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Through a New Lens: The Third Sector and Israeli Society

I. INTRODUCTION

THE TASK OF STUDYING THE third sector¹ in Israel is difficult. In addition to the regular confusion and misconceptions abundant in this field of research, until recently Israel's third sector had been absent from both the research community's agenda and Israeli public discourse. Moreover, the third sector has not been recognized as a distinct entity in Israel. The delineation of sectors has been rather ambiguous; therefore, the concept of a third *sector* with clear-cut, distinct societal roles and functions does not exist in Israel (Gidron, 1992). Indeed, most Israelis have difficulty grasping the idea of a single *sector* of very diverse organizations that includes large service-provision bureaucracies—such as universities or hospitals—grassroots community-based voluntary organizations, and ultra-orthodox religious educational institutions. Each of these organizations is associated with different aspects of society that ostensibly do not “mesh” together. This is somewhat surprising given that these organizations have a very tangible and even central presence in the Israeli economy and society, and, as will be shown, have been deeply involved in practically all major events and processes throughout Israel's history.

Nevertheless, as we will show, using the nonprofit organizational form as an *organizing principle* and investigating its components is an excellent way to examine Israeli society from a new and unexplored angle. From this perspective, the different purposes for which this organizational form is used can be explored and understood, providing a potentially important contribution to the understanding of Israeli society. Furthermore, Israeli history, which by all accounts has some very unique features—i.e. a society that developed outside of its territorial boundaries, an active Diaspora—can be an excellent case for testing the major nonprofit theories. This is even

more pronounced in light of the diversified nature of the Israeli third sector and its various functions, which include service provision within the welfare state system, civil society development, and community preservation among specific population groups. Which theories are applicable to Israel, if any at all? Can the Israeli case contribute to theory building in the third sector?

This paper attempts to shed light on this set of institutions by presenting the research conducted in Israel within the framework of the Johns Hopkins Comparative Nonprofit Sector Project (CNP) and concisely defines and measures the Israeli third sector, and analyzes its historical background and its stand on public policies. The findings and conclusions presented here are based on empirical research, both quantitative and qualitative, using the common definitions and methodologies used in the comparative framework, with only minor adaptations to fit the Israeli context.

We first discuss some special features of the Israeli third sector as they relate to the structural/operational definition of the third sector developed for this project. We then present the structural economic contours of the sector and explore how the sector attained its current structure and present its historical development. On the basis of the data presented and in order to explain the findings, we then review major theories used to analyze the third sector, in general, and those used to examine Israeli society, in particular. Finally, we review and analyze the Israeli government's policy vis-à-vis the sector, its sources, and its manifestations.

THE THIRD SECTOR IN ISRAELI SOCIETY

The concept of a "third sector" as presented here is new for Israel. It differs from other definitions of the phenomenon that have been studied previously, such as the concept of "civil society," which has recently become a popular concept often in public discourse, or the Central Bureau of Statistics' definition of the "sector of nonprofit making institutions." The notion of a civil society is difficult to quantify and does not include those organizations that may be described as "heavy-weights" from the point of view of third sector economics (i.e., sick funds, universities, etc.). Moreover, many of the small organizations operating within the third sector according to the civil society notion are not included in the Central Bureau of Statistics' concept.

Our economic analysis of the third sector in Israel revealed results similar to those presented by the "sector of nonprofit making institutions" concept—that is, a small number of large organizations dominated the

sector economically. Moreover, we found significant differences between the analyses of expenditure and employment data. The organizational patterns we found, however, resembled those of the more popular perception of the third sector as a civil society. A large number of religious and educational (many of which were religiously oriented) nonprofit organizations were immediately apparent. This dual focus of the Israeli third sector (a small number of large nonprofit service provision organizations and a large number of small voluntary/civil society types of organizations) was similarly found in other countries (Japan, France). In the case of Israel it is related both to the political history on the one hand and on the ethnic, religious, and cultural heterogeneity of society on the other.

Thus, in order to gain a valid understanding of the third sector, one must see it in relation to the historical, social, and political processes of Israeli society. This notion is compliant with ideas of the social origins theory², but with some necessary local adaptations (see “theoretical explanations” below). Historic and political arrangements have played a key role in shaping the present size and structure of the sector. For example, elite relationships and power struggles for political dominance in the formative years of the Israeli state had a critical effect on those organizations on the periphery of the sector. Thus, the existence of a primary health care system and some large-scale educational systems (higher and ultra-orthodox) accounts for the large size and scope of the sector and the dominance of public funding that it receives. In fact, public monies seem to be the main funding source in all countries with a relatively large third sector. In other words, a large third sector is likely to be found in those countries where specific social services exist in the third sector (for political, religious, or other reasons) and these services are considered to be public goods and therefore are financed by public funding.

It is interesting to note that the Israeli findings are not consistent with those of most other countries where a “commercialization” of the third sector has been found. Donations, rather than commercial activity, primarily compensate for setbacks in governmental funding for some organizations. This may result from intervening cultural influences, such as institutional norms of nonprofit activity that disapprove of commercial activity in nonprofit organizations. Again, this is an example of specific social, cultural, and political circumstances that have shaped the character of the third sector in Israel.

II. CONTOURS OF THE ISRAELI THIRD SECTOR

A. DEFINITIONS

For the purpose of this research, the third sector is comprised of organizations that are: 1) formal organizations, 2) nonprofit distributing, 3) private, 4) are independent (have mechanisms for self-rule), and 5) are voluntary (have philanthropic inputs, i.e., giving and volunteering, voluntary membership). The inductive approach espoused by this structural/ operational definition (formulated by the Johns Hopkins Comparative Nonprofit Sector Project) is especially useful in the Israeli context, since there is no public recognition of a Third Sector as a distinct entity. Nonetheless, some organizations characteristic to Israel present borderline cases and thus help to delineate more clearly the boundaries of the third sector.

We do not consider the “National Institutions” (The Jewish Agency, the Jewish National Fund, and the Jewish Foundation Fund) to be part of the third sector. These organizations—are not private, nor are they institutionally distinct from government. First, they are defined as belonging to the Jewish people, in general. Second, they were originally public agencies operating as a *de facto* government, and are often referred to as a proto-state. To these days the government treats them as a means to implement its policies, delegating certain public functions to them (i.e., absorption of immigrants, settlement in the periphery, forestation, etc.). Lastly, their governing mechanism is based on the Israeli party system in which the government in power has major influence in deciding the leadership of these entities. Thus, although they may be formally separate from the government, they are not quintessentially so, and they cannot be considered private, and so, we did not include them in our analysis.

The legal status of political parties in Israel is altogether different from that of nonprofit organizations. They are registered separately and have a distinct law regulating them and their financing. This alone sufficiently indicates that they are not institutionally separate from the public sector and thus were not included in our analysis.

The 1994 National Health Insurance Law created a system of health care in which the existing sick funds began to deliver state health services. The law renders membership in a sick fund obligatory and “membership” is paid by tax, which replaced the sick fund membership fees. This deviates from the “voluntary” condition in the definition. However, eliminating the sick funds from the sector on the basis of this problem alone is in dispute, and also since we present comparative data for 1991 when the sick funds were a part of the sector, we included the “sick funds” in our presentation of the sector’s data.

B. SIZE, COMPOSITION, AND ROLES

*THE SIZE OF THE ISRAELI THIRD SECTOR*³

The third sector is a large and important factor in the Israeli economy. This is congruent with the sector's social and political importance and the central role it has played in institutional development, service provision, and expression of collective interests as noted previously. The total expenditures of nonprofit organizations in 1995 exceeded 33 billion New Israeli Shekels, which is equivalent to 12.7% of the GDP for that year.

Employment within the third sector also was significant—salaried employment approached the equivalent of 150,000 full-time (FTE) positions in 1995,⁴ a figure that represents more than 9.3% of all non-agricultural employment within the entire Israeli economy.⁵

The extent of third sector employment was underscored further when we focused on specific areas of activity, even when voluntary inputs were excluded from the analysis. More than 35% of all positions in education and research in Israel were in the third sector in 1995. Likewise, 30% of all positions in culture and recreation, welfare, and religion, and approximately 40% of the positions in health were in the third sector. In addition to that, the sector had twice as many full-time positions as the entire financial services industry (banking and insurance), and half as many as the entire industrial sector (manufacturing and mining).

When volunteer inputs were added to the employment figures, the equivalent number of full-time positions in the sector increased by approximately 15% to more than 170,000 full-time positions, a figure that represents 10.7% of the total non-agricultural employment in the economy. Nevertheless, these are relatively low rates compared to those in Britain and Sweden where the extent of volunteer work in the third sector is greater than that of salaried employment. Likewise, in France, Germany, and Italy volunteer work amounts to approximately 40% of the total employment in the sector.⁶

Our analysis also revealed that the Israeli third sector was large relative to its counterparts internationally and in other developing countries. Third sector employment averaged 7% in developed countries and 9.3% in Israel, a rate far above the average. As Figure 1 shows, the third sector in Israel ranked fourth among the twenty-two countries included in the study, after the Netherlands, Ireland, and Belgium, and before the U.S. and the UK.

