rare.[[14]](#footnote-14) At this time, populism in power was conceived of as a regime that had tried to do more than was possible in terms of redistribution and development and the result was that, after a few years, the conditions of its supporters worsened. For Dornbusch and Edwards' seminal work on the political economy of populism, populism was first and foremost "an approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies."[[15]](#footnote-15) Other accounts characterized populist policies in practise as inflationary rather than redistributive, since policies such as wage increases were financed by expanding deficits rather than tax increases.[[16]](#footnote-16)

 The perception of the death of populism did not last long, however. A third wave of neo-populism emerged in the 1990s, followed by a third wave of literature on populism. What made this populism "new" for scholars was the product of a combination of factors: the adoption of neo-liberal policies by Latin American regimes; the "new politics" movements and "anti-party" style that radical right parties adopted; and the radical parties' view of the market as a solution to social problems. In order to make populism and neo-liberalism compatible, the former was defined as a political strategy with unique forms of organization, communication, and mobilization. More specifically, populism was conceived as personalized leadership that cultivates centralized structures and seeks direct support from large numbers of unorganized followers.[[17]](#footnote-17) Economic policies were considered not central to the phenomenon.[[18]](#footnote-18)

In the early 2000s, after the Mexican, Brazilian and Argentinian financial crises, and the increased prevalence of right-wing populist parties all over the world, a fourth wave emerged in the literature that emphasized the ideational dimension of populism,[[19]](#footnote-19) at the expense of the political dimension, and, more importantly, the already marginalized economic dimension. Three research strands developed: populism as discourse;[[20]](#footnote-20) populism as a "thin" ideology;[[21]](#footnote-21) and populism as a political style.[[22]](#footnote-22) These conceptualizations differ, but share somethings of crucial importance: populism is removed from the economic dimension. While in the first wave, populism was associated with underdevelopment and, in the second wave, scholars presumed that populists provided material benefits to subaltern groups to gain political support, in this new stage economics was ignored.

The global crisis of 2007-2008 opened up a new epoch in the history of populism. Populist movements grew and even got into government in European countries, the United States, Turkey, and India. There were also several countries in which populist parties had been in government for considerable time, such as Hungary, Israel, and Poland.

The current approach to populism in the literature features a number of trends and characteristics. First, there is a tendency among prominent scholars to conceive of populism in a more comprehensive way, not only as a transitory stage in development, a style of mobilization, a form of party organization and leadership, a kind of rhetoric, or a "thin" ideology, but rather as a combination of all of these elements.[[23]](#footnote-23) Second, there is also a focus on the influence of the economy and socioeconomic policies on the emergence and growth of populist parties, a phenomenon considered a reaction of the "losers" to globalization.[[24]](#footnote-24) Based on Dornbusch and Edwards' understanding of populism, some orthodox economists have tried to predict levels of support for populism or populist policies.[[25]](#footnote-25) Other researchers have analyzed populist parties’ stance on socioeconomic issues. Among these, Zoslove[[26]](#footnote-26) and others have analyzed party platforms, bringing to light the ways in which they attack the financial elites and, in some cases, criticize American hegemony and/or the growing influence of the European Union. Ennser-Jedenastik[[27]](#footnote-27) has analyzed the economic platform of the Austrian Freedom Party, showing that their welfare chauvinism is the expression of nativism, and that their criticism of state bureaucracy is part of their anti-elitist populism. Otjes, Ivaldi, Jupskås, and Mazzoleni[[28]](#footnote-28) analyze the platforms of radical right populist parties and their findings correspond with Mudde's approach, since those policies are nativist (protectionist, welfare chauvinist), anti-elitist (anti-bureaucracy) and authoritarian (differentiating between "deserving" and "undeserving" poor and cutting benefits to the latter).[[29]](#footnote-29) Thirdly, while still in marginal in the literature, a few scholars have begun studying the socio-economic policies implemented by populist parties when in government. Most research on right wing populist parties in government focuses on Visegrad Group countries. Adam Fabry[[30]](#footnote-30) has analyzed Orban's Hungary, considering that its economic policies are not heterodox, but rather an authoritarian, ethno-populist version of neo-liberalism, based on crony capitalism, low taxes, and an authoritarian approach towards the poor and unemployed. Shields and also Bohle and Greskovits[[31]](#footnote-31) emphasize the contradictory character of socioeconomic policies in Poland and Hungary respectively. Shields analyzes the family programs of the Prawo i Sprawiedliwość (PiS; "Law and Justice") party, showing both their progressive elements and the ways in which they further embed neoliberalism. Bohle and Greskovits point to the contradiction between protectionist measures and the on-going subsidies to foreign direct investment (FDI), and between nationalization of pension funds and the erosion of future-oriented social investment. Bluhm and Varga, and Orenstein and Bugaric[[32]](#footnote-32) consider that right-wing populist governments in Central and East Europe represent a "conservative developmental statism" that draws on both nationalist and socialist roots. Both in Hungary and Poland, right-wing populist parties began by applying classical and neo-liberal policies before the 2008 crisis, and then abandoned those policies in the post-crisis period, combining authoritarian populism, welfare chauvinism, and a conservative developmental state. Toplišek[[33]](#footnote-33) identified similar trends and showed how populist governments implemented measures that decreased dependency on foreign capital through the renationalization of strategic sectors of the economy, while opening up to FDI in certain sectors, and a fiscal policy that taxed those sectors dominated by foreign investors, combining all of this with protectionist policies and control of capital flows.

