**Chapter 20: Privatization**

**Public ownership**

From its inception, Israel enjoyed a rich legacy of public economic activity, the foundations of which had been laid by the immigrants of the Second Aliyah (1904–1914) and the Third Aliyah (1920–1925). Rooted in a socialist ideology, these pioneers helped establish a set of economic, social, and political institutions that served as an infrastructure for the Yishuv and later for the State of Israel. The country’s collective heritage and centralized economic management began with the establishment in 1920 of the Histadrut, which quickly became a significant factor in the Yishuv’s economy. A decade later, the creation of the Jewish Agency, which represented the entire Jewish community in its national struggle until Israel’s declaration of independence, further bolstered the Yishuv’s public and collective ethos. These two institutions provided the organizational infrastructure that supported the political and economic fulfillment of the Zionist movement’s vision, including by building the Yishuv’s financial institutions and its industrial, manufacturing, agriculture, and construction sectors. Significantly, they also helped nurture a small but thriving private sector, predominantly of traditional crafts, small businesses, trade, and services, thereby creating a division of labor and helping reinforce the economy of the Yishuv and later of Israel.

The British Mandatory government bequeathed the nascent State of Israel its infrastructure, mainly in the form of transportation (roads and railways), communications (telecommunications and mail), energy (the electricity company, refineries, transport pipelines), water (wells and pipelines), and planning and administration systems. Confronted by the challenges the new country faced—in particular, the huge waves of indigent and vulnerable immigrants, security threats, and the need to build an economy—Israel’s first government, led by the Mapai party, continued to heavily intervene in the economy. The Jewish Agency and Histadrut also played an active role in initiating, financing, and implementing the great projects of “building the nation and the state” by helping absorb immigrants, construct infrastructure, and invest in employment. It is impossible to describe the evolution of Israel’s economy without noting the important contribution of the Histadrut and Jewish Agency as entrepreneurs and implementers in response to the state’s early needs.

Not once during its first five years in power did Israel’s first government precisely define its preferred economic regime. While some powerful voices (the left-wing Mapam party) called for the adoption of a strict socialist regime, others (the more centrist Mapai party) took a more practical approach to dealing with the immediate challenges facing the new state. Opposing them were the General Zionists party that advocated a private, liberal economic regime. These political struggles formed part of a broader debate over Israel’s political orientation, which intensified during the Cold War between the United States and the Soviet Union. In the early 1950s, in face of the Soviets’ support for the Arab states, the government, headed by Ben-Gurion, conceded to those calling for a Western-oriented political regime, and Israel turned to the United States and Western Europe.

While Israel’s first government did openly advocate a broadly social democratic ideology, it never went so far as calling for nationalization, nor did it outlaw the private sector. Instead, Ben-Gurion’s government adopted a pragmatic, state-run economy that allowed the private sector to engage in commerce, hotels, personal services, and similar activities. In fact, the government actively encouraged the private sector, including by providing various incentives to help it develop. It did this out of a recognition that Israel’s goals of growth and employment were simply so enormous that there was no choice but to mobilize as many entrepreneurial and management resources as possible, including those from the private sector. Meanwhile, the broader public sector—the government, Jewish Agency, and Histadrut—took the lead on development and growth during Israel’s first decades, and reserved the right, sometimes excessively so, to exploit and direct national resources. The performance of the economy—its rapid growth and the development of infrastructure, housing, and employment—were evidence of this policy’s success. These achievements were bolstered by the enthusiastic support of the Israeli public for establishing a flourishing state.

**Economic crisis and privatization**

Israel’s first government established dedicated state-run enterprises to carry out specific tasks in various areas of the economy. These companies were the government’s executive arm for implementing policies of growth, employment, security, and population dispersion, and meeting social goals. They benefited from the ability to obtain capital easily and from their proximity to the government decision-making centers. It was convenient for the government to act through these enterprises, which were managed by people loyal to it. The state-run enterprises were measured by their ability to achieve national state- and economy-building goals, with scant attention paid to cost savings and efficiency. Many of them lost money, and the government stepped in to support them from the national budget in various ways. It is clear that this web of state-owned infrastructure and security enterprises was essential at the time, and that similarly, it was natural for them to be under government control (indeed, this approach prevailed in Europe). However, this situation was not an effective long-term strategy for commercial enterprises, which are usually privately-run.

