

The Social Contract Revisited

'Loyalty Benefits' and the Welfare State

Michael Shalev

The Foundation for Law, Justice and Society

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The Centre for Socio-Legal Studies,
University of Oxford

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Executive Summary

- 'Loyalty benefits' are transfer payments designed to motivate or reward citizens for serving the state, either tangibly or symbolically. Like other transfer payments, loyalty benefits are paid directly by public agencies to individuals, they take the form of cash rather than in-kind rewards, and at least formally, they cannot be compensation for contractually supplied services. Their legitimacy is neither 'earned' by a record of contributions to social insurance, nor justified by acute economic distress or ordinary human compassion. Instead, the justification for loyalty benefits is that recipients have contributed to the collective well-being of the nation. Classic examples are benefits to soldiers and civil servants, and today, special benefits granted to political refugees. But like the trademark social insurance schemes invented by conservative welfare states, loyalty benefits may also be used as a way of reinforcing status barriers between groups, including ethnic hierarchies embodied in the collective identity projects of states.
- Loyalty benefits play an especially prominent role in Israel, due to the exigencies of war and the wider Israeli-Palestinian conflict, and as a result of the Zionist ideology of the state which justifies special incentives to Jewish immigrants and renders Palestinian citizens anomalous. An inventory of loyalty benefits reveals that they have typically accounted for about one-quarter of the total cost of cash benefits. This proportion declined slightly in the new millennium, a time of major income maintenance retrenchment, but closer inspection reveals that spending on some programmes actually continued to grow.
- Setting aside fluctuations in expenditure due to cycles of immigration and war, the Israeli experience in recent decades highlights two different political dynamics influencing the ebb and flow of loyalty benefits. In some cases, changes resulted from the dependence of coalition governments on political parties that were determined to expand or contract benefits of importance to their constituencies. In other cases, the neoliberal drive to economize played a prominent role. The Treasury was most successful in curbing loyalty benefits indirectly, by changing the rules of public finance, rather than when having to confront the political stature of groups that could claim to have sacrificed for their country.

'Loyalty Benefits' and the Welfare State

What are loyalty benefits?

It has often been noted that national crises are a fertile breeding ground for welfare state breakthroughs. For instance, the postwar development of the British welfare state has been interpreted as resulting from the war's simultaneous impact in three different spheres: politics (the empowerment of rank-and-file citizens and civil society organizations), ideology (national solidarity), and state capacities (revenue extraction and the infrastructure for delivering social transfers and services). But the aftermath of war may also be marked by targeted state responses, in the form of compensation to demobilized soldiers or their survivors. Celebrated illustrations are America's post-Civil War pensions for Northern soldiers and their widows, and the remarkable package of veterans' benefits introduced in the US following the Second World War. In both instances, war-related benefits indirectly served as a substitute for a more universal expansion of social protection.

Cash benefits in recognition of military service are the most common example of a broader class of transfer payments which may be termed *loyalty benefits*. Like other transfer payments, loyalty benefits are paid directly by public agencies to individuals, and while taking the form of cash rather than in-kind or purely symbolic rewards, but they are not compensation for contractually supplied services. In effect, cash benefits provided by the welfare state are used to reward citizens who symbolically or tangibly express loyalty – either by directly serving the state, as in the case of military service, or else by contributing in other ways to what it defines as the common good. While the rhetoric of loyalty benefits usually resonates with widely shared norms and sentiments, they are nevertheless paid in cash. This ambiguity is not accidental. By distributing rewards via the transfer system, rather than as a contractual payment, governments may seek to elevate and 'launder' the existence of an exchange relationship between the state and its citizens.

To understand the distinctiveness of loyalty benefits, consider the two goals generally attributed to the role of the state in transferring income to individuals or families. The 'transfer state' is seen either as a giant insurance company, which pools individual risks of old-age, illness, unemployment, and so forth, or else as a vehicle for narrowing the deep inequalities in income and living standards that are generated by market forces. In practice, however, at least some of the transfer payments made by welfare states cannot be justified by either of these principles. To deal with this lacuna, social policy experts introduced the concept of *categorical benefits*. These are cash benefits paid to members of socially or politically defined 'categories' considered worthy of public support. Recipients are under no obligation either to participate in covering the cost or to furnish proof of their economic distress. Some of these benefits are expressions of prevailing norms of compassion and social justice. Examples are allowances without means-testing for the physically disabled, orphans, and families with children. Other categorical benefits are designed to compensate citizens (usually women) for providing unpaid care to dependent family members – infants, the elderly, or invalids. The specificity of loyalty benefits is that they are categorical benefits that have the express purpose of rewarding citizens for serving their *country*. That is why these benefits do not require the standard normative justifications for transfer payments – to reiterate, they are neither 'earned' by a record of contributions to the social insurance system, nor are they part of the safety-net that protects citizens against severe material deprivation.