We have shown that recent literature has begun to explore the connection between populists in power and their economic policies once again, and also that a small number of scholars have shown that successful populists diverge from classical neo-liberalism. However, the tendency to emphasize the discursive and stylistic dimensions remains dominant, and there are still lacunae in the literature. The focus of recent works is local and the orientation is descriptive and, because of the focus on ideational and discursive aspects of populism, the literature glosses over the connection between anti-establishment form of governance and populist political economy.

 By contrast with such literature, we explore not only whether and, if so, how populist economic policies diverge from neoliberal orthodoxy, but also why. What is it about populism that encourages a divergence from neo-liberalism and what can it tell us about populism, democracy, and political economy more generally? In the next section we argue that there are inherent synergies between populism and heterodox economic policies.

1. **Populism and Neo-Liberalism Revisited**

Following the approach that conceives of it as multidimensional, we understand populism to be a form of politics with its own particular rhetoric, commitments, organization, style of mobilization, and forms of governance. What makes populism unique when compared to broader democratic politics is the populists' promise to meet the expectations of "those who have been left out," the submissive, the "have nots", and to do so in the here and now. Populists believe that the immiseration of the "have nots" is caused by corrupt elites, faulty value systems, bureaucratic forms of governance and other institutionally related phenomena. Thus, populists reject the liberal view that the current functioning of institutions such as parliament and independent courts is indispensable for contemporary democracies, and wish to reform and at times to abolish these institutions.[[34]](#footnote-34) The combination of this "peculiar negativism" and the commitment to the well-being of the *demos*[[35]](#footnote-35) leads to the revolt of the populists against the power structures and hegemonic ideas of their society[[36]](#footnote-36) and stands behind the populists' aim of providing immediate and unmediated solutions to the problems of that *demos*.[[37]](#footnote-37) Therefore, populism has inherent affinities with economic policies that deliver change in the short term. Populists are not committed to a specific economic worldview or theory, but they are more likely to adopt economic policies that go against the existing structures of power.[[38]](#footnote-38) Thus, we can say that populist political economy is inherently different from the existing hegemonic political economy.

 While the economic policies of populists are contextually contingent, today, by contrast with the immediate post-war years, the *demos* all over the world face similar problems because of the global adoption of a certain kind of neo-liberalism, including the "progressive" variant in countries such as the United States and the United Kingdom since the 1990s. The deleterious consequences of such policies, especially for the underprivileged, has made neo-liberalism a no-go for populists in power. Nancy Fraser's summary of the consequences of progressive neo-liberalism over the past quarter century in the United States is relevant here. This venture, she says, has "degraded the living conditions of all working people, but especially those employed in industrial production. It bears a heavy share of responsibility for the weakening of unions, the decline of real wages, the increasing precarity of work, and the rise of the "two-earner family" in place of the defunct family wage."[[39]](#footnote-39)

Thus, the avenue that was allegedly opened in the 1990s of combining populism and neo-liberalism has been closed. More and more tensions between populism and neo-liberalism have emerged over time, as they had to because of the nature and dynamic of neo-liberalism. As Weyland notes in this regard, "even the most successful leaders, Menem and Fujimori, failed to perpetuate their power any further."[[40]](#footnote-40) Today, leaders and government can scarcely use neo-liberal measures and retain popularity among the *demos*.[[41]](#footnote-41)

1. **The Israeli Case**

Israel has a long tradition of right-wing, populist politics, starting with Menachem Begin and his Herut ("Liberty") party,[[42]](#footnote-42) the main opposition to the rule of the labor movement and MAPAI. Both populist and liberal wings coexisted within Herut, which in 1973 changed its name to Likud ("Cohesion" but also "Unification"). Those internal divisions were reflected in its policies. When Likud gained power in 1977, it first tried to liberalize the economy but, when this ended in low growth and high inflation rates, it adopted heterodox economic policies.[[43]](#footnote-43)

Begin adopted a populist discourse, pitting the "people" against the "elite" that he identified with the labor movement. By contrast with contemporary Israeli populism, however, Begin's populism aimed to include marginalized Jewish groups in the *demos* and political process.[[44]](#footnote-44)

Things changed during the 2000s, long after Begin's death, when a new strain of radical, right-wing populism was introduced by Avigdor Liberman that focused on the exclusion of Arab citizens. Following Liberman's relative success and its own bad performance in the 2006 elections, Likud, and particularly its leader, Benjamin Netanyahu, gradually adopted an exclusionary, populist discourse.[[45]](#footnote-45)

Netanyahu was first elected Prime Minister in 1996. During his 1996-1999 tenure as head of government and his subsequent term as Finance Minister in the early 2000s, Netanyahu adopted a neo-conservative style and policies. As discussed later, however, Netanyahu has changed. Between 2009 and 2019, Netanyahu led three governments and mainstreamed an exclusionary populism. In the next section, we will examine the economic policies adopted in this period, focusing on four main areas in which major changes were made: the labor market and welfare policy; consumer and taxation reforms; housing market policy; and economic governance. Examining these interdependent areas will help us to provide a comprehensive account of economic policy in Israel under populist governments.

* 1. **Welfare and labor market policy**

The dire consequences of the neo-liberalization of welfare that began in the mid-1980s were partially addressed by right-wing parties through sectorial welfare programs aimed at their own voters. Following cuts to public education and welfare systems, semi-privatized educational establishments and Jewish mutual aid funds became prominent in the ultra-orthodox community, relying on indirect government assistance. Another example of sectorial welfare is settlement funding in the West Bank and Gaza, where large-scale government expedition of education, housing and municipal services created a distinct welfare regime for settlers.[[46]](#footnote-46) However, in the last decade, Likud governments' main welfare policies are not the expansion of sectorial steps, but much broader universal or semi-universal initiatives. Therefore, we find the description of the right's more recent economic policy as "clientelist" insufficient.