The economic crisis of the 1980s was a turning point for Israel, bringing with it the recognition that the economy was in need of serious to reform, including privatization, a concept that first emerged in the 1980s. Israel’s economic crisis was the result not only of a macroeconomic imbalance in its fiscal and monetary policy. It was also a structural crisis of a now large economy that needed to operate differently than how it had during the early decades of statehood. It is true that Israel’s macroeconomic problems were largely solved by the 1985 Economic Stabilization Plan. However, regardless of its success in fighting inflation, the plan was not able to solve the structural crisis. A different solution, including privatization, a concept that had begun to gain international traction in this decade, was needed to address the issue of excessive public sector control, which was no longer a feasible solution to Israel’s economic needs.

For years, the government had worn several hats—policymaker, owner of significant assets (the state-run enterprises, land, and infrastructure) and of products and services (security and health), and a regulator that set the rules for overseeing its business operations. These multiple roles placed the government in several fundamental conflicts of interest, where it effectively stood above the rules that it had put in place to regulate itself and to which it claimed to be committed. Despite taking precautions, as a political entity, the government had entangled its own political interests with its business and economic decisions. Its multiple conflicting roles created the potential for inefficiency and a lack of transparency, and, as the economy grew and became more complex, these risks increased.

As noted, the extensive involvement of the government in the economy during Israel’s first years of statehood was the appropriate response to major market failure caused by mass unplanned immigration, a complex security situation, and a critical lack of resources. Although the economy benefitted from state intervention, the government had become invested in preserving the status quo and was in no rush to relinquish its central role, due to considerations of economic and political power and socialist ideology. The government believed that it, and it alone, could safeguard growth, employment, and the Zionist interests of the state—namely, immigrant absorption, population dispersal, and building the economy.

The 1985 Economic Stabilization Plan was a watershed. Successive national unity governments between 1984–1990 adopted privatization and market economics as the basis for deciding how to allocate tradeable goods and services. The involvement of the United States in the 1985 Economic Stability Plan and the dialogue with the American government that grew out of the U.S.-Israel Joint Economic Development Group (JDEG)[[1]](#footnote-1) forum in 1985, as well as pressure from private stakeholders, hastened the adoption of market ideas and privatization.

The move toward privatization was reflected the prevailing atmosphere around the world in the late 1980s. At the end of the Cold War, there was a widespread sense that the United States had won a history-ending economic victory over the Soviet Union, and that the ideology of the free market and globalization had triumphed over the public, centralized regimes of the communist Soviet bloc. This convergence of historical events boosted pro-market and pro-competitiveness currents in Israel. The move to privatize Israel’s state-run enterprises that began after the 1985 Economic Stabilization Plan would continue for years. The privatizations ultimately helped Israel construct a new economy by empowering its private and commercial sector. Opinion polls and studies of Israelis’ attitudes toward privatizing state-owned companies and assets show that, prior to the 1985 Economic Stabilization Plan, the majority of the public supported state intervention in the economy. After the plan, however, public opinion shifted in support of privatization, including of major infrastructure entities, such as seaports, electricity, water, and sewage, although the majority of the public still opposed privatizing heath, education, and welfare services.

From the beginning of the 1990s, privatization began to have an enormous impact on Israel’s economy and society. The market share and power of the private and third sectors grew at the expense of the state and public sector. This dramatic change corresponded with a shift away from Israel’s old collective mentality toward one of greater individualism. The privatization process began with the sale of state-owned, non-monopolistic commercial enterprises that operated in a competitive environment. Later, following the restructuring of various infrastructure companies (oil, minerals, and water), Israel privatized other state-owned economic assets that yielded profits that could be applied to which ownership and property rights. Later still, health, education, welfare, and employment services were sold.