These findings contradict expectations regarding the classic perception of the welfare state, wherein it is assumed that a large third sector

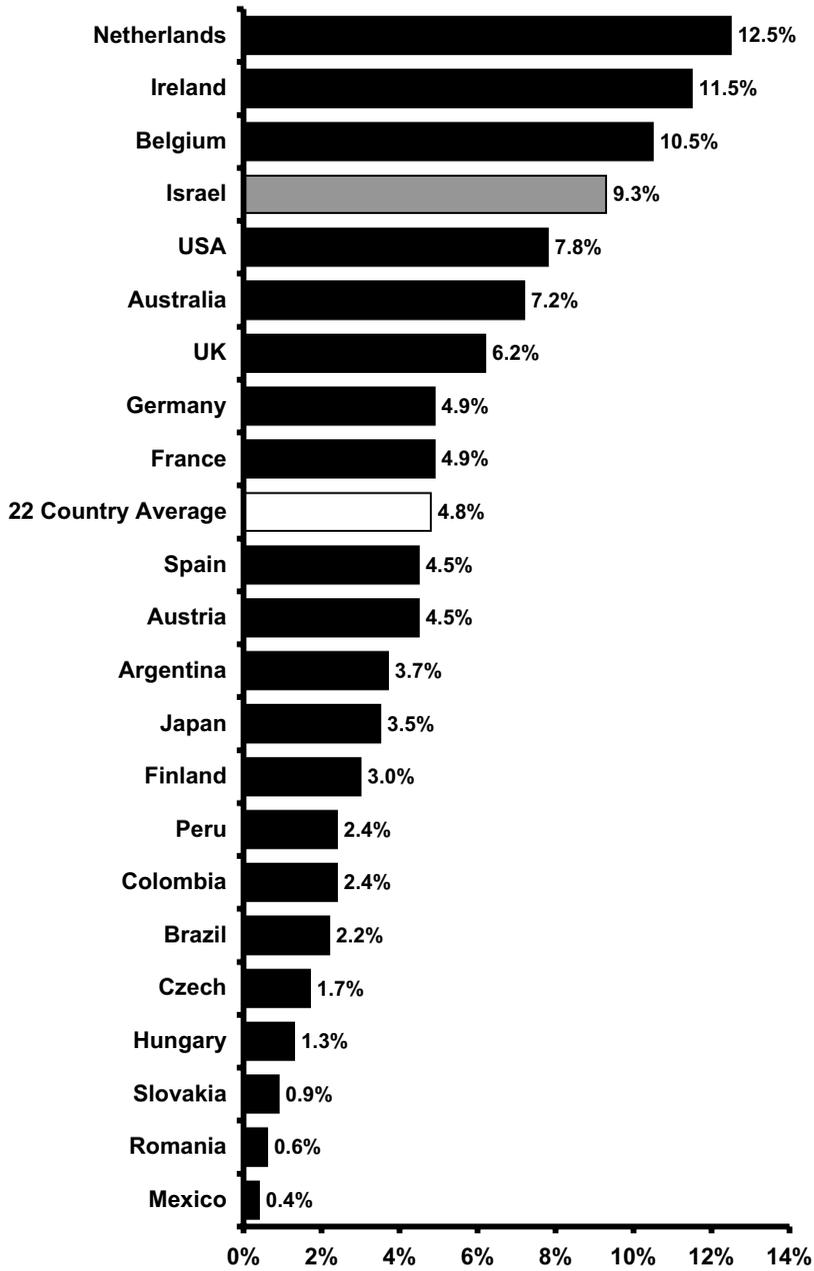


Figure 1: Nonprofit Share of Total Employment by Country—1995.

correlates with reduced government expenditures on social services because the sector serves areas that the government does not. The data in Israel (as well as those in Belgium, Holland, and Britain) show that high government expenditures on social services can coexist with a large third sector. This situation is consistent with that of postmodern welfare states in which the relationship between the third sector and the government is complex and in which the government occasionally finances services that nonprofit organizations supply. In so doing, the state continues to bear responsibility for the availability of social services but prefers—for historical, political, or other reasons—that non-governmental entities supply them. In such cases, it appears that there is a direct relationship between government expenditures on social services and the scope of the third sector. The traditional lack of distinction between the third and public sectors in Israel explains the relative ease with which these arrangements have been initiated and endured.

COMPOSITION OF THE ISRAELI THIRD SECTOR: A HUMAN SERVICES FOCUS

The fact that the third sector is relatively large in Israel is related to its service provision function, which finds its roots in the pre-state era. Today, nonprofit organizations are the providers of services in two major areas: health and education, and particularly in services that for a variety of reasons were not nationalized when the state was established in 1948. These nonprofit organizations replaced statutory services and consequently were heavily financed by the state.

Since these two fields have the highest economic volume, the considerable state funding that they receive undoubtedly affected the size and the nature of the entire sector. Welfare State related fields of activity (education, health, welfare) dominated the internal structure of the third sector (Figure 2). This is a pattern similar to that characterizing developed nations, especially those of Western Europe⁷, where economic activity in the third sector is primarily in the human services fields, including health, education, and social services. In these countries on average, these services comprise approximately two-thirds of third sector employment; in Israel these fields constituted approximately 85% of the sector's paid workforce.

The vigor of the field of education in the Israeli third sector is found in other countries as well, such as Belgium, Ireland, Brazil, Argentina, etc., in which the influence of religion—especially of the Catholic Church—is considerable. Likewise, in Israel religion has had considerable influence in the educational field within the sector (i.e., the ultra-orthodox educational organizations). Albeit, other factors weigh in as well: The higher education

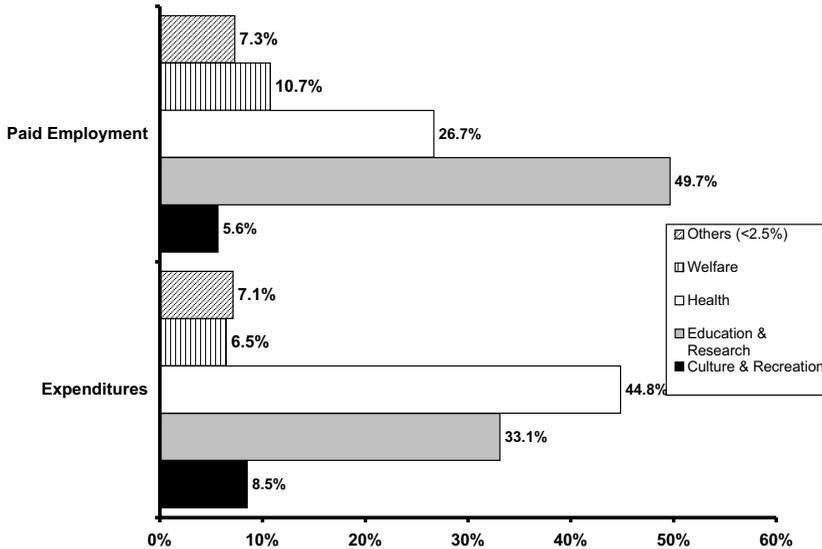


Figure 2: Composition of the Israeli Third Sector: Expenditures and Employment.

system, vocational education, and adult education are found primarily within the third sector, as well, and contribute to its large size.

The results from our analysis of expenditures data within the sector according to areas of activity differed slightly from those based on employment data (Figure 2). Forty-five percent of all of the sector's expenditures occurred in the area of health (as opposed to 27% of all FTE positions), making it the dominant field in terms of expenditures. The reason for this is the different expenditure structure of these two types of organizations. While labor costs were the primary expenditures for nonprofit organizations in education and other fields, health orgs spent a considerable amount of money purchasing materials and equipment.

The distribution of organizations across fields of activity in the third sector differed from those of the economic analysis (Figure 3).⁸ Although the largest number of organizations was still concentrated in the area of education (29%), we found large numbers of organizations in the spheres of culture and recreation, religion, welfare, and philanthropy. These fields contain a multitude of organizations, too small to influence the economic composition of the center, yet nevertheless important since they embody the patterns by which citizen groups organize into Third Sector organizations and thus characterize the nature of "civil society" in Israel.

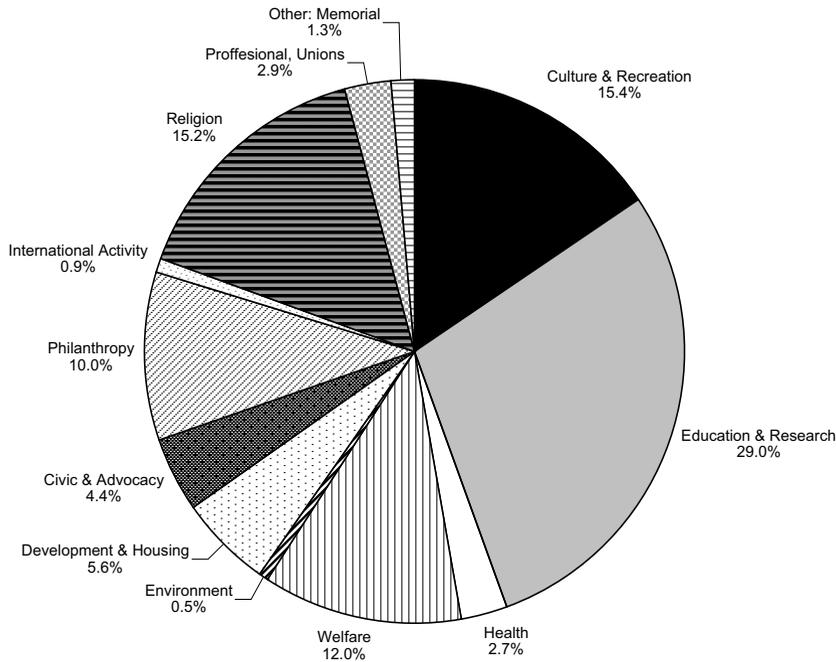


Figure 3: Composition of the Israeli Third Sector: Number of Organizations.

C. REVENUE STRUCTURE

Our analysis revealed that the Israeli third sector's revenue structure is consistent with its focus on social services within the context of the welfare state: It received almost two-thirds of its revenue (63.5%) from public sources, 26% from earned income (through sales of services and membership fees), and even less (10.5%) on contributions. Despite major changes in the sector's size and structure and in the Israeli society and economy during the 1980s and the first half of the 1990s⁹, public financing clearly dominated the sector and actually grew during the first half of the 1990s.

