The Overloaded Juggler-The Electoral-Economic Cycle in Israel 1951-1984

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The 1984 election results continued the patterns of competitiveness and polarization that peaked in 1981. The stiff competition between the two largest parties, the Alignment and the Likud, was reminiscent of the previous elections, but in 1984 there was a difference: in 1981 these two parties won 95 of the 120-member Knesset between them, in 1984 they won only 85 of the 120. The major surprises of the 1984 elections were the rejuvenation of smaller parties, which had suffered as a result of the concentration of the vote in 1981, and the scattering of the vote among these smaller parties. The largest among them, Tehiya, was only an eighth the size of the larger parties. The other twelve were even smaller. The two factors that had polarized the country in the past — ethnicity, and opinions about the future of the territories held since the 1967 war — were still very potent. These two factors structured the lists that competed in the elections, influenced the choice of the electorate, and affected the shape of the government coalition that resulted from the 1984 elections.

The polarized atmosphere was well reflected in the division of opinion regarding the unsuccessful attempt by leaders of other parties to challenge the right of the Progressive List for Peace (PLP) and the Kach list headed by Rabbi Meir Kahane. The issue caused a political and constitutional furor. Both lists were denied permission to run by the Central Elections Committee, but these decisions were overturned by Israel's Supreme Court. Both lists ran and won representation. The issue points up how the mainstream parties tried to cut off extreme opposition; the cooperation of the establishment parties was a harbinger of the ultimate political results of the elections. Having developed patterns of cooperation and finding themselves in a hopelessly deadlocked situation in which it was impossible for either of the big parties to form a stable coalition without the other, they finally set up the National Unity Government a few months later on a low denomination of coalition power.

From the Introduction

ELECTIONS IN ISRAEL — 1984 carries on the tradition of the four earlier volumes. Asher Arian and Michal Shamir have coordinated a team of social scientists in order to examine the 1984 campaign and analyze the results. Previous issues in this series "have become the analysis of record... The essays reflect not only the growth in political science, but also the ways in which each historical moment can bring different issues into salience" (from a review of the 1981 Elections volume by Donna Rothenberg in the American Political Science Review). Current themes addressed by the present volume include election economies, the political polarization effected by the vote for Rabbi Meir Kahane, the propaganda style of election ads, and realignment in the Israeli party system.
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In the months preceding the 1981 elections the economic policies adopted by Yoram Aridor, the newly appointed minister of finance, were the object of heated argument. While supporters labelled them “correct economics,” political foes and most academic observers criticized them as an “irresponsible” attempt to bribe voters. Many claimed that it was the first time in Israel that such massive and undisguised use of national economic resources had been made in order to attain short-term electoral goals. Allegations about “election economics” were preferred again, though in more moderate tones, during the 1984 campaign. These recurring claims give rise to a number of intriguing questions: Were “election economics” indeed implemented in 1981? And if so, was this the first time in Israel that the tools of economic policy had been used out of purely electoral considerations? From a wider perspective, does an electoral-economic cycle exist in Israel? And if so, what is its character? And finally, what are the implications of the Israeli case for the study of the electoral-economic cycle in other democracies?

In spite of the obvious importance of these questions, the electoral-economic cycle has been studied in Israel only by Ben-Porat (1975), Doron and Tamir (1983), and Radian (1984). The present work has four specific goals:
1. To bring up to date, broaden the scope, and refine the empirical examination of the cycle in Israel.
2. To propose economic indicators of the cycle that take into account the idiosyncratic characteristics of the Israeli political economy.
3. To explore the specific character and rhythm of the electoral-economic cycle in Israel.
4. To derive some theoretical generalizations about the cycle from the examination of the Israeli case.

THE ELECTORAL-ECONOMIC CYCLE AND ITS INDICATORS

Election periods in capitalist democracies are characteristically accompanied by improvements in the average standard of living of individuals, while periods following elections are generally known as times for "tightening the belt." This phenomenon has been identified by economists and political scientists as the electoral-economic cycle (Frey & Schneider 1978; Tuft 1978; Hibbs & Fassbender 1981; Alt & Crystal 1982).