In the period 1986–1996, the assets of the Jewish Agency and the Histadrut were also sold. These privatizations boosted Israel’s private sector, changing the face of the Israeli economy by introducing new private controlling owners (mostly Israelis, along with a few foreigners). These companies were initially sold to private parties and not through the capital market, which at the time was not developed enough. Foreign parties were mostly not interested in buying these companies, as the dark shadow of the hyperinflation crisis still loomed over the economy. Ideas for privatization through the capital market, such as options plans,[[2]](#footnote-2) were developed in the 1990s, along the lines of those implemented in the United Kingdom and Russia. These were intended, among other things, to build and strengthen the capital market. In practice, however, they were never implemented.

**The Jewish Agency and the Histadrut**

In the second half of the 1980s, the business holdings of the Jewish Agency were the first entities to be privatized. The Agency’s American leaders, who needed to extricate themselves from the financial crisis in which the Agency had become embroiled, were heavily influenced by the politics of Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom, who both advocated a neoliberal worldview, small government, and a free market. The Jewish Agency’s main business asset was the Hachsharat HaYishuv (the Israel Land Development Company), which dealt mainly in real estate and hotels, and which was privatized in 1987, ahead of the privatizations of the state-run enterprises.

The hyperinflation crisis severely hit the Histadrut and its economic arm Hevrat HaOvdim (Society of Workers), whose severe financial problems were exposed by the 1985 Economic Stabilization Plan. Hevrat HaOvdim could not service its debts to financial institutions, and nor could not rely on the unsympathetic Likud government to help bail it out. As these struggles lent impetus to calls for privatization, the Histadrut realized that the way out of the crisis was to sell off its assets. The resulting privatizations, which came in the 1990s, were rapid, as most of the Histadrut’s assets were commercial companies operating in competitive markets, including Koor Industries Ltd. (industry), Shikun Ovdim (engineering and construction), and Alliance (tires), and the financial groups, Migdal, Africa Israel, and Ampal-American Israel Corporation.

The settlement sector—the moshavim and kibbutzim—were also severely affected by the hyperinflation crisis. However, in their case, the government provided them with financial aid, a reflection of the broad national consensus, to which even the Likud government subscribed, regarding the importance of settlements. Government aid helped bail out not just the cooperative settlements, but also the banks, which had found themselves saddled with large debts from the kibbutzim and moshavim in the late 1980s and into the mid-1990s. This financial support to the kibbutzim, as the main symbol of Israel’s cooperative economy, lasted for over 20 years, and gave rise to new operating rules that involved privatizing elements of their activities and some of their assets.

Semi-public privatization occurred following the Brodet Committee report in 1995, which advocated that the control by the banks (nationalized in 1983) of nonfinancial corporations should be abolished. As a result, many companies controlled by Bank Hapoalim and Bank Leumi were sold to private owners.

**The government’s role in privatization.** In the early 1990s, Israel had 159 state-owned enterprises. By 2023, in the wake of privatization, this number had shrunk to 70, most of them non-commercial. Ostensibly at least, the privatizations were a partial success. In fact, it took around 30 years for most of the larger state-owned enterprises to be fully privatized. Most of the state-run enterprises that were not sold off were small and unsuitable for privatization. A number of large state-owned enterprises still remain, among them Israel Aerospace Industries, Israel Electric Corporation, Rafael Advanced Defense Systems, Mekorot, and Israel Post, some of which will be privatized in the future.

The economic changes that occurred in the wake of the 1985 Economic Stabilization Plan had deepened the government’s understanding that the private sector was the most efficient way to manage business. The government did not have the management ability or agility to deal with competition, standards, or commercial rules. However, it was not easy to persuade the government to relinquish its commercial and political power and influence. The privatizations were a complex process, and required financial and corporate maturity, as well as agreements with employees, security officials, regulators, and the Securities Authority.

