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The Neoliberal Targeted Social Investment State: The Case of Ethnic Minorities

AMOS ZEHAVI* AND DAN BREZNITZ**

**Department of Political Science and Department of Public Policy, Tel Aviv University, Tel Aviv 69978, Israel*
email: amos.zehavi@gmail.com
***Munk School of Global Affairs, University of Toronto, Toronto, Ontario, Canada*
email: dan.breznitz@utoronto.ca

Abstract

Neoliberal governance has been associated with rising inequality and economic exclusion. Recent scholarship proposes that the social investment state (SIS) is a turn away from such inequality and exclusion-enhancing neoliberalism. The ideal SIS responds to neoliberalism-generated social ills by investing in the productive capacities of *all* its citizens. However, commentators ask whether an SIS addresses the plight of weaker elements in society, specifically that of disadvantaged ethnic minorities. This paper looks specifically at this question by utilising a critical-case study research design of a surprising example of social investment in disadvantaged ethnic minorities: the extensive labour market policies for Israeli Arabs. This paper introduces the concept of a *neoliberal targeted SIS* in which social investment programmes are developed for economic reasons, promoted by neoliberal actors (right-wing parties and Ministries of Finance), target narrow groups instead of being applied to all, and the preferred mode for the delivery of services is private. Egalitarian outcomes – to the extent that they materialise – might be thought of as a policy by-product.

Introduction

Since the 1980s, most advanced industrialised countries have experienced rising income inequality (OECD, 2011). At the same time, a growing awareness of social and economic exclusion of different groups – defined along ethnic, racial and religious lines – has emerged in all these countries. Numerous studies have stressed that neoliberal governance, which is generally suspicious of extensive state intervention in the economy, is at least partly responsible for growing inequality and the severity of ethnic-based exclusion (Pickles and Begg, 2000; Trehan and Sigona, 2010: 215). However, scholars have recently heralded what they argue is a turn away from such inequality- and exclusion-enhancing neoliberalism, the social investment state (SIS).

The SIS, according to this new scholarship, responds to neoliberalism-generated social ills by specifically investing in the productive capacities of *all* its citizens. The resulting growth in productive capacities – especially among the weaker elements in society – leads to improved welfare and diminishing inequality and exclusion. Thus the SIS is presented as the new left 'Third Way' optimum: an inclusive agenda that adheres to market-based solutions. Accordingly, the SIS holds the dual promise of sustained growth, on the one hand, and a more inclusive and more equitable future, on the other.

Of course, some people are more vulnerable than others and could therefore gain more from the emergence of the SIS. In terms of specific domains of interest, recent events in Europe, the United States and elsewhere focus attention on the precarious position of different ethnic minorities, making them a potentially important target for SIS-inspired policies in contemporary economies. In focusing on the SIS–ethnic minority relationship, we address a significant research gap in the SIS literature: our current knowledge regarding whether, why, and how the SIS addresses the plight of ethnic minorities is very limited (see Morel *et al.*, 2015: 135). In addition, we add to the growing scholarship on the SIS by investigating in this context an important variant of the SIS, the neoliberal SIS, which departs from traditional 'minimal intervention' neoliberalism and differs considerably from the social democratic SIS mostly found in Nordic countries.

In this study, we use a critical-case study research design to explore a surprising example of social investment in disadvantaged ethnic minorities: the extensive novel labour market policies for Israeli Arabs, developed and implemented by the nationalist, right-wing, and – at times – publicly anti-Arab governments that have ruled Israel since 2009[1]. This investigation demonstrates that the SIS could emerge even under conditions that appear to be stacked against it.

Our investigation leads us to three central insights associated with a neoliberal variant of the SIS. First, not only has social investment policy emerged but much of it narrowly targets disadvantaged minorities. The reason for this targeting is associated with the market-based economic rationale that supports its implementation. Neoliberal governments and powerful bureaucratic actors (e.g., finance ministries) are willing to advance SIS only in specific cases in which they believe a demonstrated market failure suggests positive economic returns on investment.

Second, the motivation for embracing such an SIS is economic and, in fact, has a distinct *neoliberal* flavour to it: (i) its overarching goal is growth, and it is expressed in the language of overcoming market failure/s (not achieving social equity); (ii) it is supported by actors that are adherents of a neoliberal worldview, such as right-wing parties and the Ministry of Finance (MoF); and (iii) its proponents favour social investment by the private nonprofit sector, rather than the public state sector .

Third, the emphasis on economic growth as the ultimate investment goal along with the 'narrowness' of the SIS contributes to the political feasibility of targeting minorities. The fact that SIS policies are articulated in terms of addressing market failure to enhance national economic growth through better utilisation of high-value labour resources, instead of helping ethnic minorities for social reasons, makes them acceptable to a non-minority audience. In addition, although the implementation of a general SIS is bound to be expensive, targeting only specific groups involves lower costs and, correspondingly, less politically problematic trade-offs. Indeed, low costs might also help reduce visibility – and therefore potential opposition.