These funding patterns counter the popular notion that the third sector is financed primarily by donations. However, although contributions amounted to only 10% of the total revenue for the entire sector in 1995, this figure is high compared to other developed countries and is second only to the U.S., where donations amounted to 13% of the sector's total revenue. Of the total amount of philanthropic funds in Israel, private individual giving comprised a mere 13.7% of all private giving (or an estimated NIS 480 million in 1995 values).

This pattern of financing corresponds to that of most Western European countries that were studied, and reflects a contention that it is the state's responsibility to provide certain basic welfare needs and to guarantee the social rights of its citizens, although this function occasionally is carried out by external agencies that actually supply the services using state funding. This common perception may also explain the lack of a clear-cut distinction between the third and public sectors in Israel.¹⁰ The process of privatization of public services in Israel over the last decade has accentuated this perception.

An analysis of the funding patterns within the specific areas of activity, however, revealed a more complex picture. In fact, the public sector was the dominant source of funding in only three areas of activity: health, education, and culture and recreation. Since these are the largest sub-sectors, the considerable amounts of funding they receive mask variations evident between the different areas of activity. Indeed, in the nine other areas of activity, other sources of income were dominant. In seven fields fees and charges were the largest source of income, of these only in two fields was earned income significantly predominant (environment and professional/labor associations). Two other fields were financed principally by donations (civic and advocacy and international activity). These data *do not* suggest that the sector is undergoing a process of commercialization.¹¹

III. EXPLAINING THE THIRD SECTOR IN ISRAEL: HISTORICAL DEVELOPMENT¹²

In surveying the historical development of the third sector in Israel, we distinguish between four main periods: 1) the early Jewish historical background of the third sector prior to the 1880s; 2) the pre-state era, from the 1880s to 1948; 3) the era from the establishment of the state to the mid-1970s; and 4) recent trends, from the mid-1970s to the present.

A. EARLY HISTORICAL BACKGROUND

The early origins of the third sector in the still relatively young state of Israel can be traced to the long tradition of Jewish charity and mutual help impressively sustained and enriched over the centuries throughout the widely dispersed Jewish communities of the Diaspora.

The foundations of this rich legacy stem from both the general biblical injunctions of generous behavior towards the poor and needy, and the more specific biblical laws providing for various mechanisms of direct and

indirect help to the poor. Although it is hard to assess the extent to which these laws were successfully enacted in earlier times, charity as a major religious duty and a fundamental right of the poor acquired increasing importance in Jewish religious and communal life over the centuries. In fact, it was seen as a distinctive feature of Jewish communities since the destruction of the First Temple.¹³

Although there is no simple, straightforward connection to voluntary nonprofit organizations, as we know them today, charity in the Jewish tradition was both an individual “voluntary” and a collectively enforced, obligatory religious activity. This duality characterized many charitable and communal activities and institutions within Jewish communal life during the Middle Ages. Four patterns distinguished the charitable/voluntary institutions customary to most medieval and early modern Jewish communities: 1) The Jewish communities themselves were autonomous and “voluntary” in nature, characterized to a large degree by self-government and taxation—at least to the extent that the non-Jewish environment in which they existed allowed them to, made necessary, or even sometimes demanded that they do so.¹⁴ 2) Within this general framework, a communal system of fundraising developed for the distribution of money to the poor and other charitable endeavors.¹⁵ 3) Beginning in the late medieval period, there was the development and increasing diversification of voluntary societies with specific missions and mutual benefit associations, distinct from and at times at odds with the communal organization itself. 4) A long tradition existed of transferring money from Diaspora communities to support the Jewish community in the Land of Israel (*halukkah*). This practice combined elements of “regular” charity to the poor with material support for a minority of Jews—sort of a religious elite—who by living in the Holy Land enact the commandments associated with the Land of Israel and thus indirectly benefiting the Jewish people as a whole.

These patterns were not purely internal, endogenous developments, but formed, at least in part, as the result of and in response to policies of the non-Jewish environment (the first two patterns, in particular). As such, they were directly affected by the polity, tax structures, and governmental demands that these Jewish communities had to confront. Moreover, these traditional patterns underwent important changes, as well. By the end of the eighteenth century, the communal system of fundraising for charity was on the verge of collapse in many European communities. This was due in part to the rise of absolutist state taxation, new political and ideological trends—such as the Enlightenment and Reform movements—and the more diffuse secularization and acculturation that weakened the cohesive-

ness of communities. While communal charity systems were diminished or broke down completely, voluntary (religious and secular) associations—such as mutual benefit associations and fraternal organizations—filled in as best they could. Many of these associations, in turn, ceased to exist as central welfare and fundraising agencies took over their functions and as governments assumed responsibility for direct aid to individuals.

New associations continued to emerge from the nineteenth century onward in both Europe and America, and these often exhibited a new set of attitudes. As opposed to begging and indiscriminate, direct giving, these new organizations adopted broader trends of secularization, rationalization, and professionalization of charitable endeavors aimed at society at large. In addition, there was improved coordination and even unification among the numerous local organizations¹⁶, as well as the emergence of Jewish philanthropic organizations that operated on an international or at least transcontinental scale.

At the same time, the “Old *Yishuv*” (the traditional, religious Jewish communities of Palestine largely concentrated in the four holy cities: Jerusalem, Hebron, Tiberias and Safed) was poorer, older, and less economically diversified than Jewish communities in other parts of the world. It did not have as strong a communal framework as these other communities did. Furthermore, it was dependent upon financial support from the Jewish communities of the Diaspora.

In 1882 Baron Edmund of Rothschild began his efforts to strengthen Jewish settlements in Palestine. His type of philanthropy was perceived as being more “modern” and “rational,” going beyond the traditional *Halukkah*. Also, beginning in the late 1880s, Baron of Hirsch initiated colonization projects aimed at supporting agricultural settlements and the general productivization of Jewish populations in Palestine and other parts of the world.

B. THE PRE-STATE ERA: THE THIRD SECTOR AS AN INSTRUMENT FOR MOBILIZATION AND STATE BUILDING

In contrast to the primarily religious motivation of previous Jewish immigrants, those who came in 1882—the “First *Aliyah*” viewed their settlement as part of a broader political endeavor to create a Jewish national renaissance. The central objective of the Zionist movement and agencies was the establishment of a feasible Jewish national community in Palestine and the eventual development of an autonomous polity. In addition to political activities, their work included the systematic encouragement of immigration, colonization, economic development, and the provision of social services.

The resulting organizational complex lacked sovereign authority. Therefore it was based on voluntary principles and is described as such in most of the literature that analyzes the development of the third sector in Israel.¹⁷ Yet it is important to recognize that the dominant Zionist organizations gradually adopted characteristics that made them similar to a proto-state more than to what is commonly conceptualized as the third sector. These characteristics included a high level of centralization, relatively extensive control of the population, and authority over the distribution of political and economic resources.

An important development during this period was the establishment of local, sectoral, and general representative bodies. From 1900–1914 an unprecedented number of professional associations, political organizations, unions, and regional federations of rural settlements were established.¹⁸ From the very beginning, political organizations assumed an extensive role in the provision of health services, housing, and the management of labor exchanges, using the provision of economic and social resources as an instrument for political recruitment and mobilization. This pattern continued throughout the pre-state era and even to a significant extent into the first decades of statehood.

The British conquest of Palestine in 1917 resulted in the establishment of a British Mandate, which—at least in its initial stages—was more supportive of the Zionist colonial project than the Ottoman authorities had been. This significantly accelerated the process of nation- and state-building.¹⁹ One major development was the establishment in 1920 of the General Association of Hebrew Workers in the Land of Israel (*Histadrut*), which rapidly evolved into a major agent of state-building, playing central roles in the economic, social and, until the mid-1930s, military arenas. The *Histadrut* developed—utilizing the financial assistance that the Zionist institutions provided—a comprehensive system of social services, which included health services, old-age and survivors' pensions, aid benefits for the unemployed, employment services, and housing.²⁰ These functions formed the nucleus of an embryonic “welfare state”.

In addition to the labor movement, this model whereby an ideological/political entity creates a system of social services geared for its members, was also developed in two other Zionist ideological “camps”: The “independent” (liberal) and the national-religious (not to be confused with the ultra-orthodox anti-Zionist). This then became the pattern for most service organizations—they were linked to distinct ideological/political system that were also struggling for political hegemony in the future state, and in many respects were used as a tool in that struggle.

Another important development was the establishment in 1929 of the Jewish Agency for Palestine, which involved a partnership of parity between the World Zionist Organization and non-Zionist Jews. Having been recognized by the Mandate and the League of Nations as the agency responsible for the establishment of the Jewish national home in Palestine,²¹ the Jewish Agency, representing all political factions in the Jewish community, emerged as the central organization directing the process of state-building and the representative of Zionist interests in the international political arena. No less crucial to this role was its control over the financial resources that various fundraising organizations had mobilized from abroad. These were disbursed to the different “camps” according to a formula based on their respective political power. Thus, despite the deep ambivalence that most streams of Zionism felt towards charity and philanthropy from Jews in the *Galut* (exile), whom they considered to be living an obsolete and demeaning pattern of Jewish life, the Zionist community nevertheless remained heavily dependent upon external contributions. Its leaders were very much involved in the necessities and politics of fundraising in the Jewish Diaspora.

Although the dominant Zionist agencies lacked official recognition as sovereign bodies, their organizational dynamics and activities came to be characterized by a centralistic bureaucratic apparatus with the capacity to mobilize resources, especially from external sources, and distribute them to selected groups within the population.