 The privatization of the government’s state-run enterprises did not result from any immediate and pressing financial problems, as was the case with the Jewish Agency and Histadrut. Rather, the privatizations were part of a greater ideological shift. Israel had come to the conclusion that governments were not suited to owning and managing commercial companies, and should limit themselves to policy and regulatory oversight. The hyperinflation crisis had subverted Israel’s old collective ideology and allowed the ideas that the government “is the problem and not the solution” (Reagan) and that the “government does not know how to manage business” to be voiced. The aftermath of the crisis sparked calls to reduce political involvement in economic decisions, to create a free market and increase labor market flexibility

The new reality that emerged after the 1985 Economic Stabilization Plan introduced new economic concepts into the dictionary of economic discourse—among them “privatization,” “sectoral reform,” “regulation,” and “deregulation,” as well an old concept that gained new life—“competition.” The wave of privatizations gave rise to new branches of regulation designed by professional economists and lawyers, and created new practices in the government and private sector. Privatization was a tangible expression of the shift that had occurred in Israel’s economic regime, from the collective-public ideal to an individual-business worldview, from state intervention to private ownership. The privatizations provoked lengthy public debate and argument, but the majority of the public supported the shift away from the old ways of working and thought that privatization was essential. Even so, there were fears that privatization would create a concentration of capital in the hands of a few powerful families, who would put pressure on the government (crony capitalism), and influence the media through the power of advertising (media capital). The concern was that crony capitalism would replace the old evil of public centralization of the government, the Histadrut, and the Jewish Agency. This issue was partly addressed in the Centralization Law in 2013.

Today, after some three decades of privatization, there is no thought of changing course, despite the doubts that have arisen about the viability of “privatization at any cost,” as part of a wider debate about the role of the state in the economy. In particular, doubts have increased regarding privatizations in the social and security sectors. The importance of regulation in privatization has grown, as have sensitivities to harming workers’ rights, not least because of the growing number of contract workers (Israel has a high proportion of contract workers compared to other OECD countries).

The privatizations to date have been accomplished mainly by selling control of state-owned commercial enterprises to private owners, and by strengthening the capital market by issuing shares, including controlling interests, on the stock exchange. The government sold most of its commercial companies, such as Zim Integrated Shipping Services Ltd., El Al Airlines, Bezeq, Israel Chemicals Ltd, and the Shikun VePituah housing company, as well as the banks, which had been nationalized in October 1983. The time it took to sell a particular company depended on how easy it was to regulate the industry in which it operated. The more complex the regulation of a particular industry and market, the longer the privatization process took—in some cases, as long as 30 years.

Privatization also included the establishment of mechanisms for building public infrastructures and their management by private concessionaires, whereby the concessionaire builds the infrastructure and operates for a fixed period, after which the infrastructure reverts to the state, “Build-Operate-Transfer” (BOT) model. Route 6—the Trans-Israel Highway—was one of the first such BOT infrastructure projects.

In later years, privatization expanded to include granting licenses to private operators to operate services in new areas (e.g., cable and satellite television), or to allow private companies to operate alongside public entities (e.g., by granting licenses to private schools). Another privatization route has been to reduce the services provided by the state, thereby creating openings for private providers. For example, the erosion of the state “health basket” has encouraged those who could afford to do so to purchase supplementary private health insurance packages, and has boosted the expansion of private medical services in private hospitals. In other cases, the state has commercialized public spaces (e.g., by charging for entrance to nature reserves). The state has also participated in initiating public programs with minimal investment, including by funding them through third sector organizations, such as the Karev Foundation, which operates external study programs in schools.

In special cases, the government has preserved key national interests by holding golden shares, which give the holder veto powers over any changes to the company’s charter, or entering into agreements to protect vital interests, measures used in the privatizations of Zim Integrated Shipping Services Ltd., Bezeq, El Al, and Israel Chemicals Ltd. Israel’s state-owned defense companies have not been privatized, with the exception of Israel Military Industries (Ta’as, now IMI Systems, which was sold to Elbit in 2018), although there are examples of such privatizations elsewhere in the world. Similarly, Israel Electric Corporation will not be fully privatized, to avoid the state relinquishing control of its natural monopoly on electricity transmission.

**The stages of privatization**

There were four stages in the government’s privatization process:

(A) “Simple” privatization—i.e., the privatization of state-owned commercial enterprises operating in competitive markets.

(B) “Complex” privatization—i.e., the privatization of monopolistic state-owned infrastructure enterprises, which first required comprehensive sectoral reform (communications, transportation, energy, and water). The government adopted a rule of “regulation before privatization” in order to prevent state-owned monopolies being sold off “as is” to a private buyer, which would have simply transformed them into private monopolies and made it difficult to implement sectoral reform.

