A Comparative Analysis of the Privatization Efforts of Israel and Saudi Arabia

A common symptom of an increasingly globalized economy is the attempted restructuring of particular national economies that results from fears of being left behind. Liberal economic policies characteristic of the industrialized western nations often set the pace, as other, less developed nations attempt to replicate the free market systems that are credited with their economic successes. It is arguable, however, that these western nations experience success under these systems because they were historically primed for success; the organization of their social and political systems in ways that support this economic structure are what make it successful, not the system operating on its own. Nations not formed with the same capitalist ends in mind will likely not experience the same successes under similar economic systems. The privatization campaigns taken up in recent years by Israel and Saudi Arabia are unlikely to be entirely successful due to the political histories of each nation.

Saudi Arabia’s history as a nation and its current political organization do not align well with its goals of privatization. The modern Saudi state owes its organization to its creation out of a tribal sheikhdom.\textsuperscript{1} The hierarchical structure of political authority was determined mostly upon the relationships between a few individuals. The political power of the sheikhs was built upon their tribal origins and personal qualities, as well as their relationships with the merchant classes, which often supplied the sheikhs with the financial support and resources necessary to protect the tribe. Their political regimes were sustained through patronage practices; loyalty was guaranteed

through the bestowal of gifts taking the form of currency, resources, or favors. The sheikhs were central to their societies; they assumed a paternalistic role and were charged with the well-being of their tribes, and the assurance of justice, safety, and unity within the societies.

The present-day Saudi ruling class claims relations to sheikh Abd al-Aziz Ibn Saud, whose conquest of the region in 1932 is considered to be the beginning of the third and current Saudi kingdom. As the world petroleum market developed, the elite members of the tribal society were able to claim virtually sole ownership of the newfound assets, and their power was further solidified by the process of modern state building that positioned these elite as formal rulers of the region. Notably, Ibn Saud’s hurry to unite his kingdom in the Arabian Peninsula after World War I drove him to attempt the introduction of Western technology and methods of administration. He coordinated with the representatives of the British government in the region, likely setting a precedent for the future liberalization of the Saudi economic system. Formal institutions that directed oil revenues into the government were created, further enriching the bureaucrats that gained their positions through their relationships to the ruling Ibn Saud family. The legitimacy of the Saudi regime is contingent upon this historical relation. Even with institutions of modern public administration, the early tribal forms of Saudi society persist. In consequence, the Saudi administrative system is highly clientelistic and variable, with public services and resources granted on a basis of personal favors and loyalties. Saudi elites often use financial authority to build personal bureaucratic allegiances, and distribute resources as favors based on these personal allegiances.

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2 Biygautane, et al., 108.
4 Biygautane, et al., 103.
5 Abir, 151-152.
6 Abir, 153.
7 Biygautane, et al., 108.
In recent years, Saudi Arabia has been experiencing significant financial strain. The nation is dependent upon its oil exports, which constitute approximately eighty percent of its total revenues. For a while, the Saudi Arabian economy was the fastest-growing in the Middle East; in eleven years, it jumped eight spots on the list of the world’s largest economies. For a brief golden period, Saudi Arabia eliminated its national debt, created almost two million jobs, and increased its average household income by three-quarters. All of this was driven by government spending. Since mid-2014, however, oil prices have been dropping sharply.\(^8\) The unemployment rate among the Saudi Arabian youth reached thirty percent in 2014, at which point the nation’s budget deficit began a steady growth curve.\(^9\)

In response to the financial crisis, the Saudi government produced Vision 2030, a plan that proposes significant reforms for the Saudi economy. Privatization is defined in Vision 2030 as “the process of transferring the ownership or management of public establishments, projects, and services from the government sector to the private sector.” These reforms include the privatization of state-owned enterprises and the sale of state assets to reduce the fiscal turmoil the nation is experiencing.\(^10\) Although the Saudi government is reluctant to admit it, it is also likely that the push towards privatization is in part compelled by organizations such as the World Trade Organization and the International Monetary Fund. Saudi Arabia’s membership to the World Trade Organization set the stage for more liberalized economic policies, such as freer trade practices. Additionally, the International Monetary Fund has encouraged Saudi Arabia to restructure its economic system to redirect the allocation of resources within the nation, as well

\(^8\) Bahgat, Gawdat, “Lower for Longer: Saudi Arabia Adjusts to the New Oil Era” (Wiley Online Library, Middle East Policy, 9 Sept. 2016), 39.
\(^9\) Biygautane, et al., 99.
as incentivized the kingdom to ready itself for privatization, for quite some time.\textsuperscript{11} Pressures from institutions with historical roots in western tradition have encouraged Saudi Arabia to move in a direction that falls in line with their own economic traditions, seemingly ignoring Saudi Arabia’s unique national history and the effects it may have on the effectiveness of these strategies.