It should be noted, however, that a number of associations were established during those years that had varying degrees of ideological and institutional autonomy from the dominant Zionist agencies. On one extreme, the non-Zionist, ultra-orthodox communities maintained their independent network of “traditional” communal associations. In addition, social groups that espoused Zionism but were opposed at varying degrees to the dominance of the labor movement established fairly stable and durable sectoral, political, and professional associations.

In addition, there was activity among the Arab community in Palestine during this time. With the establishment of the British Mandate, the *waqf* system initially regained a significant amount of autonomy from the state apparatus. In 1921 the British Mandate established the Supreme Muslim Council, granting the Muslim community complete autonomy in the management of religious matters, including the administration of the *waqf* system.²² In the struggle against Zionism, *waqf* resources were used primarily to advance political goals, such as the mobilization of the population through service provision and the obstruction of land sales to

the Zionists.²³ When the Council was active in the 1936–1939 rebellion, the British disbanded it as an autonomous organ in 1937 and transferred its administration of public endowments to a committee the government appointed. Thus, the *waqf* system was absorbed into the state apparatus and no longer served as a vehicle for national political mobilization.²⁴

C. THE ETATIST ERA:

THE SUBSIDIARY ROLE OF THE THIRD SECTOR

The era following the establishment of the state of Israel in 1948 was dominated by the systematic mobilization and subordination of all sectoral interests (whether ethnic, economic, or ideological/political) to the emerging structures of the new state, implementing what were defined as pressing collective goals and national priorities. Contributing to this strong collectivistic and etatist orientation were 1) institutional legacies from the pre-state period, and 2) a mix of old and new ideological tendencies focusing on “*mamlakhtiut*,” a concept connoting commitment to the “national public good” and deference to institutions of collective governance. The result was a regime and political climate basically unfavorable to the autonomous initiative of voluntary associations.²⁵ This era often is presented as one in which a sharp transition occurred from a system based on voluntary organizations to one based on national public administration.²⁶ Indeed, much activity centered on replacing the sectoral structures with extensive statutory schemes. This occurred primarily and most successfully within the spheres of military service, primary and secondary education, employment and social security.

Despite these very massive changes, the strong collectivist and proto-etatist orientations that had characterized the pre-state era continued. This continuity was enhanced by the enduring political dominance of the Labor movement. A whole network of Labor-related organizations and the *Histadrut*, in particular, retained preferential status (at times reaching a quasi-monopoly) within the new institutional configuration. Perhaps the most dramatic example is in the field of health services where the *Histadrut*'s sick fund came to control much of the population's access to extant medical resources. Moreover, the *Histadrut* also developed into a major employer with commercial and industrial ventures of its own—albeit heavily subsidized by the state²⁷—and thus gained power over whole sections of the economy and workforce.

Likewise, the Jewish Agency displayed a pattern of close cooperation with the state, in general, and the dominant party, in particular. Divested of its previous political functions, the Jewish Agency was confined to

immigration, settlement, absorption of newcomers, and was the central repository of donations from the Diaspora. Its apolitical status, now formally established, further facilitated this latter task by enabling the Agency to retain eligibility for a tax exemption for donations from the United States.

As a rule, all of the new organizations that emerged during this era were at least partly dependent on state funding, even if the organizations originated outside of the state apparatus. Many nonprofit organizations worked on projects the state initiated (or projects under its auspices) and in which the state took an active part in fundraising or even matched philanthropic contributions from abroad. State agencies even established some of the organizations. Very few remained altogether autonomous from either the state or political parties. In general, the relationship between the state and nonprofit organizations throughout this period was largely one of convenience and pragmatic cooperation, with no unified public policy and little planning or coordination. As long as nonprofit organizations operated within the pale of endeavors sanctioned by the state, did not challenge the state, and did not require the state to invest too much in the nonprofit organizations' control and supervision, they were accepted as a legitimate form of social organization that the state actively encouraged and sponsored financially. Although the third sector had little distinctive influence on matters of public policy due to its "low" profile, the sector underwent significant growth throughout this period, particularly in the sphere of education and culture, mainly due to the rapid expansion of high school and higher education.²⁸

Worth noting is the growth in the number of nonprofit organizations that provided health, welfare, cultural, and educational services among the religious population, particularly the ultra-orthodox communities. While the organizations providing educational services depended upon the state's financial assistance to various degrees, private contributions from inside Israel and abroad supported the other associations almost entirely.²⁹ It is important to note that the ultra-orthodox communities' extensive use of autonomous voluntary associations—mirroring traditional patterns of Jewish charitable and communal organization—was the product of a novel, double-edged pattern of interaction with the state: the ultra-orthodox preferred autonomous, communal arrangements that enhanced their sense of themselves as a separate collective identity and distanced them from the secular Zionist entity, but increasingly were willing (controversially among the most extreme ultra-orthodox) to accept state subsidies wherever possible.

Starting in the 1960s, the first signs appeared of the liberalization and weakening of the state's overarching primacy. These were amplified in the 1970s when new social movements and trends of political protest emerged, and multiple organizations arose that were geared toward private, particularistic, or sectoral rather than collective/public goals. Initially, however, this efflorescence of social activism was aimed at a better distribution of resources and entitlements by the state. The principle of a strong and effective state that "provided" for the population was still taken for granted and non-state centered alternatives were not yet considered.

Significantly this period culminated in the early 1970s with the launching of new statutory welfare programs and the expansion of existing ones,³⁰ along with the state's increasing involvement in actively promoting, sponsoring, utilizing, and to some extent regulating voluntary activity. Presaging an important trend in the next phase, however, more financially independent and ideologically self-conscious nonprofit organizations began to emerge that focused not only on the provision of services but also advocacy, displaying a more confrontational approach vis-à-vis the state. Some of these were mainly grassroots, mutual help organizations interested in promoting the interests of specific constituencies. Many, however, were geared towards issues of a more general/public concern. Both types of organizations further expanded and reached fuller maturation in the next phase.

With regard to the Arab-Palestinian citizens of Israel, this period was characterized by an almost total absence of any autonomous third sector.³¹ In the wake of the 1948 War in which Palestinian society collapsed, the infrastructure of communal and voluntary associations that existed during the Mandate period was totally destroyed. The *waqf* system ceased to function, and the health and welfare services it provided were discontinued.³²

D. DIVERSIFICATION AND EMPOWERMENT OF THE THIRD SECTOR

The period from the mid-1970s to the present has been marked by a significant quantitative expansion and institutional consolidation of the third sector, as well as by important qualitative changes in both the nonprofit organizations' range of action and their pattern of interaction with the state. Starting in the 1980s, increased efforts of coordination within the sector have led to the formation of broad nationwide coalitions of voluntary associations. There also have been signs of a trend towards professionalization. Yet, a sweeping transformation of the sector's relationship with the state did not take place, and the well-entrenched pattern of nonprofit organizations' subservience to the state remained salient. Indeed, although the voluntary

sector's role in service provision has enlarged, much of it has remained state-sponsored and based on the continuing and increased governmental mobilization of voluntary work and funds.

To some extent the third sector's expanded role in the social services area is attributable to changes that occurred in the way the Israeli welfare state operates. Like other welfare states during the 1980s, the Israeli state sought to reduce its direct responsibility as service provider and major employer, and to protect itself from growing claims and pressures from its constituencies.³³ This change in policy did not necessarily imply a concomitant rise in third sector autonomy. Nonprofit agencies frequently have functioned as subcontractors of the state, which has maintained a significant degree of control and supervision by defining the eligibility criteria for the services, stipulating the scope and quality of the services provided and designating the specific supplier agency.³⁴ Thus, major changes have resulted in increasing diversification—rather than transformation—of the fields and strategies of nonprofit organizations and their pattern of interaction with the state.

The main change, which was already burgeoning in the early 1970s, has been the emergence of a new type of voluntary organization that has focused its activities on mutual help and advocacy. These organizations have been characterized by greater institutional and financial autonomy from the state and a more diffident and militant—in some cases even openly hostile—stance towards the establishment.³⁵ Thus, a distinctive feature of this era has been the concentrated upsurge of a variety of grassroots organizations, such as those that advance women's causes, which arose in the mid- and late-1970s and steadily continued to emerge throughout the 1980s. These all have been more militant and confrontational in their interactions with state institutions than the more traditional women's organizations, which usually were oriented towards service provision and were dependent on the various political parties and the government.³⁶ Other nonprofit organizations that have emerged during this period and also have manifested an activist and confrontational stance are those that have advocated for low-income neighborhoods and towns, generally articulating their claims within the framework of the ethnic conflict between Jews of Middle Eastern and European origins.

These new trends often have been accompanied by a strong (and to many minds, exaggerated) tendency towards sectorialization. This is powerfully reflected, for example, in the increasing number of nonprofit organizations catering to the particular requirements of the religious sectors of the population, particularly educational institutions among the ultra-orthodox

population—especially those dedicated to advanced learning—which are partly and often heavily dependent upon state funding. *Shas*—a successful Mizrahi religious party—has developed an impressive network of education and welfare services financed to a large extent by the state, efficiently expanding and consolidating the political support among the lower classes from Middle Eastern descent, and thus resembling somewhat the clientelistic pattern of political recruitment mainly associated with the Labor movement in the past.

On the other hand, there also has been a mushrooming of non-sectoral and non-partisan organizations geared towards improving the political system, civil service ethics, or democratic climate of the country—including issues of pluralism, tolerance, and Arab-Jewish coexistence. These associations have varied in their relations towards state agencies, and have not necessarily displayed a confrontational stance. There has been an impressive efflorescence of religious and cultural nonprofits promoting both traditional and innovative trends of Judaism, as well as various shades of Israeli “humanism” or “secularism.” These organizations have varied in the degree of militancy they have used to advance their cause, from the most quiescent to systematically confrontational.

