

Chapter 2

Domestic Developments in Israel: Political, Social, and Economic

Yehuda Ben Meir and Meir Elran

An Auspicious Reality

From the domestic point of view, the year 2007 is remarkable less for what happened than for what did not happen. The Israeli public was reeling from the negative effects of the Second Lebanon War and the Winograd interim report, published in April. Morale was low, Israel's perception of its deterrent capacity was in question, and the north was recovering from the economic effects of the war. In early 2007, therefore, numerous pundits predicted that the government and certainly Prime Minister Ehud Olmert would not last long. Many experts, including ranking officials within the defense establishment itself, forecast a renewal of hostilities with Hizbollah and possibly war with Syria in the summer.

In fact, these predictions failed to materialize. While Olmert remained an unpopular prime minister, his approval ratings in 2007 rose from about 5 percent to around 25 percent, thus evincing a sense of improvement. The government not only survived 2007 but enjoyed strong political support in the Knesset (until the exit of Avigdor Lieberman's Israel Beitenu party in January 2008) with one of the largest coalitions (78 members out of 120) in Israel's history, certainly in the last twenty-five years. The government succeeded

(on December 27, 2007) in passing the budget for the fiscal year 2008 a week ahead of the deadline, a significant political feat unaccomplished in the previous ten years. Indeed, the government did not face any substantive parliamentary threat throughout 2007. The ruling party, Kadima, maintained a reasonable sense of stability and internal quiet despite a meager standing in most polls and a steady lead by the opposition Likud party, whose leader, Binyamin Netanyahu, remained the most popular politician. The opposition was split between a number of parties on the right (27 members) and on the left (15 members) and thus was quite ineffective. The stability of the government coalition most likely reflected the relative improvement in Israel's security situation as well as the continued economic boom.

The improvement in Israel's security situation – demonstrated by the low number of terrorist attacks and casualties and the complete quiet on the northern border – has, of course, major ramifications on the domestic scene. Since the end of the Second Lebanon War on August 17, 2006, Hizbollah has not fired a single shot – a far cry from the renewed hostilities predicted for the summer of 2007. Its highly visible armed presence along Israel's northern border prior to the war has vanished and gone underground. During this period there were only two incidents in the north – the firing of rockets at Kiryat Shmona and Shlomi, which were executed by fringe terrorist groups and which caused no casualties or meaningful damage. In 2007, Israel's northern border was the quietest it has been for years, even though Hizbollah steadily strengthened its military capabilities beyond the border.

Not only was there no war in 2007, but the public's concerns about Israel's deterrent capability were relieved – at least vis-à-vis Syria. According to reliable foreign sources, on the night of September 6, 2007, the Israel Air Force bombed and destroyed a Syrian nuclear reactor that was allegedly built with the aid of North Korea. Although the Israeli government and the IDF have consistently refused to comment on the reports, very few doubt that the attack did indeed

take place. The fact that Israel could destroy a strategic asset in Syria without any Syrian response – the Syrians denied the existence of a nuclear reactor but admitted that Israeli aircraft had destroyed an “unimportant” target in northeastern Syria – is clear evidence of Israel’s deterrent capacity.

The relative improvement in Israel’s security situation was not limited to the north but was also manifest in the war on terrorism. The IDF, together with the General Security Service, succeeded in minimizing suicide bombings inside Israel. In 2007, there was one suicide bombing in Eilat (January 2007), in which three Israelis were killed by a suicide bomber who crossed into Israel from the Sinai Desert. In 2007, nine Israeli civilians (three in the Eilat incident, two in Sderot from Qassam rockets, and four as a result of shooting incidents in the West Bank) and four soldiers (three in Gaza and one in the West Bank) were killed as a result of terrorist activity or in combat – the lowest number since 1999.

This picture was tarnished to a large extent by the reality in Sderot and the Israeli towns and communities in the Gaza periphery. The continuing rocket and mortar assaults from Gaza have been a problem for Israel for several years. This situation escalated following the disengagement in 2005 and assumed a new dimension in June 2007 when Hamas seized the reins of power in Gaza, confronting Israel with a difficult challenge. Even though Sderot has not suffered many fatalities as a result of the rocket attacks, the daily life of its inhabitants has been severely disrupted. The effects of the ongoing assault have been significant. According to unofficial reports, more than a quarter of the civilian population has left the city, and the general mood is characterized by alienation and a sense of desertion by the government and Israeli society at large. The problem in part lies in a combination of a weak local authority, unable to mobilize inhabitants around their common plight, and a central government that is unable to resolve the specific rocket challenge. This longstanding situation presents a serious problem that may have important bearing on the resilience of Sderot’s population.