The sectors slotted for privatization include many public services such as desalination and waste collection\textsuperscript{12}, as well as bigger-ticket items such as shares in the national oil company, Saudi Aramco.\textsuperscript{13} Vision 2030 is almost entirely based upon the recommendations made in a report prepared by American consulting firm McKinsey & Company.\textsuperscript{14} It appears unlikely that the McKinsey report fully appreciated the distinctive history of the Saudi system. Considering Saudi Arabia’s “public” assets are already managed as if they were privately owned, the actual privatization of these assets is seen as a threat by many bureaucrats who have enjoyed control of the state-owned enterprises for years. A 2007 field survey observes that the implementation of the privatization program has been moving extremely slowly because of the reluctance of employees in many of these public sectors to adopt changes.\textsuperscript{15} This is largely attributed to the fears of higher-up officials in these sectors that their jobs and secondary revenues may be outsourced.\textsuperscript{16}

Beyond this, the liberalization of Saudi Arabia’s economy may even present a threat to the political legitimacy of the ruling class. Saudi sheikhs command authority through their family history of providing benefits in return for loyalty, and this has not changed through the years.

\textsuperscript{11} Akoum, 434.
\textsuperscript{12} Akoum, 430.
\textsuperscript{13} Bahgat, 44.
\textsuperscript{14} Biyga'utane et al., 100.
\textsuperscript{15} Akoum, 431.
\textsuperscript{16} Akoum, 436.
The reduction of the Saudi ruling class’s ability to provide financial incentives as a way to consolidate power will undermine support for the nation’s current political administration. Market-based reforms on the Western model will most likely be more harmful than helpful to the current Saudi regime.

Israel’s privatization prospects are an extreme departure from the national ideologies established during the state’s formation. Zionist thought originated from the understanding that anti-Semitism was a collective experience; no individual Jew was persecuted, but rather Judaism itself was the target. The prevalence of nationalist sentiments, anti-Semitism, and revolution in Europe during the late-nineteenth and early-twentieth centuries simultaneously excluded and inspired European Jews.¹⁷ This necessitated the development of a refuge for all Jews, or a specifically Jewish nation. The political party that led Israel into statehood, the Histadrut or Labor Party, argued for the nation as the foremost concern of the Jewish people.¹⁸ The Revisionists, constituting the largest threat to the Histadrut’s political hegemony, were staunchly nationalistic, and viewed any additional political views as impure and contrary to the ultimate goal of the foundation of a Jewish state. They even considered the socialist sentiments of the members of the Labor Party to be unholy, calling the ideology a “shaatnez”, the Hebrew term for the impious mixing of fibers in a garment.¹⁹ Revisionists additionally did not believe class distinctions should be present in the new Jewish state; they insisted on the relegation of many institutions and functions to “national” hands, as opposed to the stronger economic contenders.²⁰

¹⁸ Cohen, viii.
¹⁹ Cohen, viii.
²⁰ Cohen, 7.
This sentiment carried over even as the Revisionists lost their hold over the newly-forming nation.

The Histadrut’s strain of Zionism centered around loyalty and duty to the Jewish state, and the reciprocation of that loyalty by the state to its people. It was expected that the nation of Israel would care for its people, who dedicated their lives to its establishment. Per Zionist thought, Jews and the state of Israel are considered to belong to each other. In his address to the conference of Mapai in May 1958, Ben-Gurion stated that in Israel, Jews were given the chance to choose the character of their nation, and mold it as they saw fit. The ideal “new Jew” was “rooted in the soil of the homeland…” and completely integrated into the society of Israel.\(^\text{21}\) The first leaders of modern Israel held collectivism and socialism as core values; the nationalization of the private sector constituted an ultimate economic goal for the new nation.\(^\text{22}\) As Israel spent time under the British Protectorate, however, it absorbed certain liberal democratic ideals that accompanied the British system, transferring these alternate strains of thought to the political elite and some of the wider population.\(^\text{23}\) Even so, for much of Israel’s history, the government has continued to provide a significant number of social services to its people. The Israeli government, for a majority of the time under the control of the Histadrut, played primary roles in networks of social service organizations, as well as economic sectors such as agriculture, construction, and transportation.\(^\text{24}\) The modern state of Israel was built on a foundation that intrinsically linked the land and nation to the Jewish people.

Israel is currently experiencing a drive towards privatization that can be attributed to financial and ideological pressures. Israel’s mixed welfare economy involves the coexistence of

\(^{21}\) Cohen, 2.
\(^{22}\) Rubin, Aviad, “Political- Elite Formation and Transition to Democracy in Pre- State Conditions: Comparing Israel and the Palestinian Authority”, Government and Opposition (Wiley/Blackwell (10.1111), 9 June 2009), 271.
\(^{23}\) Rubin, 271.
\(^{24}\) Peled, Yoav, Civil Society in Israel, (Palestine-Israel Journal, 31 Aug. 2005), 1.
governmental services alongside private organizations; because of this, privatization does not mean detaching the nation’s enterprises from a monopolistic government hold, but reducing the responsibility of the Israeli government for attending to the needs of its citizens. The nation’s privatization policy is premised on the assumption that the goods and services previously provided by the government could be provided more efficiently and less corruptly by the private sphere. Unlike Saudi Arabia, it is also suspected that pushes for privatization are fueled by elite social groups who stand to gain from a shift in the economic status-quo of the nation.