In addition, since the late 1970s nonprofits have searched for new sources, channels, and even styles of philanthropic giving and have sought multiple sources of financial support. Competing with the Jewish Agency’s centralized and government-related fundraising, there has been a trend among both foreign and local fundraising and grant-making organizations towards more personalized involvement with specifically designated projects. An important factor in this overall trend has been a significant decline in the share of donations from abroad. Although there are signs of a possible increase in contributions from Israelis, these donations have been minimal and have not compensated for the loss of international funds.

Trends in the Arab third sector have tended to resemble those of its Jewish counterpart. Since the late 1970s, a middle class has emerged and consolidated, political resources gradually have accumulated, and attitudes of active challenge towards the Israeli establishment have strengthened.³⁷ In addition, the state’s weakening control has enabled a large number of new organizations to emerge.³⁸ During the 1980s and 1990s significant numbers of voluntary associations advancing the improvement of social and cultural conditions in the Arab communities were established.³⁹ Often explicitly defining their roles as political, these groups have maintained a basic attitude of resistance towards the Israeli state and have struggled against the discrimination of Arab citizens in Israel. One major actor has

been the Islamic Movement, which has successfully created an extended network of associations that have provided a variety of services, and dealt with different social problems.

Thus, recent developments underscore a growing trend of diversification in both the internal composition of the sector and nonprofit organizations' modes of operation with regards to the state. While large segments of the third sector have remained dependent on the state and bound by state-defined priorities, others have developed more confrontational stances and strategies of action vis-à-vis the establishment. These various developments appear to be related to general ideological and political changes in Israeli society during the last two decades. The etatist ideology that had defined the state as the locus of common good and dominated the first three decades of statehood has given way to attitudes of increasing distrust of state institutions. Ideological rifts have come to the fore concerning the nature of the common good and the right of different social groups to actively participate in its definition. This has been expressed in basic conflicts regarding such issues as the place of Jewish ethnic and religious principles in the public sphere, the cultural and political identity of Israeli society, and future relations with the Palestinians.⁴⁰ These factors, along with a rapid rise in the standard of living and exposure to Western lifestyles and political culture, have led to an increased legitimization of voluntary self-mobilization on behalf of particularistic and sectoral interests.

IV. THEORETICAL EXPLANATIONS:

A. SOCIAL ORIGINS OF THE ISRAELI THIRD SECTOR

The idea of "social origins" as a framework for explaining the existence and characteristics of the Israeli third sector has a strong base. As in other societies, the third sector in Israel has deep roots in the history, culture, and polity of the people, and these factors need to be analyzed in order to understand the sector's present form.

Israel appears to be a paradox. A large, expanding, and increasingly diversified range of nonprofit organizations has emerged, despite the absence of many traditional "Western/democratic" conditions that would encourage widespread participation in voluntary and nonprofit organizations⁴¹. What has been more important in shaping the historical development of nonprofit organizations in Israel is a pattern of communally or state-sponsored mobilization of individual and associative voluntary efforts aimed at fulfilling collective goals and invested with a strong sense of historical urgency and

priority—that is, a pattern of “communo-voluntarism.” Although “communo-voluntarism” has waned since the 1970s, two main factors have nurtured this pattern in Israel: 1) A diversified Jewish tradition of charitable and voluntary activity, influenced by modern Zionism, which itself entails a complex ideological mix of nineteenth century nationalist and socialist ideologies. This also accounts for the unusual importance of external contributions from Diaspora Jewry in establishing and operating nonprofit organizations from their early beginnings. 2) A strong form of etatism that has existed in Israel for both ideological and political reasons.

More recently, however, classical Zionist ideologies have waned and given way to liberal democratic economic and political ideologies that are less amenable to voluntary mobilization and the commitment to collective goals. At the same time, traditional or neo-traditional forms of Jewish religious activism, as well as newer forms of civic and democratic voluntary militancy also have gained public visibility and political importance.

Thus, the Israeli case supports, in part, theories emphasizing the impact of the state on the third sector. The state—and its status and policies—clearly has affected nonprofit organizations in Israel. However, one cannot state that this impact has impeded (“zero-sum” models) or advanced the sector. Throughout the different phases of Israel’s history, the relation between the state and the third sector has been one of deep interpenetration, as well as ambiguity. Thus, at times the strong state stifled the development of an autonomous third sector; however, paradoxically, it also formally and financially promoted the development of voluntary activities, provided they conformed to the dominant state ideology and policies.

The situation in Israel also lends some credibility to theories emphasizing the impact of religion on the third sector. Our analysis has not directly attributed the vitality of nonprofit activity in Israel to Jewish tradition. The current expansion of the nonprofit sector has been shaped by a whole range of past and contemporary institutional, political, and cultural influences, many of which have very little to do with any form of Jewish legacy. The recent growth in scope and visibility of religious nonprofit organizations is at least as much the result of contemporary structures and circumstances as it is the direct influence of Jewish religious tradition. Although “communo-voluntarism” is a dominant feature of traditional Jewish communal life and religion, it only became a lasting force, shaping both state and voluntary organizations, after it was transformed by a range of secular ideologies that often were in tension with Jewish religion.

Finally, social and cultural heterogeneity also seems to have played a significant—and in fact increasing—role in the third sector. For a long time, the inclusive statist framework obscured and encompassed (and

sometimes even denied) a very high level of heterogeneity that was mainly due to the ethnic and cultural diversity of immigrants from different backgrounds and countries. More recently, however, the proliferation of nonprofit organizations designed to meet specific needs and lifestyles has been driven not only by cultural, religious, and ideological diversity, but also increasing economic polarization. However, not all of this growth has been “sectoral,” particularistic, and potentially divisive. Indeed, heterogeneity is only a partial explanation for past and present trends, and needs to be encompassed within a more complex explanatory framework. The Israeli case confirms the need for an approach which, like the “Social Origins Theory,” would understand the third sector as being shaped by a complex set of social and political forces reflecting the broad social and political environment in which these organizations are embedded.

Thus, the *social origins theory* as articulated by Salamon & Anheier⁴² in which the nature of third sectors is linked to different *welfare regimes*, which in turn are linked to relationships between the church, middle class, working class, and state—has only partial applicability to the situation in Israel for the following three reasons:

- 1.) Israel has a unique history that resembles no other country, in that a people started a nation outside of the country’s territory and it still has a large Diaspora with strong ties to the country.
- 2.) As many of its fundamental questions are still unsettled (relations with neighbors, borders, it lacks a constitution, it absorbs new immigrants in large numbers) the society and its institutions are in flux, constantly changing, bringing to the fore new sources of power and configurations that impact the third sector
- 3.) Israel is not only a political entity, but also a Jewish State, in which religion, ethnicity, and nationality converge. Israel has significance not only for its immediate citizens but also for Jews around the world. This factor has tremendous impact on the third sector.

Furthermore, it is difficult to place Israel into one of the four welfare regimes posited by the Salamon & Anheier formulation where it was depicted as “corporatist”. While at certain periods in Israel’s history it was characterized as a corporatist state, it is no longer one today. Thus, while we espouse the social origins model (known also as a “path dependency” model) to explain the Israeli third sector, we cannot limit ourselves to the specific social origins *variables* that Salamon & Anheier identify.

We suggest that (1) additional variables, not just welfare regimes, are needed in order to explain the current Israeli third sector; and (2) these variables need to fit into a dynamic model, as they shift and change over time, in order to fit the data on the Israeli third sector into such a framework.

Therefore, we have attempted to identify specific forces that shaped the third sector during the different eras of Israel's history and determine how they fit into a *social origins* framework. In doing so, we examined the principal forces in each era that led to the creation of a dominant *ideational* (or *ideological*) infrastructure; these obviously impacted the overall societal *institutional* infrastructure, which in turn impacted the *third sector*. In this undertaking, we have created a modified framework to fit the Israeli case. Whether this framework can be applied to other countries remains to be seen.

FORCES SHAPING THE THIRD SECTOR IN FOUR ERAS OF JEWISH/ISRAELI HISTORY

Diaspora Era

Up until the second half of the nineteenth century, traditional *religious* and the external non-Jewish environment forces (i.e. the host *State*) shaped the infrastructure of the Jewish third sector. In the latter part of that century, social and political movements and other ideological groups, espousing new ways of Jewish life, created organizations with new (non-religious) orientations and goals, backed to a large extent by *Jewish philanthropy* (local and "foreign").

Pre-State Era

Political/ideological movements primarily shaped the third sector during the pre-state era. These groups struggled amongst themselves for hegemony—in which the Labor movement, representing *labor unions* was predominant. *Diaspora Jewish philanthropy* emerged during this time as a major force for funding those endeavors. *Organized religion* had a minor role in shaping the Sector, similarly to the *State* (the British government), which refrained from active intervention since, by policy it did not interfere in the local matters of its colonies.

Statist Era

The first three decades after Israel's independence were characterized by difficulties moving from a "sectorial" system to one in which a state superstructure dominated. As such, a corporatist structure was created, whereby the major "sectorial" power, the *labor union* (Histadrut), continued to control a myriad of service provision nonprofit organizations which provided services to the entire population. These were heavily subsidized or directly financed by the *State*. This was the beginning of the large third sector we see today, focusing on welfare service provision and integrated within the welfare state structure. *Diaspora Jewish philanthropy*, which had a significant role in establishing new

services and fields of practice, was not acting as an independent force, but was rather steered by the State. *Organized Religion* had a relative minor role to play in shaping the Third sector during this era, yet the special status granted by the State to the Orthodox had larger implication in later years.