 This new policy agenda was introduced with the return to power of Netanyahu in 2009. Partly, it drew from the old sectorial logic of the more traditional right-wing programs, aiming to apply the same methods previously used on sectorial basis on the broad national level.[[47]](#footnote-47) For example, tax breaks were allocated on basis of partisan support. A Likud Member of the Knesset (MK) said: "[T]hose towns chose Likud and we have to remember that… we have to remember where our voters are."[[48]](#footnote-48) Moreover, government programs included some measures that, though inclusionary, were sectorial in essence, such as grants disproportionally given to Likud supporting municipalities.[[49]](#footnote-49) Likud supporters endorsed this approach, with one of its prominent mayors saying that the high percentage of votes for Likud in his town was a sign of "gratitude."

However, those sectorial elements, while important politically and significant discursively, have only marginally affected most Israelis. The main policies in the last decade have been more universal in nature, not in the sense of rebuilding a universal welfare system, but rather of shifting focus to labor market policy and consumer reforms that are universal and non-sectorial in nature and aim to increase disposable income.

The economic crisis that came when the "dot com" bubble burst and at the time of the 2000 Palestinian uprising depressed wages for years. Netanyahu was elected a prime minister for the second time in 2009, after a decade of wage stagnation (except in the hi-tech sector). While the trend of wage stagnation persisted throughout Netanyahu second term, his third government took proactive measures to increase disposable income. In 2014, after negotiations between the treasury, employers, and the Histadrut) the largest trade union in Israel), an agreement was made to increase the minimum wage from 4,300 to 5,000 Shekels over the course of three years.[[50]](#footnote-50) The agreement was updated and expanded in 2017, pushing the minimum wage up to 5,300 Shekels, a total increase of 23% in three years.

[[51]](#footnote-51)

The minimum wage as a percentage of the average also went up from 41% to 44% between 2014 and 2017.[[52]](#footnote-52) This increase is especially significant because, since 2011, real average wages have gone up steadily, both in nominal and real terms.[[53]](#footnote-53)

These wage increases were significant on their own, but were enhanced by a series of consumer and taxation reforms aimed at increasing disposable income, lowering prices, and increase buying power. These reforms were among the most significant and influential measures taken by the government and were its main tools, alongside the minimum wage increase, to enact social change.

* 1. **Consumer market and taxation reforms**

Two major "consumer-led" reforms and one major change in the taxation system were enacted between 2009-2019. Communications Minister Moshe Kahlon led the first reform, in the cellphone market that took place in 2012. Bloomberg's profile of Kahlon describes him as "an economic populist"[[54]](#footnote-54) and Netanyahu famously and publicly asked his ministers to "be Kahlons," thus urging them to pursue similar reforms.

The cellphone market reform mainly opened the market up to new competitors while simultaneously changing the rules to make it easier for consumers to move from one provider to another. The former was achieved by incentivizing investors to join the market by the removal of barriers. The government allowed new suppliers to use the infrastructure set up by the existing companies for a minimal fee, thus eliminating the need for new suppliers to build parallel systems of their own. The reform lowered consumer prices immediately, gaining both popular and political support. The ideas behind the reform are consistent with Luigi Zingales' "wonderful book," as Netanyahu called it.[[55]](#footnote-56) Entitled *A Capitalism for the People: Recapturing the Lost Genius of American Prosperity*, Zingales recommends the adoption of measures that aim to dilute the concentration and weaken the power of tycoons, just as the cellphone market reform did. Zingales conceives of the measures he advocates and his attitude to capitalism as populist. However, the reform had some serious structural deficiencies. Increased competition between different suppliers brought lower prices and profit margins, undermining incentives for private companies to invest in new infrastructure without offering any alternative solution to such low investment. This meant Israel remained in the bottom fifth of OECD countries for cellphone coverage and network quality.[[56]](#footnote-57) This problem, which also affects productivity, will need to be addressed, either through public investment or by giving private companies incentives to invest, something which will be reflected in price increases. So, while very successful and popular, the reform is unsustainable in the long run. Thus, it is even more significant that Netanyahu has referred to it on several occasions as the benchmark of "good policy," since its harmful long-term consequences are ignored in favor of its short-term popularity.

 Under Netanyahu's second government (2013–2014) previous flight agreements and regulations were scrapped in favor of a new "open sky" accord with the European Union. Consequently, ticket prices dropped significantly,[[57]](#footnote-58) and continue to do so. This has resulted in a sustained increase in flights over the succeeding years, with more and more Israelis being able to afford flying abroad.[[58]](#footnote-59)