(C) Privatization by outsourcing.

(D) Privatization of social services.

**“Simple” privatization**

In the late 1980s, the government, which had little experience with privatization, hired an international investment house to advise it on how to go about implementing this new and unfamiliar process. The government started with “simple” privatizations, i.e., privatizing state-owned enterprises operating in competitive markets. In these cases, transferring control to a private buyer did not require broad sectoral reform and fundamental changes to how the industry operated. Enterprises such as the state-run real estate companies Industrial Buildings Corporation Ltd., Jerusalem Economy Ltd., and Shikun VePituach were privatized this way, as was Haifa Chemicals Ltd.

**“Complex” privatization—regulation before privatization**

“Complex” privatizations involved the sale of state-owned monopolies, where simply transferring control from the state to a private owner would have meant transforming a public monopoly into a private monopoly. The privatization of state-owned communications, transportation, water, and energy enterprises required extensive reforms, which enabled the privatization of Bezeq, the oil refineries, El Al and Zim. It also led to the sale of power stations, the issuance of licenses to desalination companies and the privatization of public transportation lines.

In addition to necessary reforms, privatization relies on extensive regulation, and, in special cases where national interests need to be protected, special agreements or golden shares, as mentioned above. These regulations also allowed for the privatization of oil refineries, as well as the sale of power plants, the granting of concessions to desalination companies, and the privatization of public transport lines.

The regulations implemented prior to privatization were designed to prevent the creation of private monopolies, whose prices would remain artificially high, and whose streamlining would enrich the private owner and not the consumer. If these industry sectors had not been regulated prior to privatization, the new private owners would have opposed regulation, on the grounds that it would violate the property rights they had purchased. In industries where the government held a monopoly, before going ahead with privatization it was necessary to either regulate competition in the industry, or to ensure that competition existed at all (e.g., by granting licenses to new cellphone operators or international call

Regulation entails organizing the sector for competition or for a combination of competition and supervision. The goal is to create order with clear rules anchored in legislation and regulations which allow the government to supervise the company. The new owners of a privatized company need to know what the laws and regulations will be in the industry in which they are operating, so that privatization can benefit the economy and the consumer. Good regulation safeguards consumer interests and helps maintain cheap, good quality goods and services, or inputs for businesses competing with manufacturers in Israel or abroad.

A natural monopoly is a situation where there is no economic viability for a competitor to enter the market, due to high threshold levels (e.g., electricity transmission). In these cases, the correct order of action was determined to be first industry sector regulation, then establishing regulatory rules, and then and only then, privatization.

Privatization is not intended to achieve a high return for governments seeking to maximize their assets. Rather, governments need to ensure that markets operate properly and that consumers receive services at a reasonable price and under appropriate conditions. In the case of Israel’s state-owned Bezeq telecommunications company, the government declared its intention to privatize it in the early 1990s. There were several expressions of interest, including from international companies that saw Bezeq as a good investment, mainly because it was a monopolistic communications company with good profitability. The government could have realized a very good return for its sale, but it was clear that simply privatizing a monopoly to a single private buyer would not benefit consumers. Instead, Bezeq shares were issued on the Tel Aviv Stock Exchange to avoid transferring control of the company to private hands, and the government created competition in Bezeq’s main areas of activity, i.e., cellular and international calls, and landlines. This competitive regulation lasted for around 20 years, because the government was concerned with increasing consumer welfare. Bezeq was fully privatized as a publicly-traded company only in 2012.

**Outsourcing**

Outsourcing is a form of privatization where private contractors are hired to carry out tasks on behalf of the government, at a cheaper cost than if the government had undertaken the work itself. Under this form of privatization, there is no transfer of state authority to a private entity. Since the 1990s, Israel’s government ministries and offices have outsourced various jobs, such as cleaning, security guarding and other security services, as well as professional consulting activities that used cheaper contract staff instead of employing staff directly. In some cases, the outsourced workers’ employment terms and conditions were compromised, and the power of workers’ organizations was weakened. This practice has harmed wages and job security for a number of employees, some of whom are from disadvantaged backgrounds, thus provoking provoked economic and moral debate.