Pluralistic Era

Since the late 1970s the *State* has maintained the leading role in shaping the nature of the Sector, particularly by its allocation policies. The *labor union* (Histadrut), in light of its weakening as an economic and political force in the country, has been stripped of its role as a major force in shaping the Third sector. *Organized religion* has increased its political power and regained influence in shaping the third sector. *Diaspora Jewish philanthropy*, which underwent major changes, has become to represent an independent funding source, and thus significantly impacted civil society.

Social Origins

Thus, four major forces have influenced the size, structure, and nature of the Israeli third sector in the context of the social origins theory: 1) the State, 2) Jewish organized religion, 3) the labor unions, and 4) Diaspora Jewish philanthropy. Each of these had different (or no) impact at different eras in Israel's history. This is depicted in Table 1. This variance was due to external or contextual conditions, predominant ideological belief-systems, and political power struggles among those different forces. These forces constitute the major powers behind the development of Israeli third sector and therefore provide a good explanation of its social origins. They cannot be subsumed into a system such as "welfare regimes". With the exception of the labor unions these forces are likely to continue to play important roles in shaping the sector in the future.

B. ADDITIONAL THEORETICAL INTERPRETATIONS OF ISRAELI SOCIETY

CHANGES WITHIN ISRAELI SOCIETY

Striking changes have occurred within Israeli society along practically all major parameters from its early history to the present. It is a much larger society—its population has increased rapidly, its economy is modern, its industry sophisticated, and its standard of living high. It has a sophisticated defense force, has made peace with two of its neighbors, and although its security problems have not been solved, it is no longer a country under siege as was the case in the 1950's and 1960's.

Employment	Full Time Equivalent Jobs	As Share of Total* Employment
Paid	147,166	9.3%
Volunteers	25,544	1.4%
Total	172,710	10.7%
Expenditures		
	Current NIS, Millions	As Share of GDP
Total	34,371	13.0%
Number of Active Organizations		12,512

* nonagricultural

Table 1: Impact of Different Societal Forces on the Size, Nature and Structure of the Israeli Third Sector by Four Different Eras

Yet it is a much more divided society. During the 1950s when conditions were harsh, a collectivistic ideology prevailed; differences among groups and populations were put aside in light of the common external threat and goals of defending and building the state. This is not the case today. Four major rifts or cleavages between different groups—centered on religion, nationality, ethnicity, and politics—threaten a fragile fabric of society. These erupt at times to command the attention of the public in a variety of ways, a remembrance that they very much exist and may be dangerous. These include rifts between 1) religious and secular Jews on the (Jewish) nature of the state; 2) Arabs and Jews (within Israel) on the status of the Arab minority, as well as on the nature of the Jewish State and its legitimacy; 3) Israelis from European/Western ethnic backgrounds and those from Middle Eastern backgrounds over equal opportunities; this entails a significant class dimension; 4) the political right and left on territorial compromises with the Palestinians. While these rifts existed in one form or another in the 1950s, they were suppressed and not openly expressed.

Ideologically, the society has moved from a predominantly collectivistic, socialistic, nationalistic, and secular orientation to one that is predominantly individualistic, often sectarian (divided along the rifts discussed above), and believes in free enterprise, with certain elements in society expressing doubts—for both religious and other reasons—regarding the Zionist nature of the state. Structurally, the political system has changed radically from a system based on ideological political parties,

where ideological disputes were the center of public life, to one where politics is personified. This is expressed both in the law for direct elections of the prime minister (which has now changed), the primary (personal) elections in the different parties, and a decline in the political parties as membership organizations. The measure of society's elite has changed, as well, from being based on membership to the *Histadrut* to being based predominantly on economic success.

*MAJOR ANALYTICAL, SOCIOLOGICAL,
AND POLITICAL ORIENTATIONS EXPLAINING ISRAELI SOCIETY*

Of the hundreds of books and articles analyzing Israeli society from a variety of perspectives, none have focused on the third sector as a distinct concept (not to be confused with specific nonprofit organizations) and its distinct role in the development of Israeli society. In this section we briefly present the major sociological and political orientations to the analysis of Israeli society and determine how they relate to the Israeli third sector. Since this analysis is new, it will have to be developed further as more data on the third sector become available.

Under the leadership of S. N. Eisenstadt, who initiated the first studies on Israeli society,⁴³ the "Jerusalem School" dominated Israeli sociological literature for many years. Coming from a structural/functional/systemic school of thought, his early writings depict Israeli society as a system in which the state, driven by a dominant ideology of national Zionism, exists at the center. The state is the source of institutional authority, but also of society's values, norms, and symbols, and a focus around which consensus and solidarity are built. This model fits the evolution of Israeli society from a small community of pioneers to a society integrating new immigrants into a "melting pot" while preserving its basic institutional and cultural structure. In this model, culture is seen as the major force for social change, with the Jewish secular culture predominating society.

The economic structure of the third sector, especially its revenue structure, corresponds very well with this line of analysis. As the source of authority for practically all aspects of Israeli life, the state is deeply involved in steering the third sector, allowing it a very small degree of independence. Although certain aspects of the existing (sectoral) welfare service system were maintained within the third sector when the state was created, the state's system of financial support and supervisory mechanisms practically turned the organizations into public services. Likewise, the ability of the "National Institutions" to control Diaspora donations and steer them

towards targets defined by government exemplifies this idea of the state as the dominant center of Israeli society. Finally, the fact that the government has been the major source of funding for nonprofit organizations reflects the notion that such organizations are established to serve the public and their existence and survival depend upon the government.

The second major sociological school of thought is “functionalism revisited,” propounded primarily by Lissak & Horowitz.⁴⁴ This group, writing from the late 1970s onward, was no longer able to ignore the inner tensions and conflicts within the society, yet did not use a conflict model to analyze them. Their major model is a system model that went astray: The rifts and conflicts within society are offset by a broad common denominator that enables society to exist and function despite the fact that it is simultaneously cohesive and divided. This is explained by the fact that the rifts are not dichotomous but graded. The political center is the focus where these conflicts are handled and resolved through negotiation and coalitions.

The government recognized the multi-faceted nature of Israeli society when it enacted the Law of Amutot in 1980. Thus, the third sector has become an arena in which societal cleavages and secondary centers of power are expressed. This has been reflected in the emergence of hundreds of new “civil society” organizations among different types of populations, many of them are not part of the dominant elite. Yet, the third sector, a multi-faceted entity representing diverse interests and orientations, must operate within the accepted framework of the state. Furthermore, the sector’s dependence on and identification with government demonstrates the enduring dominance of the major political center.

The third major sociological school of thought in Israel is “critical sociology”.⁴⁵ It primarily criticizes the functional school of thought that has assumed culture and ideas to be the driving forces in society. “Critical sociology,” on the other hand, considers the elite and class relations, group interests, and power to be the major influences on society and its changes. Furthermore, the functional school of thought regards the central Jewish state as functional and therefore necessary, while the critical school perceives faults in this framework and attempts to change it.

Since the second half of the 1980s, several other theories have been derived from the “critical sociology” school of thought. *Elitism*⁴⁶ views society as a power struggle between elites. Shapira primarily analyzes the Labor movement as an elite power interested in preserving its hegemony in society. Etzioni-Halevy considers society to be composed of different elites (i.e., economic, religious, political, military) and analyzes relationships among these various factions. Both scholars regard the third sector

as a domain that the ruling elite utilize and sometimes co-opt: The Labor movement preserved the nonprofit organizations after the state was created and integrated them into the state system; later, the right-wing/religious elite switched priorities and began to financially support other nonprofit organizations, such as religious education and cultural institutions and those supporting settlers in the West Bank. *Pluralism*⁴⁷ views Israeli society as being ethnically layered, with Ashkenazi Jews trying to maintain their dominance over other ethnic groups through paternalistic cooptation (“immigration absorption”) and other socializing mechanisms (with regards to the Mizrahi population) or through military force and economic dependence (with regards to the Arab minority).

*Marxism*⁴⁸ and *colonization*⁴⁹ regard the development of Israeli society in terms of a power struggle based on class or national domination, respectively. The closed nature of society for the first thirty years of Israel’s existence enabled its leaders to shape institutions so as to preserve their advantage. In this scheme, the elite used nonprofit organizations as vehicles of control and recruitment, as is evidenced by the lack of organizations critical of the state during this period and the fact that the third sector is composed primarily of service-oriented organizations.

In addition to these sociological analyses, there also have been quite a few from a political science perspective focusing primarily on the past two decades and the changes the political system underwent after its major national crises in the 1970s. Some of these changes, such as the decline of ideological politics and the rise of personalized politics, and the growing role of the media in politics, have indirectly impacted the third sector. However, other changes, primarily those related to civic participation, Israeli political culture, and the decline of political parties, have had a direct bearing on the third sector.

While a number of leading veteran political scientists⁵⁰ focused on the structural properties of the democratic regime in Israel (the three government branches, the elections, the multiple party system, etc.), by the mid-60s as noted by Galnoor,⁵¹ participatory democracy in the Israeli system was lacking. In fact, citizens’ participation in policymaking and implementation was not a prevalent norm. The encouragement and involvement of concerned parties, individuals, or collectives in policy has not been a part of the Israeli democratic tradition. In fact, government has assumed a role of supremacy, whereby it is understood that government officials know what is best for their service recipients⁵². This reality was evident in the third sector during the early years of the state until the 1970s as Kramer⁵³ noted in his pioneering study of voluntary organizations. Likewise, Yishai⁵⁴

found that Israeli interest groups were only able to present their demands through the political parties and that no direct lines of communication existed between those groups and government decision-makers, thus, presenting a paternalistic/clientelistic culture.