In 2017, Kahlon, by then the Minister of Finance, introduced a third and broader reform package called "net for the family." The objective, according to Kahlon, was "putting more money in the pockets of Israeli families," and it was promoted as a comprehensive tax reduction. In fact, it was composed of several different measures, most of them confirmed by government decree or executive ministerial order, not legislation. These included the elimination or reduction of purchase tax on imported goods such as cellphones and baby products. This resulted in price reductions and has cost some 600 million shekels in lost government revenues so far. A second measure was the introduction of tax credits for working families, lowering effective income tax rates for middle class households. These were combined with "work grants," a negative income tax for families earning below the income tax threshold. A third measure was the implementation of progressive subsidies for children's after-school programs, with subsidies higher in low-income areas. The whole plan was designed to support working parents, as benefits were made available only to workers with children. The program was promoted (on billboards carrying Kahlon's image) as family focused, aimed at helping hard-working middle class families. As such, it is compatible both with conservative values and the idea of "producerism" which has featured in American right-wing populism and, more recently, among right-wing European populist parties.[[59]](#footnote-60) These measures were populist in five key ways. Firstly, they represent heterodox economic thinking, using different mechanisms, from free-trade deregulation policies and enhanced competition, through to tightening state regulations and fiscal measures. Secondly, the reforms have had an immediate positive effect, making them popular and much touted in campaign speeches and propaganda. Thirdly, they were aimed at large sections of the population and had a direct effect in reducing the number of families in poverty, especially within both Arab and ultra-orthodox communities.[[60]](#footnote-61) Furthermore, the direct benefits (tax credits and work grants) were distributed ostensibly equally across the various income levels, and represented a relatively higher increase in income for the lower deciles.[[61]](#footnote-62) Combined with the wage increases already discussed, government policy has probably helped to significantly reduce inequality, reversing the trend of widening inequality that applied from the late 1990s. As such, the reforms reinforce the notion of the government as acting on behalf of "the people."

 [[62]](#footnote-63)

Fourthly, in some ways it also challenged "the elite." For example, the cellphone reform diminished the monopolistic power of Israeli oligarchs.[[63]](#footnote-64) Fifthly, and crucially, their short-term focus ignored structural issues in the Israeli economy. Cellphone infrastructure has begun to deteriorate due to the lack of investment incentives, with both poverty and inequality remaining high, especially in comparison to other developed countries, and with fiscal measures that did not include an increase in public investment, which remains comparatively low.[[64]](#footnote-65)

* 1. **Housing policy**

Housing prices have been rising steadily in Israel since 2006, prompting mass protests in 2011. After the protests, the issue became prominent in the discourse of most political parties, all of them promising action to reduce prices. The Likud government initially responded with new legislation and regulations aimed at removing bureaucratic barriers and centralizing the planning process.[[65]](#footnote-66) While these measures were intended to increase the supply of new homes, no comprehensive long-term policy was adopted.

Since prices were still increasing, the issue remained salient during the 2013 elections. Yair Lapid's new centrist Yesh Atid party promised firm state action to tackle the housing crisis, while attributing social benefits at large to individual contribution (such as army service). To do that, Netanyahu's third government, with Lapid as its Minister of Finance, pursued further deregulation, with some success,[[66]](#footnote-67) but it main tool was supposed to be the elimination of Value Added Tax (VAT) for first-time house purchases. A key condition for recipients of this benefit was completing military service. The program was meant to help young couples purchasing their first home, but it met strong opposition on two fronts – economic and political. On the economic front, many experts, including within the Ministry of Finance itself, saw the plan as counterproductive and "populist." They argued that it would increase demand, ultimately resulting in even higher prices.[[67]](#footnote-69) On the political front, the plan was attacked by both ultra-orthodox and Arab MKs – representing two communities that, for different reasons, do not serve in the IDF – arguing that it was discriminatory in nature. These two factors helped delay the legislation passing and, by the time the government was dissolved in December 2014, no housing reform bill had been passed.

The new coalition of 2015-2019, though having a very narrow majority, was much more homogeneous, something which facilitated policy making. Kahlon, the new Minister of Finance, was head of Kulanu ("All of Us"), a party focusing on economic issues. Kahlon advocated a different plan to reduce housing prices that consisted of combining a supply-side-based price reduction scheme with a new property tax for owners of three or more apartments. The rationale behind this new tax was that it would encourage owners of several apartments to sell some of their assets, thus increasing supply. While the new tax would have affected only 54,000 Israelis, it met with fierce opposition across the political spectrum, and some MKs admitted that they themselves would be affected by it. Though it made it through the Knesset's committee hearings eventually, it was annulled by the Supreme Court on grounds related to due process.[[68]](#footnote-70)

The supply side scheme, "Prices for Residents" (PfR), has been the only one to materialize since the 2011 protests. It was easier to implement because it was the extension of an existing plan and it enjoyed a fairly wide-ranging support. PfR included private contractors bidding for housing projects, with the lowest bidder usually winning. The Israeli state, which owns most of the land in the country, provided the land for free. The government also provided direct aid for buyers in some geographic areas. PfR lowered prices through a combination of direct aid (waiving state income from the selling of public land, plus direct subsides) and competition between bidders.[[69]](#footnote-71) Because of the high demand, due to the low selling price of those apartments, adjudication was by lottery. Kahlon's program was much more inclusive than Lapid's zero VAT measure, covering most of the young population.

Two aspects of the program made it politically feasible to implement. Firstly, it was relatively easy to finance, since most of its cost was in lost state revenue, making its immediate fiscal consequences negligible.[[70]](#footnote-72) Furthermore, most of the remaining costs were postponed to the date on which apartments would be supplied, thus placing the economic burden on future governments. Secondly, the program appealed to the emerging lower-middle class willing to live outside city centers and maybe even willing to move to a different town to obtain the discount. In addition, direct subsidies were supplied to projects in towns with lower socio-economic status, towns that are more supportive of the right-wing parties in the governing coalition.