Longitudinal studies have found a strong correlation between the timing of elections and the fluctuation of economic variables such as national income per capita, government expenditures and budgets, unemployment levels, the size of government subsidies, tax rates, and the like. For instance, in a study of nine industrialized democratic countries, Nordhaus (1975) detected a tendency for the rate of unemployment to decline prior to elections and to increase in the years that follow them. Similar conclusions were reached by Hibbs' (1978) examination of the fluctuations in the quantity and timing of strikes. Furthermore, studies concerning tax rates have shown that while these tend to rise over the long run, cyclical changes in marginal tax rates can be identified that are linked to the timing of elections (Brittain 1972; Tuft 1978).

In reviewing the research that has been carried out on the electoral-economic cycle, two variables stand out as being particularly prone to fluctuate in tandem with the electoral cycle: disposable income per capita and private consumption expenditure per capita. This is generally explained by the ease with which these variables can be manipulated. Incumbents are generally able to engineer sudden and drastic changes in the consumption levels and in the disposable income of individuals; other aspects of the economy may be more difficult to manipulate at will. For instance, taxes levied on income and on consumption commodities can be reduced or increased at short notice. Such direct steps seem to promise the politician worthwhile electoral gains regardless of their potential long-term impact on the national economy (Fair 1975; Tuft 1978; Frey & Schneider 1981).

Analyses of the electoral-economic cycle usually make two basic assumptions: that the average citizen will tend to vote according to short-term perceptions of personal (particularly economic) welfare and only secondarily on the basis of a rational evaluation of overall governmental performance over the entire period in office (Frey & Lau 1968; Bloom & Price 1975; Fiorina 1981).* Second, that the cycle should be understood as stemming from the competitive character of modern democracy and from the growing ability and readiness of governments to influence "freemarket" processes (Cowart 1978; Frey & Schneider 1978). Tuft's somewhat extreme statement reflects this approach succinctly: "As goes politics, so goes economic policy and performance. This is the case because as goes economic performance so goes the election" (1978, 137).

The electoral-economic cycle can also be analyzed from a radically different perspective — one that emphasizes the "reproductive" functions of the state in modern capitalist societies. Neo-Marxist scholars explain the growing state intervention in the economy as an outcome of the crisis-prone nature of advanced capitalism. The state is increasingly forced to intervene in order to discharge two crucial functions: to smooth out and encourage the process of capital accumulation and to safeguard the extant division of power in society through the legitimation of prevalent political, social, and economic arrangements (O'Connor 1973; Wright 1978; Hicks 1984). Thus, the electoral-economic cycle should be seen as reflecting the specific features of capitalist democracy. Although the capitalist-democratic state is constantly involved in the performance of its two main reproductive functions, the emphasis is transferred from legitimation prior to elections to the encouragement of capital accumulation afterwards.

THE ELECTORAL-ECONOMIC CYCLE IN ISRAEL

There are a number of economic variables that have been generally employed as indicators of electoral-economic cycle in industrial democracies. In our opinion, however, rigid application of the same variables for the study of the cycle in Israel would most certainly lead to mistaken conclusions. After all, the Israeli political-economy differs from that of other industrial democracies in many respects:

1. A commonly used indicator in studies about the cycle is: government expenditures, gross national product

(Frey & Schneider 1978; Hibbs 1982; Hicks 1984). It is presumed that in electoral years, government spending increases, while in the years

* See Efraim Torgovnik, "Ethnicity and Organizational Catchall Politics," for a deeper analysis of this assumption.
following elections it decreases. In the Israeli case the use of this indicator would be misleading from the outset: first, a large part of government expenditure in Israel is directed to military purposes. Three out of ten election campaigns were conducted in times of war when military outlays, and therefore total government spending, were particularly large in comparison with the preceding period. On the assumption that the wars were not fought for the purpose of making short-term electoral gains and that their coincidence with elections was unintended, then the specially large military expenditures in those years must be seen as an exogenous variable unrelated to the electoral cycle. Second, reported government expenditures in Israel do not include most of the disbursements associated with the activities of government-owned companies, nor those of major public institutions such as the Jewish Agency and the Institute for National Insurance. These activities, however, have an important influence over the citizens’ welfare.