There is no question that Israel still faces serious security challenges, not least of which is the nuclear project of Iran. Nevertheless, public opinion surveys testify to a generally positive picture among Israelis in 2007. In a survey conducted in early January 2008 among a representative sample of the adult population, 75 percent stated that on the personal level the previous year was “good” or “very good.” On the personal level, the Israeli public was also quite optimistic about the future. Seventy-eight percent of the respondents expected 2008 to be a “good” or “very good” year. The overall picture, however, was not quite as rosy. When asked to assess the year 2007 on the national level, the population was divided – 44 percent believed that it was a “good” or “very good” year, while 45 percent believed that 2007 was a “bad” or “very bad” year. Regarding 2008, Israelis were even optimistic on the national level, though not to the same degree as they were on the personal level – 60 percent of the respondents expected it to be a “good” or “very good” year. Concern and anxiety at the individual level about personal security and fear of terrorism continued to decline, although it remained quite high. In 2002 (at the height of the second intifada), 92 percent of Israelis expressed concern that they or a member of their family might become a victim of a terrorist attack. This number dropped to 83 percent in 2003, 78 percent in 2004 and 2005, 72 percent in 2006, and 69 percent in 2007.

The return of Ehud Barak to the government as minister of defense heightened the sense of security in Israel. Following the Second Lebanon War, the Israeli public clearly lacked confidence in its defense leadership. Barak (a former IDF chief of staff, prime minister, and minister of defense as well as Israel’s most decorated soldier) remains a controversial figure in Israeli politics, but few question his credentials and experience as defense minister. There is good reason to assume that the return of Barak to the Ministry of Defense and to responsibility for the IDF had a positive impact on the sense of security and confidence in the IDF among most Israelis. In a poll conducted in late March 2008, 40 percent of the Israeli

public stated that their feelings of security had risen “a great deal” or “considerably” since Barak became defense minister.

The relative improvement in the security situation was accompanied in 2007 by a robust and flourishing economy, which grew in 2007 by 5.3 percent. Growth in the business sector was 6.3 percent and per capita GDP grew by 3.5 percent. Unemployment dropped to 6.7 percent, down from 11 percent in 2002, while tourism increased by over 26 percent, with 2007 the strongest year for tourism since 2000. The boom was felt in almost all sectors of the economy, albeit not in all sectors of society. Inflation remained relatively low at 3 percent (though higher than in previous years) and for the first time in over twenty years Israel ended the 2007 fiscal year without a budget deficit. The shekel remained strong, interest rates stayed low, and the country continued to attract significant foreign capital, especially investments in Israel’s growing hi-tech sector. Initial government predictions for 2008 saw continued growth (albeit at a lower rate), price stability, and a further decline in unemployment.

The Sobering Factors

At the same time, Israel did not achieve similar success in channeling its remarkable economic growth to a consolidation of inner social standing. Israel in 2007 remained a polarized society, with a significantly widening gap between the haves and the have nots. In fact, Israel is one of the leading countries in the inequality index. The socio-economic gap not only has social and political consequences, but is manifested again and again in times of crisis, as in the case of Sderot. It provides a disturbing lesson: communities that from the socio-economic and political point of view are weak find it more difficult to withstand external prolonged security pressure.

Furthermore, several less auspicious phenomena joined the many positive indicators of the 2007 domestic scene. In addition to the socio-economic schism, the demographic balance showed signs of strain. Jewish immigration to Israel was at its lowest point in the last twenty years, mainly due to the virtual cessation of immigration

from the former Soviet Union. Negative trends of brain drain became more apparent. Civil tension between different social and cultural groups remained. The most severe rift continued to be between Jews and Arabs. 2007 saw a sharpening of this divide, manifested mostly in political-ideological proclamations of leading Israeli Arabs, who for the first time introduced a vision for their community that (at least from the Jewish point of view) challenges basic principles of coexistence between Israel's Jewish majority and Arab minority. Even though this vision does not necessarily change much in terms of the daily life of most Arabs in Israel, it does reflect their political mood and growing alienation from the Jewish state they live in. This then provides an excuse for radical Jewish groups and political parties to espouse anti-Arab positions, which in turn feeds the growing tension that is perhaps still containable but is gradually becoming more serious.