To conclude, during the decade following the mass protests of 2011, most of the government efforts were in the regulatory field, Avoiding direct interference in the market. With the coming to power of the narrow Right-wing populist government in 2015 it shifted to a far more pro-active housing policy. This included legislation aimed against those investing in the housing market, and a massive government led effort to accelerate new housing projects. This effort was somewhat successful in mitigating further prices hikes, and between 2017 and 2019 prices remained high but stable. Moreover, the average number of salary payments needed to buy an average apartment even decreased for the first time since 2011.[[71]](#footnote-73)

* 1. **Economic governance**

Economic governance is the term for the way a government designs, adopts, and implements economic policies. It is not about the policy *per se*, but rather about the policy-makingprocess*,* including the role of bureaucrats and experts *vis-à-vis* politicians in this process. Here, we distinguish between respect for rules that constrain the decisions that may be made and how decisions are made at the stage of designing a policy.

Since the 1985 stabilization program, several rules have been put in place to constrain both monetary and fiscal policies. The first prohibited the printing of money, granting the central bank the authority to make independent monetary policy, and preventing government led monetary expansion. In 1991, the first new fiscal rule was adopted: the Law of Deficit Reduction”[[72]](#footnote-74) It was paired, in 2003, with a new expenditure limit rule, applying even more constraints to government fiscal policy. These rules gave new authority and independence to two unelected institutions, the Bank of Israel (BoI) and also the Ministry of Finance, which also had a central role in the formation of the program and a major part in budgetary decisions ever since.

When Lapid became Minister of Finance in 2013, he was faced with a 40 billion shekel structural deficit, stemming not from one-off expenditure but a structural gap between state income and expenses. To address this issue, he implemented a tough austerity budget, including combined 34 billion shekel cuts to welfare, infrastructure and defense spending. In his introduction to the budget, he said that "this is a painful budget with grave cuts, covering 35 billion in structural deficit… but it also creates a feeling of equality."[[73]](#footnote-75) The feeling Lapid referred to was related to cuts made to child benefits and funding of ultra-orthodox institutions in favor of "the working man."[[74]](#footnote-77) These cuts were paired with austerity measures like pay freezes in the public sector.[[75]](#footnote-78) Apart from addressing budgetary issues, Lapid undertook comprehensive reform of public company management, establishing a "Directors' Team," a select list of qualified directors that serve on the board of publicly-owned companies. The list is reinforced by a professional committee whose members are selected according to criteria like academic qualifications and managerial background. This measure was meant to reduce political appointments in favor of best practice and managerial expertise.

 When Netanyahu's fourth coalition government (2015-2019) was formed, some of the cuts that Lapid instituted, like the reduction in child benefits, were immediately rescinded. Efforts to reinstate political appointments were made, setting the government on a collision course with the Supreme Court.[[76]](#footnote-79) Kahlon appointed Shay Baved, a former political ally who almost became an MK for his party, as the CEO of the Ministry of Finance, its highest-ranking official. With the new housing program, tax breaks, and pay rises in the public sector stemming from a minimum wage increase, government expenditure started rising, leading to a larger deficit not only than that of the former government, but also that of the post-2011 years of fiscal expansion that allegedly led to the 2013 cuts. As a result, the continual decline in public spending as percentage of GDP since the early 2000s was halted, and, while still relatively low, it has even somewhat increased since 2015.[[77]](#footnote-80)

This has led to the government amending the deficit rule several times, breaching its limits to allow more spending. By the end of fourth Netanyahu term, Israel's deficit was considerably above the OECD average at 3.92% of GDP and moving in an upward trajectory.[[78]](#footnote-81)

However, the deficit itself tells us only part of the story of fiscal governance under the right-wing coalition. Two separate reports conducted by the State Comptroller and the BoI blamed the government for using accounting maneuvers to reduce the apparent cost of government programs. These maneuvers included using short-term executive orders so that long term fiscal decisions would appear to be one-off expenses; announcing and then postponing spending cuts to future fiscal years; funding state-owned companies through bonds and company borrowing; using out-of-budget resources like waiving income from government-owned land; and designating money from selling public land as "income" instead of "asset actualization." Some of these methods have other advantages: for example, the use of executive orders instead of legislation allows the government to avoid legislative scrutiny and lengthy processes.[[79]](#footnote-82)

It is difficult to calculate the precise consequences of those actions. According to a BoI estimate published in 2018 before the Covid-19 pandemic, real-terms surplus expenditure in 2021 will include 5.1 billion shekels of direct cuts promised to the government budget and 4 billion shekels through temporary executive actions. As the BoI correctly points out, it is highly unlikely that the budget cuts will take place or that the short-term executive actions will not be prolonged. As a result, the actual deficit will probably be much higher than the government's estimate. Combined with other government measures, such as reclassification of public land sales, it could increase to as much as 20 billion shekels, a spike of around 2% of GDP.[[80]](#footnote-83) Thus, while even the government's official figures indicate a breaching of the deficit rules, the real trend is even more significant, as the government has been both exaggerating its income and understating its expenses. It is important to note that, while the government did expand public spending a little, this is not in itself considered contradictory to "good" neo-liberal governance. The deficit relates to two other elements: the continuing reduction in national debt from 78% of GDP in 2009 to 61% in 2019 and the refusal to increase taxes. Debt reduction has helped Israel retain a high credit rating and Netanyahu noted it as an indicator to the strength of Israel's economy,[[81]](#footnote-84) while tax increases have been eschewed for political reasons. Both elements also helped reinforce Netanyahu's self-declared neo-liberal agenda, presenting him as both economically liberal and, at least in some ways, fiscally responsible.