In terms of political culture—a complex concept that focuses on attitudes of a given population towards different aspects of the political institutions governing them—it is well accepted among political scientists that the level of trust in the political leadership and political institutions during the Statist period was high. After the establishment of the State, the Jewish population highly valued the leadership and its institutions. However, this high level of trust—in the leadership as well as in national institutions such as the Knesset, political parties, the public administration, and to a lesser extent the army and the court system—declined sharply in the 1970s, especially after the Yom Kippur War, and has never been restored. And so, specific groups and populations have come to solve difficult problems on their own. Since the early 1980s thousands of new citizen-initiated nonprofit organizations (Amutot) have been established around a wide variety of topics. Not all of these new organizations have been service-oriented; some were established in order to pressure government to act in neglected areas.

Likewise, the ideological political parties, a remnant of the pre-state era, have been in decline since the major national crises of the 1970s. In the past, each party had a political platform that was all-encompassing (i.e., socialism, liberalism) and provided a framework with which each voter could identify. Over the last 20–30 years however, the parties emerged are sectorial or single-issue and these gained growing electoral power. These trends have impacted the third sector. In the past, the parties served as intermediaries between government and the population, now nonprofit organizations have assumed this role. Therefore, nonprofit organizations have come to represent specific interests and fight for them, as evidenced by the growing advocacy role of these organizations.

VI. POLICY DEVELOPMENTS

In reviewing government policy vis-à-vis the third sector in Israel, one immediately encounters a major paradox. While nonprofit organizations handle important areas of public life and receive very significant amounts of public funding,⁵⁵ there is no clear or stated policy towards these organizations as a distinct category, nor has the government established to

date a public body to develop such policy. The sector's current status has evolved over the years from responses to historical processes, constraints, and pressures of various kinds rather than from a comprehensive and well-developed concept of the sector's role. Laws, ordinances, regulations, and procedures governing the activities of nonprofit organizations exist and define the relationships between these organizations and governmental authorities; however, it is practically impossible to identify any documents that provide the basis for these laws and regulations.

Yet, the fact that very significant governmental funds are allocated to nonprofit organizations—a trend that has developed over many years—indicates a *de facto* policy that is dynamic—it develops and changes. Such changes generally have resulted from a specific governmental authority's action or a Supreme Court intervention in response to a concrete situation requiring attention, usually in a certain area of practice (i.e., higher education, health) or a particular set of organizations (i.e., *Yeshivot*—Torah institutes). Thus, the changes were not based on comprehensive discussion in the government or the Knesset regarding policy toward the sector as a whole, and pertained only to the specific situation under consideration.

The lack of any formal documents regarding government policy vis-à-vis the third sector makes it impossible to find an official rationale for developing a formal relationship with these organizations. Thus, an alternative way to analyze the *de facto* policy is to examine the data on government funding patterns to the third sector. This analysis can reveal the overall dynamics of and forces behind the government's vague and indeterminate policy and its rationale for keeping it intact.

When reviewing the history of the Third Sector in Israel, it is obvious that this group of organizations has primarily been viewed as mechanisms created in order to achieve instrumental goals within a broader ideological framework. They were not perceived as entities with distinct societal roles, whose preservation and nurturing is important regardless of the instrumental achievements they might have. Policy towards them clearly reflects that notion. This is particularly evident in the system of public financing of the Third Sector.

A. RATIONALE FOR PUBLIC FUNDING OF NONPROFIT ORGANIZATIONS

The current system of public funding for nonprofit organizations in many respects reflects the traditional status and roles of these organizations in Israeli society. On the one hand they serve as the “executive arm” of the government's welfare policy, complementing services the state does not

provide. On the other hand, they also represent specific political interests with strong links to political parties.

Most government ministries fund nonprofit organizations to a significant extent, and some, such as the Ministry of Labor and Social Welfare and the Ministry of Education, have even initiated the establishment of nonprofit organizations and assigned them various government tasks. However, the manner in which the government approaches these organizations varies and can be distinguished according to the following three categories: 1) *Utilitarian-Pragmatic*. The government derives concrete benefits—including lower costs, a reduced number of civil service personnel, and a decreased administrative burden—from supporting nonprofit organizations and transferring government responsibilities to them. 2) *Political-Partisan*. Political parties formed nonprofit organizations in order to serve their political interests, such as providing various services to their members or to the populations they seek to attract. The ministries, which are controlled by certain political parties, therefore support those organizations that are directly or indirectly linked to them. 3) *Historical*. Nonprofit organizations provided certain key services (i.e., health, education, and cultural services) before the state was established. Government funding recognizes that these activities fall within the realm of the third sector and reflects long-standing traditions.

Thus, the extent to which the nonprofit organizations benefit the government or the political parties greatly affects their status and stability, regardless of the organizations' social significance. For example, when the Long-Term Care (Nursing) Insurance Law providing services for disabled elderly was instituted in 1988, the government decided to give non-governmental organizations (both nonprofit and for-profit) the responsibility for implementing the law. As a result, many nonprofit and commercial organizations emerged in this field. A few years later, the government decided that the existence of so many organizations placed a heavy administrative burden on the government and made supervision difficult. Consequently, the government decided to significantly decrease the number of organizations receiving recognition as service providers, and several of these organizations likely will be impaired as a result. In addition, political considerations create a situation in which organizations with political affiliations enjoy generous government support, while those without receive minimal or no support.

B. MAJOR FORMS OF PUBLIC FUNDING FOR NONPROFIT ORGANIZATIONS

Government funding of nonprofit organizations in Israel is both *direct*, through contracts and grants, and *indirect*, through the bestowal of a variety of benefits to the organizations and their donors. It involves institutions on the national and local levels. Since much of the funding data are incomplete or altogether unavailable, we focus on the four *major* forms of funding and present empirical data on their distribution only.

Contracts for purchase of services by the government from Third Sector organizations are the largest and the most important form of *direct* funding. These contractual arrangements are divided into two forms: *Legislated support* and *disbursements for services*. *Legislated support* refers to budgeted, long-term contracts, mandated by law, and based on a “basket of services” principle—a certain minimum level of services that the government is committed to provide to the population. These contracts are made with organizations that replace or supplement the government’s provision of specific services, mainly in primary health care, higher education, certain primary and secondary education, boarding schools, nursing care for the elderly, research and culture. *Disbursements for services* are short-term contracts for services that government ministries occasionally buy from nonprofit organizations. Examples include providing a variety of services to new immigrants, job training, etc. For both types of contractual agreements, the government sets the criteria and conditions for recipients’ eligibility for services and the price they must pay (if any); the ministry also supervises the activity.

This system of contracts, especially the *legislated support* framework, is founded on a sound basis, namely one that ensures that the grantee provides a certain level of service for the funds disbursed, with appropriate public supervision and scrutiny. Yet in reality, for historical and political reasons, those contracts are granted to a relatively small number of large organizations (these include the six universities in higher education, the four sick funds in health, the three large women’s organizations in daycare, the major national theaters and orchestras, the major research institutes, etc.) with very little room for new organizations. Likewise, these established organizations are loath to share the same amounts of funding among an expanded number of organizations. Thus, although this policy has created stability among the large organizations, it does not encourage innovation and development.

Support grants are another form of *direct* funding that government ministries allocate to organizations. The intention is that the grantees will “promote the policies of the [particular] ministry.” Previously, the ministers distributed these funds (termed “*particular funds*”) at their own discretion, primarily to their own politically based nonprofit organizations. As a result, the grants now must be allocated according to an established procedure that is intended to ensure equal opportunity in securing the grants and is the same across all ministries. Each ministry must set specific criteria for the allocations, which the Attorney General must approve, then the criteria must be publicized. The ministries also are required to form a Support Grants Committee to discuss the applications. Nonetheless, these complex requirements often are bypassed at the national, ministerial, and local levels.⁵⁶

Grants from the *bequests fund* constitute another important source of *direct* funding for the third sector. These funds are accrued from estates that have been transferred to the state and are administered in which government ministries recommend and an independent public committee headed by a judge authorizes grants. However impartial this process appears to be, it involves a *de facto* ministerial involvement and thus the allocation procedure is politically controlled.

Additional sources of *direct* public financial support for nonprofit organizations include grants from the *National Insurance Institute* for projects involving the disabled; *The Jewish Agency* through a variety of mechanisms; *local authorities* through their own “support committees”; the two *national lotteries*, one of which supports sports; and recently a special fund set up by the *Speaker of the Knesset*.

While the system of contracts, especially within the *legislated support* framework, involves relatively few political considerations and is managed at the administrative and professional levels, political considerations are apparent and clear in the distribution of grants, as has been noted in the discussions of *Support Grants* and the *Bequests Fund*. Such a politically motivated system of allocation, a remnant from the past when service organizations promoted sectorial political goals, obviously is prone to both political and economic abuse and misuse, as has been evidenced over the past decade.

Indirect support for nonprofit organizations consists of various tax breaks for organizations and donors, including tax benefits for donors to some Third Sector organizations,⁵⁷ property tax and capital gains tax exemptions, reduced VAT and others at the national and local levels. These

various forms of indirect support too very often involve political considerations and are many times granted based on personal ties.

Although the wide variety of support available to nonprofit organizations described above may seem indicative of a developed, well-considered system designed to encourage and promote such organizations, in reality the opposite is true. In fact the system is fragmented, without an ideational, philosophical center, and simply represents arrangements that different constituencies were able to obtain for their respective nonprofit organizations. Once institutionalized, some of these arrangements—after being tested in court for equality—were generalized to other types of organizations.

Moreover, this entire system of funding encourages many nonprofit organizations to gear their activities towards those that are likely to be funded. Furthermore, sometimes the receipt of public funding is a prerequisite for receiving additional public monies, as has been the case with the National Insurance Fund. The Registrar of Amutot recently disclosed that some 7500 Amutot have requested a certification of “appropriate management,” which is needed to be eligible for public funding. These expectations reflect the third sector’s traditional dependence on the center and the lack of alternative funding sources, which the government has not been interested in developing.