Rewarding service to the nation through the transfer payments system puts governments explicitly in the position not only of defining the common good, but also of deciding who contributes to it and who does not. This opens the way to using the system of social protection as a marker of in-group membership, not only on the boundary that separates citizens from

'aliens' (which is common to most social rights), but also by mirroring *status hierarchies* based on ethnicity, gender, etc. Politically, loyalty benefits may be exploited for state-building purposes or buying citizens' political allegiance to clientilistic ruling parties. They may also play a role in reinforcing the authority of the political regime. It has been argued that regime interests are given especially naked expression in authoritarian countries like Wilhelmine Germany or totalitarian regimes like the Soviet Union. According to Esping-Andersen, Bismarck's purpose in introducing social insurance in Germany was 'to chain the workers directly to the monarchy', while at the same time using lavish welfare provisions for civil servants 'to reward, or perhaps guarantee, proper loyalties and subservience'.¹

The 'Republican' foundation of loyalty benefits

Whether loyalty benefits are designed to uphold traditional status hierarchies or to further the political interests of states and their rulers, their legitimization is always *Republican*. In other words, political rhetoric and social norms justify loyalty benefits on the grounds that the recipients have contributed to the common good. These justifications are part of a moral economy which mandates special treatment for citizens who serve collective goals. As sociologists Shafir and Peled have pointed out,² the Republican citizenship discourse is quite different from the Liberal discourse, which mandates that rights and obligations should be minimal, and also universal (i.e. identical for all citizens). Both of these legitimating principles may be contrasted with the 'standard' approach to cash benefits in the postwar period, prior to the neoliberal era, under which benefits were either earned by paying contributions, or unilaterally granted in order to ameliorate economic or other forms of need. Both the Liberal and Republican discourses share the view that the relations between states and their citizens should be regulated by a social contract

Table 1: **Loyalty benefits compared with other types of transfer payments**

		Basis for entitlement	
		Unearned ³	Earned
Type of legitimization	Standard	Social assistance based on material need; compassionate categorical benefits	Contributory social insurance
	Liberal	Social assistance for those who cannot or should not work	Social assistance for those who try but fail to integrate into the labour market
	Republican		Loyalty benefits for those who contribute to the common good

under which rights to cash benefits are earned by fulfilling some kind of obligation. These distinctions, and the consequent uniqueness of loyalty benefits, are summarized in Table 1.

Readers may legitimately wonder whether the concept of loyalty benefits has much empirical applicability to the advanced democracies, beyond the specific case of benefits to soldiers or their families. Here it is important to remind ourselves of another applicable branch of income maintenance, which exemplifies how states may use cash benefits to compensate citizens for services rendered. According to both the International Labour Organization (ILO) and Organisation for Economic Co-operation and Development (OECD), civil service pensions – still a massive unfunded fiscal burden in some countries – are part and parcel of the transfer payments system. True, in reality this particular programme has evolved into no more than a pedestrian element of the employee compensation

3. Two variants are: (1) In what Esping-Andersen calls 'conservative' welfare states, the granting of need-based benefits is conditional on the failure of either family or community to provide support. (2) In what Dauber (referring to the liberal United States) calls the 'disaster relief welfare state', economic need is recognized as legitimate not only among the indigent but also among the ordinary people who are victims of blameless loss. Dauber, M. L. (Forthcoming) *The Sympathetic State: Disaster Relief and the Origins of the American Welfare State*. Chicago: University of Chicago Press.

1. Esping-Andersen, G. (1990). *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press, p. 59.

2. Shafir, G. and Peled, Y. (2002) *Being Israeli: The Dynamics of Multiple Citizenship*. Cambridge: Cambridge University Press.

package, but there are other examples of contemporary loyalty benefits which do perform state-building functions and do appeal to Republican symbolism. A case in point are recent efforts by the subnational Flemish authorities of Belgium to institute Flanders-only cash benefits, apparently as part of their struggle for ethnic political autonomy.⁴ A more universal illustration is benefits earmarked for political refugees, made available even in countries that generally expect immigrants to make their own way, such as the United States. The reason why governments single out political refugees for special treatment is that as 'enemies of our enemies', they are seen as contributing to our collective well-being.