 While orthodox economists can see deficit spending as one way of targeting short-term goals at the expense of long-term stability, it is only one part of a broader, short-term orientation. On the procedural side, executive action has been repeatedly taken to enact social reforms, especially in the form of tax breaks. These ministerial orders are only valid for between one and three years, leading to uncertainty about what future policy will be; it is very likely that some of the measures we have discussed will expire in the near future. However, the prioritizing of short-term goals is not only procedural but substantive. The wide-ranging cuts in the future budget that have been announced to offset current spending are almost exclusively made up of infrastructure budget reductions, leading to the cancelation or delay of major projects, such as those for highways and railroads. A recent IMF report noted that Israel chief economic weakness is its low productivity caused by lack of public investment in both infrastructure and professional training.

 Another aspect of Netanyahu's fourth administration was its direct confrontations with state institutions run by unelected officials. The Supreme Court overturned three of Kahlon's decrees, the first being the one concern with the third apartment tax discussed above. The decision based not on the substance of the action but rather on the lack of due process during the committee discussions. The court also subsequently overruled two of Kahlon's measures to control prices, forcing him to increase purchase tax on rolling tobacco and increase government-regulated prices of milk products, thus favoring Israel's largest dairy corporation.

 While researchers rightly point to populists' attacks on the judiciary, they largely overlook those on the state's economic institutions. The Israeli government has also restructured the Ministry of Finance. In addition to confrontations with the Supreme Ccourt,Kahlon has routinely confronted high-ranking officials within the Ministry of Finance. His hand-picked CEO, Baved, was generally disliked by the Ministry's bureaucrats who repeatedly described him, in anonymous interviews, as unprofessional and capricious.[[82]](#footnote-85) Tensions within the Ministry climaxed with a letter five of his top economists sent to Baved, some details of which were made public, accusing him of restricting experts' influence over major economic and budgetary decisions and barring them from important meetings. He was also accused of using ministerial power to influence hiring decisions in other offices in order to promote his policy agenda.

These confrontations within the Ministry represent more than the bureaucracy's infighting. The Ministry as an institution prides itself on its independence from political pressure. This independence has allowed it to become a powerful force for budgetary discipline and neo-liberal policies. Ministry CEOs have tended to be loyal to the ministry's positions, while Baved was loyal to the minister himself. He has used his power to try to reduce the treasury's independence from political pressure, interfering in the work of its officials and trying to transfer authority from professional positions to political ones like his own.[[83]](#footnote-86) This has helped Kahlon to carry out his agenda with less internal opposition, allowing him, for example, to routinely delay the publication and artificially alter unflattering deficit statistics.[[84]](#footnote-87)

1. **Discussion**

Netanyahu's long decade in power has allowed us to study the relationship between his populist style and the development of his economic policies over time. As expected, we found a rather heterodox set of policies, ranging from pro-consumer competition reforms to more interventionist and redistributive measures. The upshot is that the policy and related processes pursued during this decade have contradicted some of the main tenets of neo-liberalism. Instead of reducing public spending and prioritizing fiscal discipline, the government has expanded the budget and increased the spending deficit. While keeping taxes on the rich low, it has implemented some redistributive measures such as subsidies and negative taxation.

This policy agenda relates to populism in three ways. Firstly, it reinforces the idea of the leader and the party as acting on behalf of the "people," and, when those actions are met with opposition from the judiciary and senior bureaucrats, also against the "elite." This emphasizes the disparity between popular opinion and the governing neo-liberal consensus. Secondly, the undermining of liberal institutions is concomitant with the departure from neo-liberal governance and policies. Thirdly, it shows a preference for the "here and now" of short-term popular policies, while neglecting long-term planning and investments in infrastructure.

The first aspect of this can be found in the government fiscal policy. As we have shown, since the formation of the populist coalition in 2015 both public spending and deficit spending have increased steadily. This is the result of the reluctance to increase taxes paired with the expansion of existing policies such as the negative income tax and the creation of new government plans like "net for the family" and "price for the inhabitant." Minimum wage increases have also played a role in the growth of the deficit, since the government is the biggest employer of low-wage workers, and a lot of its wage agreements with unionized workers are also linked to increases in the minimum wage. Fiscal expansion was made possible by a willingness to breach "common knowledge" conceptions about fiscal rules, ignoring some expert opinion, mainly from within the Ministry of Finance, and also by adopting accounting practices that conceal much of the excess spending.

We have shown that the policies adopted by Netanyahu's governments have been both expansionist and redistributive in nature, and that those elements became more prominent as the coalition partner discourse grew more populist. However, much of this agenda was never designed as long-term, comprehensive policy. There have been no changes to the strict fiscal rules, no significant investment in infrastructure or public services, and no structural welfare reform. Most of the measures that the government have implemented are short-term in nature, both in the manner in which they were enacted, and in their immediate benefit, sometimes at the expense of long-term growth and/or stability.

This heterodox economic agenda fits in with the general populist discourse. It allows the populist party in power to realize swift and immediate material changes for its constituency which includes large sections of the population, mainly the popular classes. It reinforces the idea of the party as acting on behalf of "the people" while still largely retaining support among its upper-class electorate by financing the abovementioned programs mainly through deficit spending instead of tax increases. This basic populist rationale has been made even more salient by those who oppose populist programs and reforms, that is, sections of the establishment media, center-left parties identified with the professional-managerial class, and, most importantly, the higher echelons of the state bureaucracy and the judiciary.