Perhaps the most significant cloud on Israel's horizon since 2007 is the ongoing leadership crisis and malaise that characterize Israeli society. Israelis have not regained confidence in the establishment in general and in the political leadership in particular – confidence that was severely shaken by the Second Lebanon War. When an early January 2008 poll asked whether in case of another war people had confidence in the political echelon, 70 percent of the respondents representing the adult Jewish population answered in the negative. Interestingly, when the same question was asked regarding the military, 70 percent answered in the affirmative. At the same time, the confidence of the Israeli public in the IDF has not recovered fully from the loss suffered as a result of the last war. A poll taken in 2007 indicated that confidence in the IDF dropped from 79 percent to 74 percent (61 percent do not trust the military statements concerning defense-related items), even though the Israeli public still feels more confidence in the IDF than any in other official institution, including the Supreme Court (which dropped from 68 percent to 61 percent). Perhaps more indicative are the findings of a survey conducted by the IDF Behavioral Science Center that suggest that notwithstanding a

small rise in the motivation of Israeli youth to serve in combat units, there is a real drop – from 95 percent in 2001 to 85 percent in 2006 – in their perception of the IDF as a professional and credible organ.

The picture of late 2007 is disturbing also with regard to other components of the political mood and potential resilience of the Israeli public. The rate of dissatisfaction with the functioning of Israeli democracy was 66 percent, 12 percent higher than in the previous year. Eighty-six percent felt that the government does not deal properly with the problems of the state. These statistics suggest that Israel is facing a serious leadership crisis. It is true that the government has proved time and again its capacity to overcome successive challenges, mainly due to the prime minister's political skills. The government and specifically the prime minister succeeded in surviving the final (January 2008) Winograd report, which was anxiously awaited by the Israeli public. However, it is far from clear whether this will suffice to render the sense of leadership Israel seeks under the challenging circumstances of 2008.

Beyond the leadership crisis, other issues potentially harbor ill for the future, namely the economic situation, the security situation, and the looming internal political rift if the Annapolis process proceeds.

Israeli sources as well as the International Monetary Fund see continued albeit slower economic growth for Israel in 2008 (in the vicinity of 4-4.5 percent). However, the economic slowdown in the United States may have a debilitating effect on the Israeli economy. This indeed seems increasingly likely as the seriousness of the American recession becomes clear. By the end of March 2008, many voices in Israel were already predicting that economic growth in 2008 would drop to 2.5 percent (0 per capita growth). The economic boom was a major factor in Israeli morale, at least on the individual level. Israel's ability to deal with its social problems is also dependent upon sustained economic growth. An economic slowdown could potentially have severe social and political consequences for Israel.

The same holds true for the security situation. The stability of the government and the generally positive outlook of the public were to

a large degree due to the relative improvement in Israel's security situation in 2007. In 2008, the situation on the Gaza front has been at best shaky. It is questionable whether the Israeli government will be able to withstand the public outcry indefinitely, especially if there is a drastic change for the worse in casualty figures. In this respect, the first few months of 2008 indicated that as the situation on the Israeli–Palestinian security scene escalates, there is a growing sense that sooner or later Israel will have to react with a large scale ground attack, in order to change the situational reality. Hence, there is a strong expectation that the coming year will be far less tranquil than the past one as far as security is concerned.

The critical interrelated factor that may play an important role is the Annapolis process. The revival of the peace process would be a positive development; the Israeli public generally seeks some kind of settlement with the Palestinians – whether permanent or long term, and a two-state solution enjoys the consistent support of a clear and stable majority of the Israeli body politic. The renewal of the peace process has additional dividends, such as resumed coordination and cooperation between Israeli and PA security services. At the same time, the Israeli public remains deeply divided as to the parameters of a permanent agreement, especially regarding the core issues of borders/settlements and Jerusalem. Should the negotiations proceed and it becomes apparent that the Israeli government is willing to make far-reaching compromises, especially on Jerusalem, the great political divide that exists on this issue will rise to the surface. The intense opposition and bitter struggle that took place in Israel regarding the disengagement from Gaza and the dismantling of the Gush Katif settlements were merely a preview of what will happen if and when the Israeli government officially announces its intention to remove Jewish residents from the West Bank or to withdraw from parts of Jerusalem. Such an agreement would, in all probability, bring down the government and force new elections. It would also cast Israel into a state of severe political and social turmoil.

In conclusion, 2007 was clearly in many respects a good year for Israel and the Israeli public. At the same time, it would seem that the Israeli government and political leadership failed to translate these positive elements into a higher level of public confidence in the national leadership and may have missed the opportunity to strengthen the social and political foundations necessary to face future challenges. Thus, it is far from certain whether Israel will be able to meet the challenges of 2008 with the same degree of success.