2. Many studies rely on the size and composition of the government budget as indicators of the electoral-economic cycle (Cowart 1978; Frey & Schneider 1978; Golden & Peterba 1980; Mowery et al., 1980; Pritchard 1982; Hicks & Swank 1984). In the case of Israel the use of data on the budget would be highly problematic for two reasons. The law in Israel allows the presentation of additional budgets during the budget year and authorizes the government to actually spend more than the budget formally warrants through what is called “permission to make commitments” (Wainshal 1972; Fuchs 1975). Second, the high inflation rates prevailing in Israel make it particularly difficult to decide by which price budgetary expenditures should be measured (Larot 1979; Razin 1980).

3. Relative to other industrialized nations, the Israeli economy is small and imports constitute a large part of the national product. Therefore, the prices of imported goods have a particularly powerful impact on the living standards of individuals (Klinov-Malka & Halevi 1968; Michaely 1971; Halevi 1979). This offers incumbents unusual opportunities for manipulation of economic tools such as the official rate of exchange and import taxes. These variables are not to be found in the literature on the electoral-economic cycle, which deals mainly with economies less dependent on imports than Israel.

4. The Israeli economy differs from other industrial democracies in the degree to which it relies on direct foreign aid. Foreign aid levels directly and strongly affect every aspect of economic activity in Israel. Thus, in spite of the fact that the size of foreign aid is only partially under the control of incumbents, it can have a substantial effect on the living standards of voters. The implications of this special situation are crucial. For instance, one has to consider the possibility that increased levels of private consumption and imports in election years are the result of coincidental increases in net transfer payments from abroad and not the product of the implementation of “election economics.”

5. During its brief existence, Israel has had to absorb an unusually large number of immigrants. In specific periods they constituted a significant addition to the Israeli labor force (Bahrul 1965; Klinov-Malka 1975). Because immigration waves are certainly not under the control of incumbents, the use of employment rates as an indicator of the electoral-economic cycle in Israel would not be appropriate.

INITIAL HYPOTHESES

In light of the issues discussed above, we decided to examine three initial hypotheses concerning the relationship between the timing of elections and the behavior of a number of economic variables. (For definitions of the variables employed, see Appendix A.)

1. There is a positive correlation between the average rate of growth in per capita private consumption over half-terms of the Knesset since 1951, and the location of the half-term relative to the date of elections. Simply put, the rate of growth in private consumption per capita in the first half-term of the Knesset after elections is less than its rate of growth in the second half-term of the same Knesset preceding the next election date.

2. On a yearly basis (1951–84) there is no correlation between the rate of growth in private consumption per capita and net transfer payments to Israel. Thus, short-term changes in private consumption per capita do not depend on the level of foreign aid.

3. The fluctuations of the real effective exchange rate for imports1 on a yearly basis from 1951 to 1984 are influenced by the timing of elections. In election years its rate of change decreases and after the elections it increases. In other words, the rate of change in real prices of imported goods (each year in comparison to the preceding one) tends to increase or decrease in accordance with the electoral cycle.

HAS THE CYCLE IN ISRAEL COME TO AN END?

In 1975 Yoram Ben-Porat published a pioneering article that disclosed the existence of an electoral-economic cycle in Israel, through a comparison of
the average rate of growth in private consumption per capita over half Knesset terms from 1951 to 1973. His data showed that in five out of six Knesset terms (the exception was the fifth Knesset, 1961–65) the rate of growth increased in the second half of the term (which precedes elections), compared with the first half. Moreover, Ben-Porat’s comparison between the growth of private consumption per capita (reflecting individual welfare) and that of the Gross National Product per capita (reflecting national economic capabilities) over the same Knesset half-terms respectively, revealed that with the exception of the seventh Knesset (1969 to 1973), “most of the time GNP moved in parallel to private consumption or the other way around” (Ben-Porat 1975). The fact that during the second half of the seventh Knesset (1971–73) private consumption per capita rose while the GNP per capita declined, only substantiates Ben-Porat’s conclusion that an electoral-economic cycle is at work in Israel. Thus, prior to the 1973 elections, consumption increased beyond the “real capabilities” of the economy.