However, confrontation with the economic and judicial establishment has become almost a necessity to pursue redistributive or expansive policies. Whenever neo-liberal politics have become ascendant, judicial and bureaucratic elites have tended to support and enforce neo-liberal governance and policies[[85]](#footnote-88) as part of the role they play within the neo-liberal state.[[86]](#footnote-89) They therefore rarely support the redistributive elements of the populist agenda and always radically oppose its short-termism and the populist governance style. Populist willingness and sometimes eagerness to confront these elites is thus not only a discursive tool but also a policy need. Doing so makes the populist agenda more feasible to implement and helps remove key obstacles in its way. In the Israeli case, it is most evident in the confrontations between politicians and high-ranking officials within the Ministry of Finance. The willingness of populist politicians like Kahlon to re-politicize economic policy and champion policies that go against bureaucrats' opinions has been key for his ability to break from the *status quo* that has produced decades of widening inequality and government inaction.

This break from the *status quo*, as we have shown, has not been radical or comprehensive. It has neither fundamentally changed the balance of power between labor and capital, nor increased public ownership, nor revitalized the dwindling welfare state. It has had a direct, sometimes materially substantive effect, however, on the popular classes. It has increased access to commodities like cellphones and has allowed more Israelis to fly overseas. It has increased salaries for low- and medium-wage workers and has reduced inequality. While it has not solved structural problems like rising housing prices, it has allowed for some short-term improvements.

 The Israeli case shows that, when in power, populist policy can evolve far beyond clientelism and welfare chauvinism toward a universal redistributive, expansionist, and heterodox economic agenda. This development is not incidental, but a likely outcome of the populist style and discourse. While Israeli populist policy has some unique characteristics relating to the structure and institutions of the country's political system, it is in no way exceptional. Some of the main features that we have found in Israel appear, in one way or another, in a variety of cases where populists have taken power, from Trump's protectionism in the United States,[[87]](#footnote-90) through Orban and the PiS's confrontation with central banks and welfare reforms in eastern Europe,[[88]](#footnote-91) to the new fiscal expansion of Johnson's populist government in the United Kingdom.[[89]](#footnote-92) While there is no doubt that more comparative research is needed to fully understand populism as a governing phenomenon, this pattern suggests that, when in power, populist leaders are prone to abandon neo-liberal dogma and pursue policies which are short-term and redistributive. The Israeli case shows that the populists' discourse expressing hostility towards bureaucrats and professed affinity with "the people" can help them combat powerful economic institutions and therefore enable their own policies. As we have shown, to better understand populism's appeal we should shift the focus from the question of what populist say back to what populists do, and how their actions relate to and reinforce their style and discourse.