Fierce debate has also developed over whether to outsource public services in coercive settings, such as prisons. In the early 2000s, the state issued a tender for the construction of a private prison. The issue reached Israel’s Supreme Court, in 2009, which ruled that incarceration was a sovereign duty that must remain the sole responsibility of the state. Clearly, prisons are coercive settings that are directly responsible for the wellbeing of prisoners. The same is true of young offenders’ institutions, in which the court has placed minors for treatment and supervision because they are deemed a danger to themselves or others. There have been similar debates over the privatization of health services that are the responsibility of the state, in particular mother and baby clinics, school nurses, and institutions for vulnerable and elderly people.

Another form of outsourcing involves special privatization mechanisms that were created for infrastructure. Concessions were granted under a (BOT) model in cases like Highway 6 and Highway 23 (the “Carmel Tunnels”), or under a private financing initiative PFI model, as in the case of Route 431 or the fast lane to Tel Aviv, where the government pays the concessionaire for the use of the road according to an agreed-upon formula. This model has also been used to fund desalination facilities, power plants, and in the privatization of the Israel Air Force’s flight school, as well as other services that do not involve the transfer of state authority.

**Privatizing social and welfare services**

Israel’s wave of privatizations began from an assumption that governments are not best-suited to run commercial enterprises. Later, this assumption expanded and shifted to incorporate the idea that governments are also not best-suited to run social services. Thus, government social services were transferred to the third sector and, in some cases, even to the private sector. Supporters of these moves argued that there was no advantage to having the state-run social services, and that it was more appropriate for the state to focus on policy, budgeting, and supervision, and leave service provision to charities and companies that specialize in this kind of work. However, since ultimate responsibility for these services still rests with the government, transparent regulation was required (which in hindsight proved to be poor, due to a lack of personnel, budget, and oversight). The third sector, consisting of non-profit organizations, social enterprises, and private companies operating welfare and social services, essentially operate as the service providers. The privatization of social services also included the sale of public housing stock to tenants (for social reasons), a move that was slammed by opponents of privatization.

The privatization of welfare services began in the late 1990s, when the state began to outsource this work to the third sector. Hundreds of social welfare charities began to run services ranging from elderly care to care for at-risk youth. This privatization trend increased during the 2010s, when the government began also outsourcing social services commercial companies providing comparable services. These companies were seeking to expand into new fields, and finding social service provision on the grounds that welfare, education, social services provision—welfare, education, and increasingly costly healthcare—represents a market worth billions of shekels and offers lucrative opportunities for commercial activity. In some cases, commercial companies with deep pockets have taken advantage of the weakness of third sector organizations, whose day-to-day running costs rely on philanthropic donations, and which at times (such as during the coronavirus pandemic), have difficulty raising sufficient funds.

In 2022, the Ministries of Welfare, Education, Health, and National Insurance spent approximately NIS 22 billion on outsourcing costs. In that same year, the Ministry of Welfare funneled about NIS nine billion toward some 10,000 different social welfare programs operated by thousands of different charities and private companies (the Ministry is responsible for overseeing all these programs). The transition of service provision from third sector organizations to private companies has resulted in a loss of knowledge and professional specialization, which had been acquired over a long period of time and at great effort. This is part of the capitalist approach that advocates that private companies are preferable to non-profit organizations.

There are two opposing schools of thought as to whether the privatizations preceded and helped create Israel’s strong third sector, or whether it was the existing presence of a strong third sector that allowed the privatizations to happen. Some argue that the first scenario is true—i.e., that the third sector developed and became stronger as a result of the privatization of government services. That is, when the state stopped providing particular services, the third sector had to expand to fill the vacuum this created. Opposing this is the argument that social service privatization was only possible in the first place due to the existence of a robust and thriving third sector, which, after first gaining legitimacy as an alternative service provider, then encouraged the state to privatize social services. Whatever the case, there is no doubt that the shrinking of the welfare state has increased the power of Israel’s third sector. Furthermore, when the state outsourced certain welfare services to the third sector, it opened the door to the possibility of transferring additional services to the commercial sector.

