

**State and Industry
Interactions in the Industrial Development Policy
1948-1965**

**By: David Levi-Faur
Supervised By: Yael Yishai**

ABSTRACT

Three major entrepreneurial sectors are responsible for the shaping of the economy and industry of Israel: The Private sector, the State sector and the General Federation of Labor (Histadrut). The Israeli industrial structure may be characterized by the dominant role played by its private sector - accredited with circa 60% of industrial production - as well as by the secondary role left for the State and Histadrut sectors - each responsible for only circa 20% of industrial production. The interaction between these three major industrial sectors is the subject of the present research. Does the ownership structure of the Israeli industry reflect the relative impact of each of its sectors? How did it come about that, in a state governed by representatives of a social-democratic party, the private sector played such a dominant role? These questions raise the important issues of (a) the ownership of the means of production and (b) the autonomy of the state vis-a-vis private actors.

The answers to these research questions are obtained by means of three typologies reflecting the interaction between state and industry as well as the possible strategy of State and Industry in the industrial development policy. The first typology is proposed on the basis of criteria relating to state power on the one hand and to the power of Industry on the other. It offers four categories of public policy concerning industrial development: Pluralist, Corporatist, Anarchist and Statist. This study suggests that the statist pattern of interaction between State and Industry is the most prevalent. An autonomous State, which translates its preferences into authoritative actions, was the main actor in the development of the industry and in the formation of its structure of ownership. This research answer reflects a state-centered approach to industrial development policy. This approach offers an alternative to society-centered approaches, which view public policy processes as shaped by interest groups, big businesses, capitalists, elites and other social actors.

The second typology concerns the state's maneuvering ability in a variety of interactive patterns exercised between it and the Industry. In a statist pattern the state may either penetrate industry (through formation of a state industry), block powerful society actors (by means of e.g., anti-trust laws) or, it may pick out winners (through special subsidies); it may do so in a combination of any of the three options. This maneuvering capability is conceivable in statist interactions while it is impossible in corporatist and pluralist interactions.

The third typology defines interactive patterns by means of two variables: that of the plan maker and that of its mobilizer. Statist interactions are characterized by the dominant

role played by the state as planner of public policy and as mobilizer of varied social resources.

At the focus of the empirical discussion of this research stand three industrial branches - chemistry, basic-metal and textile. Each demonstrating a pronounced prominence of one sector: in chemistry it is the State sector, in basic-metal the Histadrut and in textile, the Private sector. Study of the development processes of these branches unfolds the formation of the industry's ownership structure. In the chemistry branch the research has focused on three ownership transactions which took place between the private sector and the state. These three case studies - "Palestine Potash", "Chemicals and Fertilizers" and "Haifa Refineries" - facilitate the exploration of one of the statist patterns of interaction - that of penetration into society. It also affords a study of the causes accountable for the development of a State industrial sector.

In the basic-metal industry the research focuses on a developmental plan formulated by the Histadrut's chief subsidiary company for industrial entrepreneurship - Solel-Boneh. The development of this company was blocked by its division into three parts by the state; the state also undertook responsibility for the development of the basic-metal industry. This case study demonstrates the state's ability to restrain powerful social actors.

In the Textile branch this research demonstrates the state's ability to shape an industrial developmental plan. The plan presented to the public in June 1957 aimed at expediting the development of industry and of its diffusion through Development Towns in the periphery. The state succeeded in the implementation of this plan through a strategy of picking out "winners".

The actions of the State in these three branches demonstrate its preferences in shaping the Israeli Industrial structure. State penetration into industry was of limited character in spite of its ability of use this strategy. The Histadrut's entrepreneurial activity was blocked and constrained by the state in view of the apparent threat it posed to the dominance of the Private sector. In terms of preferred ownership, the highest priority was bestowed on the private sector.

This interpretation offers an alternative to the conception emphasizing the role of the state in expansion of its own, as well as those of Histadrut's, entrepreneurial activities while underestimating the state's role in building up the dominance of the Private sector. Four possible explanations to the preferences of the state are offered: Economical, National Security, Power Politics and Ideological. Testing each of the case studies, these explanations led to the conclusion that the actions of the state in shaping the industrial structure can best be understood through an Ideological-National-Zionist explanation.

The political universe which this research portrays is, therefore, shaped by two major variables: State and Ideology. The state was used as an independent variable as well as a dependent one. As a dependent variable, state actions are explained by the Zionist ideology. As an independent variable the decisions of the state explain the industrial

developmental process. The state's autonomy and maneuvering abilities answer the questions of (1) Who Shaped the Industrial Development Policy; (2) How Was it Done.

Levi-Faur David, State and Industry; Interactions in the Industrial Development Policy; 1948-1965, A thesis Submitted for the degree of Doctor of Philosophy, University of Haifa, Faculty of Social Sciences and Mathematics, September 1993, 400p. [Hebrew]. Was mostly published as Levi-Faur, David The Visible Hand: State-Directed Industrialization in Israel [Hebrew], Yad Ben-Zvi, Jerusalem, 2001