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1. De la Torre 2000 [↑](#footnote-ref-1)
2. Levy and Agmon 2020; Rogenhofer and Panievsky 2020 [↑](#footnote-ref-2)
3. Ivaldi and Mazzoleni 2020; Toplišek 2020 [↑](#footnote-ref-3)
4. Jagers and Walgrave 2007 [↑](#footnote-ref-4)
5. Conniff 1982; Fuentes 2020 [↑](#footnote-ref-5)
6. Berlin 1960; Germani 1962 [↑](#footnote-ref-6)
7. Berlin, Hofstadter, MacRae, Schapiro, Seton-Watson, Touraine, Venturi, Walicki, and Worsley 1968; Di Tella 1965; Ionescu and Gellner 1969 [↑](#footnote-ref-7)
8. Germani 1962; Germani 1968; Germani 1971; [↑](#footnote-ref-8)
9. Di Tella 1965 [↑](#footnote-ref-9)
10. Canitrot 1975 [↑](#footnote-ref-10)
11. Cardoso and Faletto 1979 [↑](#footnote-ref-11)
12. Vilas 1992 [↑](#footnote-ref-12)
13. Drake 1982 [↑](#footnote-ref-13)
14. Kaufman and Stallings 1991 [↑](#footnote-ref-14)
15. Dornbusch and Edwards 1991 [↑](#footnote-ref-15)
16. Diaz-Alejandro 1979; Sachs 1989; Kaufman and Stallings 1991 [↑](#footnote-ref-16)
17. Betz 1993; De la Torre 2000; Knight 1998; Roberts 1995; Taggart 1995; Weyland 1996 [↑](#footnote-ref-17)
18. Aslanidis 2016 [↑](#footnote-ref-18)
19. Mudde and Kaltwasser 2017 [↑](#footnote-ref-19)
20. Aslanidis 2016; Hawkins 2009; Laclau 2005 [↑](#footnote-ref-20)
21. Mudde 2004; Stanley 2008 [↑](#footnote-ref-21)
22. Moffit and Tormey 2014 [↑](#footnote-ref-22)
23. De la Torre 2000; Mazzoleni 2019 [↑](#footnote-ref-23)
24. Rodrik 2018; Gidron and Hall 2017, Stankov 2018; Ibsen 2019, Hopkin and Blyth 2019; Adler and Ansell 2020 [↑](#footnote-ref-24)
25. Saint-Paul 2018; Dovis, Golosov, and Shourideh 2016 [↑](#footnote-ref-25)
26. Zaslove 2008 [↑](#footnote-ref-26)
27. Ennser-Jedenastik 2016 [↑](#footnote-ref-27)
28. Otjes, Ivaldi, Jupskås, and Mazzoleni 2018 [↑](#footnote-ref-28)
29. See also Fenger 2018; Conti and Moreno 2018; Grigera 2017; Bozkurt 2013; Aytaç and Öniş 2014; and Özdemir 2015 [↑](#footnote-ref-29)
30. Fabry 2019 [↑](#footnote-ref-30)
31. Shields 2019; Bohle and Greskovits 2019 [↑](#footnote-ref-31)
32. Bluhm and Varga 2020; Orenstein and Bugarič 2020 [↑](#footnote-ref-32)
33. Toplišek 2020 [↑](#footnote-ref-33)
34. Canovan 2004 [↑](#footnote-ref-34)
35. We took the phrase from Ghiţa Ionescu (in Berlin, Hofstadter, MacRae, Schapiro, Seton-Watson, Touraine, Venturi, Walicki, and Worsley 1968, 169). [↑](#footnote-ref-35)
36. Canovan 1999 [↑](#footnote-ref-36)
37. Because hegemonic forces in every society accept the *status quo* and determine, to a large extent, the language of politics, populism has become a pejorative term; from the point of view of the establishment, populists are conceived of as unrealistic and irresponsible at best, and as charlatans and demagogues at worst. (For a similar view, see Fuentes 2020, 47). [↑](#footnote-ref-37)
38. Canovan 1999 [↑](#footnote-ref-38)
39. Fraser 2017, 2 [↑](#footnote-ref-39)
40. Weyland 2003, 1109 [↑](#footnote-ref-40)
41. We believe that, for this reason, "at least in some countries, the economic policies of the radical left and right do not diverge by much" (Przeworski 2019, 88-9). Putzel (2020) found that right-wing populists pursue agendas of social exclusion directed against the "undeserving" poor and attempt to roll back the gains made in women's rights during recent decades. The German far-right Alternative für Deutschland (AfD; "Alternative for Germany") party seeks to promote an aggressive neo-liberal agenda. However, while the party's rhetoric is somewhat populist and some scholars classify it as populist (e.g., Havertz 2019), we conceive of the AfD as a racist but not populist party. [↑](#footnote-ref-41)
42. Shapiro 1989, 1996, Filc 2009 [↑](#footnote-ref-42)
43. Shapiro 1989 [↑](#footnote-ref-43)
44. Filc 2009 [↑](#footnote-ref-44)
45. Filc 2018 [↑](#footnote-ref-45)
46. Swirski and Konor-Attias 2018 [↑](#footnote-ref-46)
47. Rogenhofer and Panievsky 2020 [↑](#footnote-ref-47)
48. Zynger 2015 [↑](#footnote-ref-48)
49. Milrad 2017 [↑](#footnote-ref-49)
50. In real terms, this represents an increase from 6.1 US Dollars an hour in 2014 to 6.9 in 2018. [↑](#footnote-ref-50)
51. Source: OECD [↑](#footnote-ref-51)
52. Source: OECD [↑](#footnote-ref-52)
53. Source: Bank of Israel [↑](#footnote-ref-53)
54. Ben-David and Odenheimer 2015 [↑](#footnote-ref-54)
55. Rolnik 2013 [↑](#footnote-ref-56)
56. Zered 2018 [↑](#footnote-ref-57)
57. Israeli Civil Aviation Authority 2015 [↑](#footnote-ref-58)
58. Source: Israeli Central Bureau of Statistics [↑](#footnote-ref-59)
59. Ivaldi and Mazzoleni 2019 [↑](#footnote-ref-60)
60. Bank of Israel 2019 [↑](#footnote-ref-61)
61. Milrad 2017 [↑](#footnote-ref-62)
62. Source: ICBS [↑](#footnote-ref-63)
63. Nochi Dankner, a former Israeli oligarchs, attributed his financial downfall, among other factors, to his losses in the cellphone market following the reform (Ma'anit 2015). [↑](#footnote-ref-64)
64. OECD 2020. [↑](#footnote-ref-65)
65. Mualam 2018 [↑](#footnote-ref-66)
66. Busso 2014 [↑](#footnote-ref-67)
67. Basok and Zarhia 2014 [↑](#footnote-ref-69)
68. High Court of Justice 2017 [↑](#footnote-ref-70)
69. Milrad 2017 [↑](#footnote-ref-71)
70. Bank of Israel 2018 [↑](#footnote-ref-72)
71. Author's calculation based on Data from the Central Bureau of Statistics [↑](#footnote-ref-73)
72. Fisher and Flug 2007 [↑](#footnote-ref-74)
73. Ministry of Finance 2013 [↑](#footnote-ref-75)
74. Ministry of Finance 2013 [↑](#footnote-ref-77)
75. Gorali 2017 [↑](#footnote-ref-78)
76. Eventually, after a court order, the initiative was scrapped, but in 2020 a Likud minister tried to abolish the Director's Team completely through executive order, though that too was also overruled by the Supreme Court. [↑](#footnote-ref-79)
77. Source: OECD [↑](#footnote-ref-80)
78. Source: OECD [↑](#footnote-ref-81)
79. Bank of Israel 2018; Israel State Comptroller 2018 [↑](#footnote-ref-82)
80. Bank of Israel 2018 [↑](#footnote-ref-83)
81. Israel Government 2017 [↑](#footnote-ref-84)
82. Bachur-Nir and Milman 2018 [↑](#footnote-ref-85)
83. Pilot 2018 [↑](#footnote-ref-86)
84. Pilot 2019 [↑](#footnote-ref-87)
85. Hirschl 2001 [↑](#footnote-ref-88)
86. Maron and Shalev 2017 [↑](#footnote-ref-89)
87. Noland 2019 [↑](#footnote-ref-90)
88. Toplišek 2020 [↑](#footnote-ref-91)
89. Chu 2020 [↑](#footnote-ref-92)