The government has not always understood (or perhaps has chosen not to understand) the significance and power of the third sector and civil society. Nevertheless, a distinction must be made between the state’s responsibility for the wellbeing of its citizens, and the benefits of increasing the power and size of the third sector. Israel’s third sector has demonstrated its ability to provide innovative and efficient expertise-driven and high-quality social services that are tailored to the needs of the public. The public, in turn, has recognized the ability of the third sector to provide them with health services, professional training, and other social services.

In terms of education provision, a lack of state budget has resulted in the growth of a “grey” education sector, in which parents’ organizations and private companies began to sell private education services. Opponents of private education have argued that the wealthier and more powerful local authorities (mainly in Israel’s richer coastal plain) benefit more from this development than the poorer, less powerful local authorities of the country’s geographical periphery. In terms of healthcare, private medicine has expanded with the establishment of private hospitals alongside a “shadow economy” in which patients make under-the-table payments to doctors in public hospitals for private services.

In terms of welfare and employment schemes, in 2005, a partial privatization took place under a welfare-to-work reform dubbed the “Wisconsin Plan” after a similar program implemented in the United States (the official name for the program in Israel is Me-haLev (“from the heart”)). Under the program, private companies were provided with assistance to run projects to integrate welfare recipients into the labor market. The plan sparked fierce debate over whether it was legitimate to grant private companies control over welfare payments and professional training for welfare recipients. The plan was stopped because of political pressure.

One dilemma of privatization concerns the cost of government services, which are often more expensive than private ones and usually of better quality. This is a complex issue to measure, but central to the quality of service to consumers and the significance of privatization.

**Summary**

Privatization is an ideological process stemming from a neoliberal worldview. The debate between the proponents of privatization in Israel and those who oppose it has been going on for many years.

Those who support privatization believe that it increases economic efficiency, since the free market is a more efficient business mechanism than the state. Private businesses can carry out reforms relatively easily, since they are not limited by staffing policies. They argue that the government is constrained by powerful labor committees and political interests, while privatization allows private companies to compete, instead of state monopolies, and competition encourages price reduction. Further, they contend that private companies generally provide better and cheaper services, since improving services increases demand and thus generates more profit, and that privatization reduces government spending, which in turn lowers the budget deficit and enables tax cuts. According to proponents of privatization, a modern state cannot afford to have welfare systems and state-run enterprises as they did in the past, since globalization increases international competition and makes it harder for state-run enterprises, which in the past enjoyed government protections at the expense of higher taxation, to operate efficiently.

The supporters of privatization also claim that government involvement in the economy harms democracy, violates civil rights, and makes individuals passive and dependent. Reducing state intervention encourages individuals to act for themselves and cooperate with others, and encourages volunteerism and civil society, contributing to democracy and freedom.

On the other hand, the opponents of privatization argue that it harms service provision, in particular to disadvantaged populations that cannot afford to pay for high-quality social services. To its opponents, privatization risks concentrating capital and ownership of infrastructure in the hands of a few individuals. They argue that privatization harms employment and working conditions as a result of efficiency and cost-cutting processes, which include layoffs, and because of the reduction in the power of workers’ committees and the transition to “individual contracts.” According to privatization’s detractors, privatization exacerbates economic disparities because of layoffs, the increase in cost of social services, and the damage it causes to the working and lower middle classes. The wealthier classes, on the other hand, enjoy the fruits of the development of the capital market, tax cuts, and the ability to receive good, paid-for services. Furthermore, they argue that privatization harms national security interests by selling natural resources and infrastructure (electricity, transport networks, and communications) to foreign companies. They also believe that privatization erodes desirable values and norms, including social solidarity and cohesion, encourages egoism and individualism, and increases the power of a small number of wealthy capitalists, who are not elected by the public and are not obligated to it. It harms the civil rights of the poor, because it prevents them from receiving social services to which they are entitled, and harms democracy.

1. As a member of the Forum in its early years, I can personally testify to how important privatization was to the Americans. [↑](#footnote-ref-1)
2. See: the Committee for Examining the Implementation and Consequences of Introducing a System for the Mass Distribution of Government-Owned Shares to the Public (the Options Plan), February 1995 (Brodet Committee.) [↑](#footnote-ref-2)