A re-examination of Ben-Porat’s data (1951–73) reveals that in all of the Knesset terms he examined, and not only in five out of six as claimed, the rate of growth of private consumption per capita increased in the second half of the term. Similarly, in two Knesset terms, the fifth (1961–65) and the seventh (1969–73) and not just in one, GNP per capita declined in the second half of the term, in contrast with the increase in consumption over the same period (see figures 1 and 2). These findings seem to corroborate Ben-Porat’s (1975) conclusion that: “The systematic difference between the rate of growth in the past and pre-election period is glaring and probably nothing more needs to be said.” Our research, however, indicates that the situation is not as clear-cut as that.

In updating Ben-Porat’s data, rather unexpected results were obtained (see figures 1 and 2): the electoral-economic cycle over Knesset half-terms disappears after the 1977 elections. Furthermore, in the course of the last two Knesset periods, the ninth (1977–81), and the tenth (1981–84), the cycle, as identified by Ben-Porat, reverses itself. The rate of growth in private consumption per capita in the first half-term of the Knesset is greater than the rate of growth in the second half (prior to elections), while the trend of GNP changes is exactly the opposite. It looks as though incumbents were attempting to raise the GNP level prior to elections without simultaneously increasing private consumption. Such behavior does not conform with assumptions concerning the electoral motivations of incumbents’ policymaking.

Can it be concluded, then, that since 1977 electoral considerations
ceased to play an important role in the calculations of incumbents and were substituted by "responsible" economic policymaking? Did the 1977 elections mark the end of the electoral-economic cycle in Israel? In the sections below we will show that the answer to these questions is unambiguously negative. The electoral-economic cycle has not vanished. It has only changed its character.

FIGURE 3
Annual Rate of Growth of Private Consumption Per Capita, 1973–1984

Note: Quantity changes. Each year in comparison with the preceding one (1980 prices).
THE NEW FACE OF THE CYCLE

In reviewing the rate of growth of private consumption per capita on a yearly basis instead of over Knesset half-terms, it transpires that the cycle did not disappear. On an annual basis, the electoral-economic cycle was also manifest in the ninth Knesset period (1977–81), though not in the tenth (1981–84) (see figure 3). Actually, in 1981 (election year) there was an unusually large increase in private consumption per capita (8.9%). Moreover, 1981 was unprecedented in terms of the difference between the rates of growth of private consumption per capita in that year and the preceding one—some +14 percent (from −5.2% in 1980 to +8.9% in 1981). This drastic increase in living standards came after a parallel decline of nearly 11 percent in 1980 (from 5.4% in 1979 to −5.2% in 1980). The severeness of these fluctuations largely explains the sudden welfare felt by the public prior to the 1981 elections. Thus, Aridor’s “election economics” were not an optical illusion.

In the tenth Knesset period (1981–84), unlike the preceding one, the electoral-economic cycle was not even an annual affair. In fact, during 1984, the election year, private consumption per capita declined by 7.1 percent after consecutive increases of 5.1 percent in 1982 and 1983, respectively. Thus, one could easily conclude that the cycle has finally ceased to operate. However, a quarterly analysis of private consumption per capita during 1984 reveals the presence of the electoral-economic cycle once again (figure 4). In the second quarter of 1984 private consumption revived (from a 5.2% decrease in the first quarter to a 4.4% increase) and it sharply increased in the third quarter (9.7%), precisely when the elections were held. The overall annual decline in private consumption in 1984 stemmed from the drastic fall during the last quarter of the year (−15%) and from the moderate decline in the first quarter.

Corroboration of the quarterly pattern of the cycle is provided by the changes that occurred during the year 1984 in the prices of government-controlled (subsidized) commodities, as well as in wages. Real prices of controlled commodities decreased from the beginning of March to the end of July (the election month) by approximately 15 percent, while real wages increased 14 percent in the last three months before the election, reaching a peak for the year in July (figures 5 and 6).