The Israeli case

Given the lack of prior research on loyalty benefits, we can learn most about them by focusing on specific cases in which they play an especially visible role. The case chosen here is Israel. Compared to other Western countries with developed welfare states, Israel has several unusual characteristics. To begin with, ever since the all-out military conflict which followed its declaration of independence in 1948, Israel has been in a permanent state of war preparation punctuated by waves of terrorist activity and episodes of conventional warfare. These violent confrontations have involved both the neighbouring Arab states, and the four million Palestinians living in the occupied West Bank and Gaza. Although this paper relates only to the system of social protection in Israel proper (which is extended to almost half a million Jewish settlers in the occupied territories), one fifth of Israel's 7.4 million citizens are Palestinian Arabs. Their position is anomalous given Israel's identity as 'the Jewish state' and its strenuous efforts to attract and absorb Jewish immigrants. Given these circumstances, it is not hard to see the potential in Israel for cash benefits to be used to reward citizens singled out as contributing to the state's overarching priorities of national security and the consolidation of Jewish dominance.

Indeed, from the onset of modern Zionist immigration shortly before the turn of the twentieth century, social protection reserved exclusively for Jews was an essential component of the praxis of Jewish settlement in Palestine. Later, the segmented welfare state established after the attainment of sovereignty in 1948 offered little support for the Palestinian minority within Israel's borders, while providing numerous particularistic benefits to Jewish citizens and immigrants. To this day, the transfer payment system as a whole (though not all of its components) tends to advantage Jews over Arabs, and also has differential effects on different Jewish ethnic groups.

Loyalty benefits have played an important role in generating these outcomes, most notably when linked to either compensation for military service and sacrifice, or the absorption of Jewish immigrants. Although liberal political principles have increasingly come to limit the state's ability to be openly discriminatory, a sturdy Jewish consensus supports the Republican principle of rewarding those who contribute to Israel's security and demographic strength. For these reasons, loyalty benefits continue to appeal to decision-makers and the public alike.

What loyalty benefits are available to Israelis, how significant are they for the transfer system as a whole, and how has their relative importance evolved over time? Loyalty benefits in Israel can be conveniently subdivided under two headings. First are those that derive from the Israeli state's *collective identity project as the Jewish national home*. By far the largest financial commitment under this heading is the task of attracting and retaining Jewish immigrants. When the Soviet Union began to disintegrate, the government went to great lengths to realize the potential for the largest wave of immigration in Israel's history. Immigrants' spending power when they first arrive in the country was boosted through an 'absorption basket'. Other cash benefits include stipends that meet specific contingencies (e.g. housing subsidies), and a special old-age allowance paid to elder immigrants who would otherwise be ineligible since they have no prior history of social insurance contributions.

4. See Cantillon, B. (2010) 'Crisis and the Welfare State: The Need for a New Distributional Agenda'. Oxford: Foundation for Law, Justice and Society. Available at: <www.fljs.org/uploads/documents/Cantillon.pdf>.

A more symbolic reflection of the Israeli state's commitment to Zionism is its self-appointed role as the collective representative of the Jewish people as a whole. Holocaust survivors in Israel receive an allowance which is additional to any cash benefits paid to them by the German government. Israel also pays a monthly stipend to a small number of non-Jews, dubbed 'Righteous Gentiles', as part of its effort to honour their role in helping to save Jews from Nazi persecution. Far more significant financially than these Holocaust-related loyalty benefits are cash benefits earmarked for ultra-Orthodox Jewish men studying full-time in a *yeshiva* (institute for religious study). More than 10,000 *yeshiva* students are granted a special income support benefit because they would not be eligible for regular social assistance, which is conditional on a work test. This generosity is usually explained by the pivotal position of ultra-orthodox political parties in fragile coalition governments. However, it must also be seen in the context of the state's powerful underlying interest in supporting the religiously based linkage of Jews to the biblical Land of Israel, a core component of the legitimization of Zionism.

A second driving force behind the prominence of loyalty benefits in Israel is the state's responsibility for what may be broadly described as *managing the Arab-Israeli conflict*. This has led it to sponsor a variety of transfer payments designed either to reward citizens for military service, or to compensate casualties of terrorism or war. To begin with, the Israeli Defense Forces are based on the model of a citizens' army (even though in practice service is not universal, especially for women). Accordingly, in addition to the nominal salary they receive while performing compulsory service (not being a transfer payment, this is beyond the scope of loyalty benefits), soldiers are entitled to cash grants at the completion of their compulsory service, and to earnings replacement when serving in the reserves.