In the following section, we elaborate on the SIS concept and its emergence. We then justify our case-study choice for exploring how the SIS addresses economic exclusion of a disadvantaged minority: Arabs in Israel. The empirical section describes the rise of different SIS-type programmes in Israel, the reasons for their emergence and the main actors involved in the process. We briefly show how insights from the Israeli case study apply to other environments before discussing our main conclusions in the final section.

A Social Investment State – for minorities?

The SIS concept refers to government policies that aim to support individual welfare by enhancing individual productive capacities (Morel *et al.*, 2012; Van Kersbergen and Hemerijck, 2012; Hemerijck, 2013; Midgley *et al.*, 2017; Deeming and Smyth, 2018). Following the classification introduced by Hemerijk (2015), social investment programmes generally fall into one of three categories: stocks, flows or buffers. By stocks, Hemerijk means investments that enhance the human capital and capabilities of individuals. Investments in education, vocational training and lifelong learning are advocated as essential for building an economy's human capital stock.

Flows refer to support for labour market and life-course transitions (e.g., rehabilitation or job placement). Buffers are the least self-evident category, as they refer to prerequisites for effective social investment. Programmes that constitute safety nets to ensure against common adversities that people encounter during their life course – for example, health problems or lack of adequate housing – are essential for retaining a person's productive capacities.

Clearly, some of these programmes blur the lines between consumption and investment. For example, housing benefits could constitute a 'buffer', assuming that adequate housing would enable beneficiaries to realise their productive potential more fully, but housing benefits also directly support consumption and might diminish incentives to participate in the workforce as a basic need is publicly provided. This ambiguity is explicitly expressed in de Deken's (2014) continuum of social investment programmes, which is based on the degree to which they are likely to create labour market productivity returns. Although buffer-type programmes are closer to the less-likely pole of this continuum, they are still an essential part of the social investment approach. In general, social investment programmes have in common a focus on supporting supply-side programmes, yet this does not preclude demand-side programmes, as discussed later.

Such investment programmes appear to depart from neoliberal perspectives of government in terms of their motivation and scope. The objective of these programmes is to address social inequities – primarily poverty and inequality – by enabling all citizens to increase their productive potential. Indeed, a popular narrative regarding the emergence of the SIS is that it developed as a response to the insensitivity of neoliberal governments in the 1980s and 1990s to these social ills: neoliberal governments that set their sights on increasing aggregate welfare – that is, economic growth – and were normatively oblivious to its distribution across society (Hemerijck, 2013). Moreover, in its very emphasis on state investment, the SIS also departs from the strict non-interventionist spirit of neoliberal doctrine.

Nevertheless, the SIS is compatible with neoliberalism in arguing that sustainable welfare must rely primarily on individuals' productive activities within a market context. For this reason, although 'consumption' programmes (e.g., long-term unemployment benefits) are not abandoned, they are deemphasised. More generally, proponents of the SIS view it as a paradigm that allows governments to pursue both social equity and economic growth, which is buoyed by growing labour participation and workforce quality (Beramendi *et al.*, 2015; Hemerijck, 2013; Morel *et al.*, 2012).

However, from an empirical standpoint, it is not entirely clear to what extent the SIS rhetoric becomes policy reality, or for whom. In terms of policy rhetoric, it appears that at least Europe has undergone a significant turn towards social investment policies in the Lisbon and Europe 2020 strategies (Cantillon and Van Lancker, 2013; Vandenbroucke and Vleminckx, 2011). Nevertheless, the data-based evidence to support this 'social investment' turn is ambiguous at best. Most studies find increased investment in specific countries – generally Nordic ones – and in particular programmes, but no general social investment trend (Kuitto, 2016; Van Vliet and Wang, 2015).

Furthermore, Cantillon and Van Lancker (2013) ask: who are the beneficiaries of these programmes? Is the SIS able to address issues of inequality and poverty? Their concern is that social investment programmes are often designed in ways that, instead of focusing on the disadvantaged, favour dual-worker households that are disproportionately already better off. Similarly, Morel *et al.* (2015), who in general have a favourable view of the SIS, articulate the concern that the SIS, as currently structured, does not do enough to address inequality. More specifically, they argue that this issue is especially notable with respect to ethnic minorities that, even in the Nordic countries, are not well integrated into the labour market (p. 135). It seems that, even if the SIS is making strides, it could very well leave behind ethnic minorities: a growing demographic whose economic exclusion in Western countries is rapidly becoming both a social and a political crisis.

As shown numerous times in studies, ethnic minorities tend to be politically weak, and this weakness tends to translate into marginal policy positions (Givens, 2007; Bloemraad and Schönwälder, 2013). Indeed, in some cases, not only do ethnic minorities suffer from inattention but they are also actually subject to negative attention from right-wing nationalist anti-immigrant and anti-minority mobilisation. Ergo, focused attention on ethnic minorities by the SIS is far from a given considering the political context. Perhaps the best hope for these unpopular groups is that universal SIS programmes would benefit them as part of the general population, thus reducing attention to specific minority involvement in the programmes.