The novelty of the quarterly pattern depicted above does not lie in the fact that changes in private consumption occur in the months close to elections. This happened many times before. The radical difference between the behavior of the cycle in the 1981–84 Knesset term and in those that preceded it is that in the last Knesset term the cycle manifested itself
"only on a quarterly basis, while in the past the changes associated with the cycle occurred also on a yearly (1977–81) or on a Knesset half-term basis (1951–77). Furthermore, the severeness of the quarterly changes has risen drastically because they have been compressed into a very short period of time instead of being spread over longer time spans. Thus, the sharpening of the quarterly fluctuations became apparent already in the 1977–81 term when the cycle ceased to be a Knesset half-term phenomenon.

Finally, although we have shown that the fluctuations in private consumption per capita over half-terms of the Knesset, consecutive years and quarters fit well with the electoral cycle, it could be argued that this is only a coincidence, and that the fluctuations stem from another source. One major intervening factor could be the level of net transfer payments to Israel. However, a statistical examination of the relationship between the rate of change in private consumption per capita and the rate of change in net transfer payments to Israel showed that there is no connection between the two variables ($r = -.05$, Pearson test). This finding reinforces the assumption that the fluctuations in private consumption per capita have a political character.

**IMPORTS AS “CARROTS”: THE REAL EFFECTIVE EXCHANGE RATE FOR IMPORTS AND THE CYCLE**

One of the indicators of the electoral-economic cycle in Israel offered by Ben-Porat (1975) was the timing of Israeli currency devaluations:

In following the timing of discrete policy decisions one can observe a fairly consistent pattern. Thus, for example, of the seven devaluations that took place in the period (1951–1974) the closest that one ever came to preceding an election was eighteen months.

The use of devaluation dates as an indicator of the electoral-economic cycle in Israel is extremely problematic. From 1975 until October 1977, large one-time devaluations were substituted by incremental ("crawling") ones. Thus, since 1975 devaluation dates become virtually useless as an indicator of the cycle. Moreover, since October 1977 (when the Likud government introduced "liberalization" measures), foreign currency exchange rates changed daily in response to "supply and demand" forces. More importantly, however, the official rate of exchange constitutes only one of the factors determining import prices. Two additional domestic determinants of the real prices of imports are the taxes levied on them and
the domestic price level. Because the voters' living standards are affected by the real prices of imports and not just by the official exchange rate, it is essential to scrutinize the cycle through the use of the real effective exchange rate for imports (see Appendix B), which takes into account the three factors mentioned above. This is particularly crucial in periods of high inflation. In such periods the rapid changes in the official exchange rate do not reveal, by themselves, whether the local currency has in fact been devaluated or revaluated. That is, they do not tell us enough about the real capability of voters to buy imported goods. The same applies when frequent changes in import taxes are the rule.

FIGURE 6
Wages Relative to Consumer Price Index
October 1983-December 1984

<table>
<thead>
<tr>
<th>Index of Wages Relative to CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>115</td>
</tr>
<tr>
<td>110</td>
</tr>
<tr>
<td>105</td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>95</td>
</tr>
<tr>
<td>90</td>
</tr>
<tr>
<td>85</td>
</tr>
</tbody>
</table>

1983 1984 Year

SOURCE: Bank of Israel Annual Report, May, 1985
NOTE: Monthly averages (January 1982=100).

The data reported in figure 7 (for formula of calculation see Appendix B) reveals that in seven out of nine Knesset terms the rate of change in the real effective exchange rate for imports behaves in accordance with the following cyclical pattern: It declines in election years (the exceptions being 1959 and 1984), while an upward "correction" policy is implemented after the election, usually during the third year of the following Knesset term (this occurred in 1954, 1964, 1968, 1972, 1976 and 1980).

During 1984, and in seeming contrast to the expected behavior of incumbents in an election year, real prices of imports rose on a yearly basis. A simple explanation for this "irregularity" is that 1984 was supposed to be the correction year in a normal four-year electoral cycle. It could be argued that because the elections were abruptly decided upon, incumbents did not have sufficient time to manipulate the real effective exchange rate for imports, thus keeping intact the normal pattern of the cycle. A closer scrutiny of the 1984 election year, however, renders a more interesting and complicated picture.

