

BEN GURION UNIVERSITY OF THE NEGEV



The Creation of Modern Israel in the 1980s:

The Commercial Banks' Share Crisis

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בנימן הגלילי

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The Question

Final Paper – From Consent to Dispute Due: January 7, 2016. According to YOUR OWN OPINION, mark one milestone which transfers Israel to be “modern Israel”. It can be a political or social event, main current in society, etc.

- Please **describe it** and **analyze its significance** **as a milestone**.
- Please use **theoretical framework** (center/periphery, hegemonic politics, privatization, etc.) to validate your argument.

You should use **class summaries** and **the articles from the syllabus**.

Do not exceed five pages.

The Answer

When my colleagues and I were asked to describe a milestone in the creation of ‘Modern Israel,’ (one which occurred roughly between 1977 and 1992) for inclusion in this collection, my German associate immediately asked for clarification of the term ‘milestone.’

What troubled me however, was neither the term milestone, nor the difficulty posed by the multiple meanings of the people/land/government of Israel. I have wrestled instead with ‘modern’ and ‘modernity.’ I have decided that in the context of this paper, there is no post-modern, what ever happens now, this week – is modern. An alternative formation would be that almost everything is pre-modern, in the current vernacular, “That’s so six months ago.”

What then can I see of the end of 2015 in the period in question? This paper will attempt to argue for the modernity of the event known as “the commercial bank’s share crisis of 1983.”

The response of the Israeli government to this crisis took occurred in two stages - 1st the taking of non-voting shares in the banks, 2nd - the acquisition of voting shares - 3rd - the separation of the banks commercial division and investing division. The 1st two phases are parallels of the TARP and the conservatorship of the

Fannie Mae and Freddie Mac Government Sponsored Enterprises (GSEs). The separation is paralleled by (insert something). The takeover of the banks is the fifth phase in Israeli political economy. The first phase is the dream of Borochovist Socialism. The second is the reality of the increase in urban population during the 4th and 5th aliyot. The third is the Begin free market revolution. The fourth is the actual populist economics of Begin's first term. The fifth is the realist bailout.

Measures to control inflation were only adopted after inflation reached almost 450% in 1984.¹ This paper will argue that this inflation was caused directly by the bank shares crisis, but rather by the government response to the bank shares crisis. It is then the government's response which marks an important turning point in Israeli political economy. When the government promised to reimburse share owners for the loss in value of the bank shares, this was believed by the public. This implicitly increased the government debt in the eyes of the public and led to an increased expected future inflation.²

1. B.-Z. Zilberfarb, "From Socialism to Free Market - The Israeli Economy 1948-2003," in *Israeli Democracy at the Crossroads* (2004), 16.

2. T. J. Sargent and J. Zeira, "Israel 1983: A Bout of Unpleasant Monetarist Arithmetic," *Review of Economic Dynamics*, 2008, 1, <http://www.sciencedirect.com/science/article/pii/S1094202511000147>.

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