In addition, in many instances, these forms of support are *not* targeted solely towards nonprofit organizations. The same policy procedures for awarding contracts to nonprofit organizations usually apply to for-profit organizations (i.e., nursing services for the elderly), and public agencies follow the same procedures as nonprofit organizations to receive grants (i.e., grants from the Bequests Fund also are allocated to public sector organizations both nationally and locally). This lack of distinction between the different types of organizations receiving public support reflects the blurred boundaries between the various sectors involved, and the lack of a concrete policy regarding the third sector.

Thus, the idea that the third Sector can potentially represent civil society—namely an independent, heterogeneous, vibrant, creative, and innovative set of organizations that reflects the needs, interests, and desires of the different groups that comprise Israeli society—currently is not reflected in government policy. This contrasts with the legal structure pertaining to the third sector, where the freedom of association is expressed and protected by law in a variety of ways and has been upheld several times by the Supreme Court.

VII. CONCLUSIONS: IMPLICATIONS AND FUTURE DIRECTIONS

A. IMPLICATIONS FOR NONPROFIT THEORY

As previously discussed, the social origins theory comes closest to providing a framework that explains the nature and development of the sector, but is incomplete. We found that the concept of using a wide variety of social, political, and other factors to explain the current structure and nature of the sector is most sound. However, the unique history of Israeli society and the influential forces that have shaped it make it impossible to compare its third sector to those in other countries. Thus our analysis revealed the need to categorize societies around an organizing principle other than the welfare regime. Obviously the history of the welfare state is intimately related to the history of the third sector, especially its economic growth. Yet nonprofit organizations and the third sector as a whole do not just provide welfare services but play a variety of additional societal roles, as is evident in Israel. A welfare state focus and a welfare regime explanation of third sector dynamics obscure these other roles.

B. IMPLICATIONS FOR INTERPRETATIONS OF ISRAELI SOCIETY

Although nonprofit organizations in Israel were never the focus of systematic research, this study reveals that these organizations are intertwined closely with society's history and development. Nonprofit organizations have been an integral part of society from the Diaspora to the present, so that in many respects the study of the third sector is the study of Israeli society. The fact that nonprofit organizations have fulfilled distinct roles during different historical periods accentuates the sensitivity of these organizations to the contextual forces and trends in society, as well as their ability to adapt.

As we saw, the nonprofit angle is a missing one in the study of the Israeli society and polity, and adding it will surely provide an important dimension to such studies. However, as in other countries, the diverse character of the nonprofit sector in Israel makes it rather difficult to use the characteristics of the *entire* sector to make a point, or conversely to look for its usage/impact on the *entire* society. As shown above, from the analysis of the various sociological and political schools of thought interpreting the Israeli society and polity, depending on one's perspective and time frame, the nonprofit angle can be used to explain both integrative as well as disintegrative aspects of the society. Such interpretations can be obtained when analyzing the structure of the nonprofit sector, the roles nonprofit

organizations play in society and/or the policies towards the sector. Thus, adding the nonprofit angle in a historical analysis of the Israeli society and using that aspect in discussing societal development can be very beneficial in future analyses of the Israeli society.

Furthermore, it would seem to us that an appropriate approach to view data on the nonprofit sector and to apply those to the Israeli society would be to probe into the contribution/use of the nonprofit *organizational form* in the development of *specific aspects* of the society. This type of analysis could focus either on substantive areas such as the welfare system, civil society, political reform, the environment, etc., or on population groups - immigrants, Arab, the elderly, etc. or some other such (defined) configuration. Such an analysis will focus on the specific role(s) of nonprofit organizations in the specific case, focusing on the variety of these roles (service provision, funding and advocacy) as well as the interaction of these organizations with organizations in the other sectors in developing a certain area or field.

C. IMPLICATIONS FOR POLICY AND PRACTICE

Philanthropy—from both the general public and the business sector—is one of the most important areas where new policy is needed in Israel. In the past, primarily for ideological reasons, Israelis were not encouraged to donate money since this practice was equated with the Jewish Diaspora. A number of factors—including ideological changes, a focus on individualism, a new perception of the government's roles, a decline in donations from Diaspora Jewry, Israel's economic development, and the needs of a new breed of nonprofit organizations—have changed the philanthropic situation in Israel. Specific policies, including tax reforms, are needed to encourage giving and the establishment of private and corporate foundations.

Hence, there is a need for policies that promote openness and expose nonprofit organizations' financial matters in order to develop trust among potential donors. An educational program that informs board members of their roles and responsibilities should accompany such policy.

Based on their different functions in society, there also is a need to differentiate, legally or policy-wise, between organizations that the government uses to provide a specific service and those organizations that are expressions of civil society. Organizations that provide government services receive direct government allocations and should not necessarily be entitled to other benefits since most retain a professional staff. An increased number of the organizations that reflect civil society should receive indirect support in the form of tax benefits to donors since these groups are based primarily on voluntary inputs.

In terms of the competition between organizations in the third and business sectors, there is a need to delineate the special role of nonprofit organizations in making a “public” contribution. This would justify the tax exemptions that nonprofit organizations receive. This could be achieved by investing in research or innovation among nonprofit organizations, a strategy that would benefit the entire field.

Finally, the politicization of the public allocation process, which has aroused suspicions and distrust of the third sector, needs to be revised and replaced with a system that is more transparent and available for public scrutiny.

NOTES

1. Throughout this chapter, we use the term, “Third Sector” to mean “Non-profit Sector.”

2. L. Salamon, & H. Anheier, “Social Origins of Civil Society: Explaining the Nonprofit Sector Cross-Nationally,” *Voluntas*, 9 (3), 1998, pp. 213–48.

3. Quantitative information on the third sector exists, but it is seldom classified as such, nor is it differentiated from data on other types of organizations. As much as possible, the quantitative section of the project was based on existing information pertaining to nonprofit organizations, which had to be located, adapted to the definitions of the project, and supplemented with specific surveys, as needed. We collaborated with the National Accounts wing of the Central Bureau of Statistics and the Department for Nonprofit and Public Institutions of the Income Tax Authority. The data existent in the databases of these two institutions was complemented with a survey of giving and volunteering of the Israeli adult population. Unless otherwise noted, all data presented pertain to 1995. Monetary values are expressed in New Israeli Shekels (NIS; the average exchange rate in 1995 was \$1US = NIS3.01).

4. This number would be much greater if the employees and not the number of positions were counted, as the nonprofit organizations, particularly the small- and medium-sized organizations, frequently employ many part-time workers.

5. A comparison without agricultural work was requested as part of the international comparison. In Israel the non-agricultural work force is approximately 97% of the total work force.

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7. L. Salamon, H. Anheier & Associates, *The Emerging Sector Revisited: A Summary* (Baltimore, 1998); L. Salamon, H. Anheier & Associates, *Global Civil Society: Dimensions of the Nonprofit Sector* (Baltimore, 1999).

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9. Central Bureau of Statistics, *Survey of Revenues and Expenditures of Non-profit Institutions, 1980–1996* (Jerusalem, 1998).

10. See: B. Gidron & H. Katz, *Defining the Nonprofit Sector: Israel* (Baltimore, 1998).

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16. E. Friesel, “Defense, Assistance, Continuïte, Fondation: les Institutions Sociales Modernes” in Sh. Trigano (ed.) *La Societe Juive a Travers L’histoire*, V.II. (Paris, 1992).

17. B. Gidron, “The Evolution of Israel’s Third Sector: The Role of Predominant Ideology” in *Voluntas*, 8, 1997 pp. 11–38; E. Jaffe, “Sociological and Religious Origins of the Non-Profit Sector in Israel.” *International Sociology*, 8, 1992, pp. 159–176; F. Loewenberg, “Voluntary Organizations in Developing Countries and Colonial Societies: The Social Service Department of the Palestine Jewish Community in the 1930s.” *Nonprofit and Voluntary Sector Quarterly*, 20, 1991, pp. 415–428.

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20. A. Doron & R. Kramer, *The Welfare State in Israel—The Evolution of Social Security Policy and Practice* (Boulder, CO.1991) p. 14.

21. Horowitz & Lissak, p. 45.

22. Y. Reiter, *Islamic Endowments in Jerusalem under British Mandate* (London, 1996) p. 38

23. M. Dumper, *Islam and Israel—Muslim Religious Endowments and the Jewish State* (Washington, D.C, 1994) p. 21; B. Ibrahim, “Indigenous Philanthropy in the Arab World: Contrasting Cases from Egypt and Palestine” in K. McCarthy, V. Hodgkinson & R. Sumariwalla (eds.), *The Nonprofit Sector in the Global Com-*

munity (San Francisco, 1992), p. 416; Y. Reiter, *Islamic Endowments in Jerusalem under British Mandate*, p. 190.

24. M. Dumper, *Islam and Israel*, p. 24; Y. Reiter *Islamic Institutions in Jerusalem* (London, 1997) p. 6.

25. Y. Galnoor, "Israel Democracy and Citizen Participation", *Molad*, 41, 1982, pp. 71–87 [Hebrew].

26. B. Gidron, "A Resurgent Third Sector and its Relationship to Government in Israeli" in B. Gidron, R. Kramer & L. Salamon (eds.), *Government and the Third Sector—Emerging Relationships in Welfare States*, (San Francisco, 1992), p. 180.

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31. B. Gidron, "The Evolution of Israel's Third Sector", p. 24.

32. Dumper, *Islam and Israel*, p. 726.

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54. Y. Yishai, "State and Welfare Groups: Competition or Cooperation? Some Observations on the Israeli Scene", *Nonprofit and Voluntary Sector Quarterly*, 19, 1990, pp. 215–35; Y. Yishai, "Civil Society in Transition: Interest Politics in Israel."
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