Military service also has wider repercussions. It is often one of the criteria on which non-transfer welfare state entitlements are based (for example, in the case of housing assistance), although it rarely

serves as an explicit condition for receiving cash benefits unless they are directly related to army service. A prominent exception was the 'child allowance for veterans' families', a key component of Israel's income maintenance system from 1970 until it was phased out in the mid-1990s. This programme was intended to prevent Arab citizens from enjoying the full extent of universal child allowances specifically designed to benefit large Jewish families. Since Arab citizens (other than a few small groups) are not called upon to serve in the military, they were denied the benefit. But in practice nearly all Jewish parents received the 'veterans' benefit', irrespective of whether they or their relatives performed military service.

As noted, the transfer system also provides compensation to victims of the national conflict or their survivors. Cash benefits are provided when civilians are killed or wounded by what the law terms 'hostile actions'. In addition, and far more quantitatively significant, are allowances for disabled veterans and bereaved families, which together account for 0.6% of Israel's GDP. This reflects not only the large number of beneficiaries (54,000 recipients of military disability benefits alone), but also the generosity of the benefits (which are much higher for military than non-military disabilities).

Magnitude and trends

The most reliable way of measuring the overall magnitude of loyalty benefits in Israel is to compare their cost with overall expenditure on cash benefits. Data assembled for the period 1954–2007⁵ reveal that until quite recently, the cost of loyalty benefits was typically just under one-quarter of all government spending on transfer payments. To put these figures in perspective, public support for the elderly and their surviving spouses, the largest component of the transfer payments system, typically accounts for about one-third of total spending on

5. The data for 1954–1995 were kindly made available by Professor John Gal of the Hebrew University. See Gal, J. (1998) 'Categorical Benefits in Welfare States: Findings from Great Britain and Israel', *International Social Security Review*, 51(1): 73–101.

cash benefits. On the other hand, the share of transfers devoted to loyalty benefits exceeds the combined share of the country's two most important anti-poverty programmes for the non-elderly: child allowances and means-tested social assistance.

In some years the ratio of loyalty benefits to total spending has been substantially higher than one-quarter, particularly following the wars of 1967 and 1973 and the first Intifada (1987). However, in the new millennium their weight fell by several percentage points. Since this has been a period of retrenchment for most other income maintenance schemes, the diminished significance of loyalty benefits since the year 2000 seems to imply that they have suffered deeper cuts than other programmes. In fact, however, different programmes have experienced diverse trends: either volatile, declining, or rising.

The most volatile type of loyalty benefits are those directed to new immigrants, which at the peak of the immigration wave from the former Soviet Union exceeded 2% of GDP. With declining arrivals in the current decade, outlays on benefits to newcomers have naturally declined, but this does not reflect any change in policy. In contrast, two schemes that were once very substantial have experienced unambiguous and dramatic declines. Both fall under the heading of compensation for military service. As noted earlier, in the 1990s special child allowances for veterans' families (previously more than 5% of all transfer spending) were gradually replaced by an enlarged universal benefit. Concurrently, but for different reasons, the army drastically cut back its reliance on reserve forces, and as a result the cost of the wage-replacement benefit fell from 10% to less than 2% of total spending.

Against these indications of decline, other loyalty benefit programmes have been flourishing over the last few decades. The introduction and rapid growth of cash benefits for young people after completion of compulsory military service is especially notable. Two other benefits – allowances for victims of the Nazis and compensation for death or disability due to military service – have been steadily increasing in importance.

The politics of expansion and contraction

What are the political forces that account for these shifts in the significance of loyalty benefits in Israel? Coalition politics have played a decisive role in some instances. The reason why the two-tiered child allowance system was abandoned was the dependence of the minority government formed by Yitzhak Rabin after the 1992 elections on the support of members of the Knesset (parliament) from Arab parties. Although not represented in the coalition, these parties made reform of child allowances a condition of their readiness not to side with the opposition in critical parliamentary votes. Another illustration of the role of coalition politics was the government's decision in 2003 to extend deep cuts in income maintenance to cash benefit programmes earmarked for the ultra-orthodox. This reflected the absence of parties representing this sector in the government of the time, and the prominence of the militantly secular *Shinui* party. Interestingly, its insistence that retrenchment include the *ultra-orthodox* was based primarily on nationalist Republicanism. The argument was that since most ultra-orthodox Jews were not Zionists and did not serve in the army, they should fend for themselves rather than depend on public subsidy.