<table>
<thead>
<tr>
<th>YEARS AND QUARTERS</th>
<th>Quarterly Effective Real Exchange Rate for imports</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982 Oct.-Dec.</td>
<td>0.898</td>
<td>-5.0</td>
</tr>
<tr>
<td>1983 Jan.-Mar.</td>
<td>0.853</td>
<td>-5.5</td>
</tr>
<tr>
<td>1983 Apr.-Jun.</td>
<td>0.806</td>
<td>-2.6</td>
</tr>
<tr>
<td>1983 Jul.-Sep.</td>
<td>0.911</td>
<td>10</td>
</tr>
<tr>
<td>1983 Oct.-Dec.</td>
<td>0.911</td>
<td>10</td>
</tr>
<tr>
<td>1984 Jan.-Mar.</td>
<td>0.914</td>
<td>0.0</td>
</tr>
<tr>
<td>1984 Apr.-Jun.</td>
<td>0.871</td>
<td>-4.7</td>
</tr>
<tr>
<td>1984 Jul.-Sep.</td>
<td>0.899</td>
<td>2.0</td>
</tr>
<tr>
<td>1984 Oct.-Dec.</td>
<td>0.925</td>
<td>2.9</td>
</tr>
</tbody>
</table>


* Estimate.

While in 1984 the real prices of imports rose, a quarterly survey of the real effective exchange rate for imports shows that as soon as elections were decided upon, the sharp rise in the rate that occurred during the second half of 1983 (13%) was halted (table 1). In the first quarter of 1984 the rate remained constant. During the second quarter, just prior to the elections, real import prices decreased 5 percent; immediately following the elections the upward trend of the rate was reestablished. It can be concluded, then, that the fluctuations of the real effective exchange rate
for imports are affected by the timing of elections. Until 1984 they followed a yearly pattern. In 1984 the cyclical behavior of the rate, just like that of the growth in private consumption per capita, could be disclosed only on a quarterly basis.

THE "VANISHING CYCLE": THE THEORETICAL IMPLICATIONS

In this article we have provided strong evidence concerning the cyclical nature of changes in a number of critical economic variables as they respond to electoral constraints. Changes in per capita private consumption and in the real price of imports were found to correlate strongly with the periodic occurrence of elections and to fit suspiciously well with the political interests of incumbents. Regarding the last elections (1984), we carried out a month-by-month examination of two additional variables: real wages and real prices of government-controlled commodities. Changes in these variables followed a similar pattern.

The most striking and puzzling aspect of our findings concerns the seemingly elusive character of the electoral-economic cycle in Israel. Our research unveils its changing pace and abruptness, from Ben-Porat's half-term periods to a yearly pattern, and lately to cyclical behavior that can only be detected on a quarterly basis. Changes in the relevant variables since 1977 began occurring over shorter periods of time. If before then, for instance, increases and decreases in the rate of growth of private consumption per capita were spread either over two years (up to 1977) or over a year (up to 1981), in the last term (1981-84) they were squeezed into a small number of months. Thus, the electoral-economic cycle did not vanish, it only sharpened.

How can the pattern we have disclosed be explained? Here we can offer only a possible line of explanation, which demands further research — preferably comparative — in order to prove its validity: like the juggler who gradually increases the number of objects kept simultaneously in motion by alternately tossing and catching them, Israeli politicians have found themselves forced to "juggle" (ever more rapidly) with an increasing number of "balls." Up to 1977, incumbents (all of whom belonged to the Labor movement) were in a comfortable position. The political hegemony they enjoyed allowed them to use the economic levers at their disposal at a relatively leisurely pace. Cautious manipulation of economic variables was thought to be sufficient. The 1977 elections drastically changed the rules of the game. The clear superiority of one party was substituted by a more equal competition between the two large parties. In addition, the Israeli economy since 1973 has been in the grips of an increasingly severe crisis.
These transformations seem to have had a powerful impact on the behavior of the incumbents. On the one hand, the sense of electoral threat has become acute and with it their inclination to engage in increasingly severe and sharp handling of economic variables. On the other hand, the critical situation of the economy forces the compression of "election economics" into shorter time spans.