The increased influence of the neoconservative Likud party beginning in the 1980s sped up the momentum of the privatization efforts and introduced policies that would limit the government’s role in the day-to-day activities of its citizens. Moreover, Israel adopted a more capitalistic economic agenda. The change from a stringently communitarian outlook on public duty to a more individualistic, neoliberal view created complications in the boundaries between the public and private sectors. This economic philosophy, that the nation must reduce its role in the domestic economy to survive in a changing global economic order, is shared even by current leaders in Israel’s Labor Party. Surprisingly, even a majority of the kibbutzim (communal agricultural settlements) and moshavim (cooperative living areas), both fundamentally Zionist and collectivist projects, underwent privatization during periods of economic and ideological duress in the 1960s.

27 Doron and Karger, 89.
29 Doron and Karger, 89.
30 Galnoor, 344.
These shifts of industries from the public sphere to the private are not grounded in the history of Israel or its present-day needs. After all, Israel is a small nation that is not structured for the dispersal of social services. The responsibility of care for its people has been shouldered by a single centralized authority for the entirety of the nation’s existence, and there are not smaller, regional entities that can take on the burden if the outsourcing of these services made them less accessible to the Israeli people.\textsuperscript{31} The reduction of women’s welfare benefits at the end of the twentieth century forced the creation of non-governmental civil society organizations that left women with fewer resources and reinforced the patriarchal societal order that Israel claims to want to transcend.\textsuperscript{32} In 2004, the Israeli Finance Ministry proposed the privatization of Israeli prisons, an arrangement that can not guarantee the rights of prisoners, and would subject them to an increased likelihood of abuses.\textsuperscript{33} Even further, the Likud-led liberalization efforts beginning in the 1980s created policy in response to critiques about the limitation of rights under a more privatized system that actually hindered its social welfare legislation. The “Human Dignity and Freedom” and “Freedom of Occupation” laws not only limited the rights of Palestinians (which might seem conducive to Zionist goals), but also limited the guarantee of social rights to Jewish Israeli citizens. These laws were touted for their language that allowed the judicial review of primary legislation for the first time, but the power to review was granted only to the Supreme Court, shifting the power from the elected judiciary to the non-elected.\textsuperscript{34} The equal involvement of every citizen in national affairs was one of the ultimate goals of the leaders who formed the nation. The state of Israel was founded upon a desire by the Jewish diaspora to find a place where they would be free from abuse and persecution on the basis of their religion and ethnicity.

\textsuperscript{31} Doron and Karger, 90.
\textsuperscript{32} Almog-Bar and Ajzenstadt, 675.
\textsuperscript{33} Galnoor, 347.
\textsuperscript{34} Peled, 2.
To create systems of operation that reduce a citizen’s ability to claim their full rights would be contrary to the initial goals of the nation.

Additionally, the idea of paying out-of-pocket for social services is foreign to most Israelis.\(^{35}\) In comparison to many western nations operating in a primarily free market economy, the Israeli individual operates at a relatively low level of commodification. It is unlikely that administrative changes such as these would sit well with the Israeli population, and such reform would likely inspire significant backlash when put into practice. Even further, the sociopolitical climate of Israel has historically been one that centers around the relationship of the Jewish nation to its people. The state was founded and developed upon an ideal of collectivism, and that ideology is still being instilled into the Israeli people. The individualistic nature of the neoliberal, free market economic order that is supported by the privatization of public services is adversarial to the fundamentals that provided the basis for the establishment of the state of Israel.

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The tribal origins of the Saudi political system and the Zionist foundations of the state of Israel create complications for the nations as they attempt to privatize their national activities. Resistance from Saudi bureaucrats who feel that their personal financial interests would be threatened by the movement of public services and resources to the private sphere could sidetrack Saudi reformatory efforts. Israeli citizens who have been historically well cared for by their government would also present obstacles for the nation’s liberalization strategies. The most noteworthy conflict, however, is between the foundational ideals that formed each nation and the philosophies that accompany a neoliberal, free market economic movement towards privatization. The Saudi Arabian ruling class derives its power from its control and selective

\(^{35}\) Doron and Karger, 90.
distribution of the nation’s resources; to outsource Saudi Arabia’s assets would undermine the authority of its leadership. Israel was founded upon ideals of a Jewish collective. The nation was expected to care for its citizens in return for loyalty and labor. Ultimately, the privatization campaigns of each nation are not likely to exhibit success.

References