A quite different set of political dynamics have developed around the interplay between loyalty benefits and the neoliberal drive to control expenditure led by the Ministry of Finance (MoF). Until quite recently the income maintenance system in Israel was stubbornly resistant to repeated attempts at major retrenchment. Under cover of a simultaneous security and economic crisis in the early 2000s, the MoF succeeded in implementing substantial cuts in key transfer programmes. However, the Treasury's retrenchment campaigns have been forced to reckon with the political strength of its opponents, who have in turn been able to tap into the political consensus that many loyalty benefits are above fiscal considerations.

A striking case in point was the success of a campaign by bereaved parents in the late 1990s aimed at obtaining more generous cash allowances. Subsequently, in response to pressure from the MoF to rein in the rising cost of military disability and

bereavement benefits, a former director general of the Ministry was appointed to head a committee to re-evaluate these benefits. The committee recommended reintroducing means-testing, cutting benefits, and adopting various efficiency measures. Although the government approved these recommendations, they have not been implemented. The lesson is that when governments distribute loyalty benefits that fuse symbolic recognition with economic gain, they also create potential pressure groups with the capacity to convert their Republican status into political capital.

The forces of neoliberalism have been more successful in engineering gradual institutional changes that indirectly diminish the cost of loyalty benefits, without the need to engage in political confrontation. This is what accounts for the massive fall in the cost of income maintenance for military reservists. As part of a broader reform package introduced in 1985 to resolve a severe economic crisis, the MoF initiated a gradual process of transferring budgetary responsibility for reserve duty benefits to the military. The Ministry of Defense was placed in the position of having to weigh the cost of benefits for reservists against the cost of armaments and other military expenditures. As a result, by 2001 the number of reserve-duty days planned by the army was less than 40% of what it had been in 1985. It is this dramatic alteration in the extent of reserve duty, rather than retrenchment of benefit levels, which explains the sharp decline in this component of loyalty benefits. Indeed, organizations representing reserve soldiers successfully demanded that service to their country be financially upgraded, winning an enhanced benefit package in 2008. In this way, Republican duty became effectively integrated with the market criteria beloved of (neo)Liberals.

Conclusion

Stepping back to view these specific rises and falls in the fate of loyalty benefits from a broader perspective on the evolution of Israel's welfare state, it is worth emphasizing that a more detailed look at specific entitlements would reveal that in recent years most loyalty benefit programmes have been

stable or increasing in coverage and/or generosity, while most other transfer payments, whether based on contributory programmes or social assistance, have experienced retrenchment. With the broader rise of market forces and decline of the public sector over the last twenty-five years, Israel has rapidly ascended the international league tables of poverty and income inequality. At the same time, most Israelis continue to cherish the idea of national solidarity and expect the state to play an active role in ameliorating inequality. This collectivist moral economy helped to legitimize past welfare state expansion and now serves as a constraint on retrenchment. From this perspective, loyalty benefits are a way of reconciling the tension between collectivism and neoliberalism.

Is Israel a special case? Certainly, the democratic states of the Western world do not actively pursue collective identity projects through the system of transfer payments, although the Belgian case mentioned earlier is a fascinating exception. However, given the strong political tensions surrounding immigration and the cultural pluralism which inevitably comes in its wake, governments may be tempted to respond by postponing full citizenship and tightening the linkage between citizenship and benefit entitlements, in effect adding a loyalty benefit component to routine income maintenance programmes. In parallel, US military involvement in Iraq and attempts to motivate soldiers by providing them with generous benefits indicates that governments have not given up on loyalty benefits as a means of motivating military service. It must also be remembered that many of the countries that have recently entered the enlarged EU, or hope to do so in the future, have histories of ethnic conflict that may be reflected in their transfer payments systems. In the developing world beyond the affluent North, loyalty benefits appear to play an even larger role. By reconfiguring our conceptualization of the welfare state to recognize the potential role of loyalty benefits, researchers and policymakers alike will be able to sharpen their perception of social policy and social politics.

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Michael Shalev teaches sociology and political science at the Hebrew University of Jerusalem, and was trained at the London School of Economics and the University of Wisconsin at Madison. Shalev's areas of specialization are political sociology, political economy, the welfare state, and social stratification. He is the author of *Labour and the Political Economy in Israel* (Oxford University Press, 1992), a history of the politics and policies of the labour movement in Israel. He has published widely on contemporary Israeli politics and political economy, and also on a variety of topics in the field of comparative politics.

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our website at www.fljs.org
or contact us at:

The Foundation for **Law, Justice and Society**

Wolfson College
Linton Road
Oxford OX2 6UD
T · +44 (0)1865 284433
F · +44 (0)1865 284434
E · info@fljs.org
W · www.fljs.org