In our view, then, this "overloaded juggler" phenomenon could be understood as stemming from structural constraints that compel the Israeli politician in the last decade to engage in a specific mode of action, namely, sharpening and shortening the electoral-economic cycle. Thus, the seemingly radical differences between Likud's "electoral-economics" and that of Labor may be the result not of ideological differences, personal idiosyncrasies or unequal concern for the "national interest," but of changes in the political-economic environment in the last ten years.

To conclude, our examination of the Israeli case generates two interesting theoretical insights concerning the nature of the electoral-economic cycle in mixed-economy democracies:
1. As political competition between incumbents and opposition becomes tighter, there will be a tendency for the changes associated with the cycle to become sharper.
2. As economic constraints on the incumbents multiply, the spans of time in which the economic variables are manipulated will tend to shorten.

**APPENDIX A**

**Definition of the Variables**

1. The independent variable is the electoral cycle, which is defined as the period of time between election dates, over the years 1951-1984.
2. Dependent variable A is defined as the average rate of growth in private consumption expenditure per capita over half-term of the Knesset. For instance, for the second Knesset, which served from 1951 to 1955, the average rate of growth in private consumption per capita over the first half-term would be calculated in 1980 prices as follows:

   \[ \text{rate of growth in private consumption per capita, 1951–52} \]

   \[ + \text{rate of growth in private consumption per capita, 1952–53} \]

Dependent variable B is defined as the rate of change in the real, effective exchange rate for imports (each year in comparison to that preceding it). For instance, the change in the real, effective exchange rate for imports from 1951 to 1952 would be:

\[ \text{real effective exchange rate for imports in 1952} \]
\[ \text{minus real effective exchange rate for imports in 1951} \]

\[ \text{real effective exchange rate for imports in 1951} \]

3. The control variable is defined as the rate of change in net transfer payments to Israel (each year in comparison to the preceding year). For instance, the rate of change in net transfer payments (in millions of constant dollars) to Israel from 1951 to 1952 would be:

\[ \text{net transfer payment to Israel 1952} \]
\[ \text{minus net transfer payments to Israel 1952} \]

\[ \text{net transfer payments to Israel 1951} \]

**APPENDIX B**

*The Real Effective Exchange Rate for Imports*

The official exchange rate alone does not determine import prices in Israel. To illustrate; the Israeli consumer who wishes to purchase imported goods realizes (a) that their prices in foreign currency are much higher than they are abroad because of taxes levied on them, and (b) that if the rate of devaluation of domestic currency is lower than the inflation rate, then their prices in real terms will also be lower (as happened during 1981 just prior to elections). The real effective exchange rate for imports takes these two factors, in addition to the official exchange rate, into account.

The real effective exchange rate for imports in this article was calculated according to the following formula:

\[ \text{Real Effective Exchange Rate for Imports} = \frac{P^* \cdot E(1 + t)}{P_u} \]

where:

- \( P^* \) — Prices abroad
- \( E \) — The official exchange rate
- \( T \) — Weighted average of taxes levied on imports
- \( P_u \) — Index of prices derived from domestic uses
It should be noted that when the official rate of exchange remains constant and the level of domestic prices increases, the real effective exchange rate for imports declines. This is also true when taxes levied on imports decrease. If $P_e$ and the official rate of exchange increase simultaneously, then as long as the rate of increase in the official exchange rate is lower than the rate of increase in domestic prices, the real effective exchange rate for imports decreases.

NOTES

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1. The real effective exchange rate for imports takes into account the official exchange rate, taxes levied on imports and the domestic price level (Michaeli 1971). For a detailed explanation of this variable see Appendix B.

2. During the 1973–1977 period the Labor government was, for a number of reasons, particularly cautious in its manipulation of economic variables. The economic and legitimacy problems created by the Yom Kippur War and a series of corruption incidents associated with Labor leaders all contributed to the reluctance of the incumbents to carry out "election economics." Perhaps this had an impact on the election results.

3. In 1981 the Labor Alignment received 36.6 percent of the vote and the Likud 37.1 percent; in 1984 the respective percentages were 34.9 and 31.9.

REFERENCES