Nevertheless, in this study we show that even SIS programmes that specifically target disadvantaged minorities are politically feasible. Although disadvantaged ethnic minorities tend to be political-economic outsiders (Rueda, 2005), left-wing parties might bring them into 'new coalitions' of outsiders that are supportive of SIS (Häusermann, 2010). Left-wing parties appear to be minorities' natural allies because of their third-way-type support for social investment in general and the fact that, historically, ethnic minorities had a closer political relationship to the left than the right in developed economies (Bloemraad and Schönwälder, 2013).

We argue, however, that SIS-type programmes could also be championed for other reasons and by other actors. Primarily, governments intent on enhancing worker productivity, and in so doing accelerate economic growth, could support the SIS for economic reasons (Beramendi *et al.*, 2015). Hence, the SIS could appeal to right-wing neoliberal actors, such as parties, and ministries of finance as an economic growth tool. Support for disadvantaged minorities is justifiable from a purely economic perspective as a means for overcoming market obstacles or failures, for example, limited access to capital. Obstacles are not necessarily encountered to the same extent by other disadvantaged groups. Such actions clearly depart from a rigid neoliberal anti-interventionist doctrine. However, it is unlikely that neoliberal policy makers would invest indiscriminately: they would invest based on the expected returns and disadvantaged individuals who are not considered a 'good investment' would be less likely to receive support.

Studies focusing on Active Labour Market Programmes (ALMPs), a central plank of any social investment approach, have shown encouraging results for minority participants, often better than for the majority group (Greenberg *et al.*, 2003; Heinesen *et al.*, 2013). This suggests that minority-targeted investment programmes could offer the types of economic returns sought by neoliberal policy makers.

A targeted 'narrow' approach to supporting minorities through the SIS could also contribute to implementation. The more targeted the programme, and the less extensive its scope, the less costly it will be. This is likely to reduce opposition within the government, especially from a budget-conscious finance ministry.

In sum, it should not be taken for granted that the SIS would pay special attention to disadvantaged ethnic minorities. However, SIS programmes targeted at disadvantaged minorities could benefit not only from the support of left-wing parties pursuing egalitarian goals, and votes, but also from the support of economically motivated right-wing neoliberal elements and encounter little opposition because of the programmes' limited scope.

Case selection and methods

We focus on an example of growing social investment that benefits the type of vulnerable group that Cantillon and Van Lancker (2013) fear is too often ignored: ethnic minorities. To do so, we specifically followed the strategy that is 'least likely' in terms of the likelihood of SIS emergence[2]. In this light, the case of the Arab citizens of Israel, a large disadvantaged ethnic minority, is especially compelling.

As a backdrop to the Israeli-Arab conflict, relations between the government and Arabs involve a history of state discrimination against Arabs: discrimination that, according to some commentators, has neither disappeared nor diminished (Yiftachel, 2006; Reiter, 2009; Jamal, 2011). A recent government-sponsored report confirmed that Israeli Arabs are disadvantaged not only in terms of economic outcomes but also in terms of allocations of government funding in a range of areas (TASC Consulting & Capital, 2015). Moreover, while Arabs vote in general elections, and Arab parties are a staple of Israeli politics, Arab political power is weak. Arab parties have yet to be included in a government coalition. Hence, social investment programmes targeted at the Arab minority in Israel appear especially unlikely, because this minority lacks the political muscle to effectively demand investment, and little political will appears to be in evidence to extend support – investment or consumption oriented – for an unpopular minority. Therefore, it is clear why Israel would be considered especially inhospitable to minority-targeted social investment. This is also why Israel provides some surprising lessons regarding the SIS.

Due to space constraints, we cannot present all relevant social investment programmes and, instead, focus on government policy as it relates to Israeli Arabs in ALMP, Research and Development (R&D) and transportation. ALMPs are universally considered a core element of the SIS, as their explicit intent is to better integrate workers into the labour market (although not public job creation programmes; see Bonoli, 2012). The choice of transportation and R&D was motivated by a desire to demonstrate their relevance – generally unappreciated to date – to social investment and, in the case of R&D, to present a rare example of a social investment programme (R&D) focused on the demand side of the labour market.

The selection of a single case study for in-depth analysis allows not only for a detailed description of government programmes but also for an informed discussion of the motivation underpinning these programmes. Consequently, the Israeli Arabs' case study not only offers a 'least likely' case for social investment in minorities, an under-researched aspect of the SIS, but also could help explain why right-leaning, rather than just exclusively left-leaning, governments might move in an SIS direction.

To conduct our study, we employed a range of qualitative methods. In order to explain processes, we analysed government documents from both parliamentary committees (using keyword searches, e.g., 'Arabs' and 'social expenditure') and relevant executive agencies/departments going back to 2000. This allowed for some variation in the left-right orientation of governments, as the government at the start of our study period leaned more to the left. We also surveyed newspaper coverage for the same period using Hebrew newspaper search engines. Lastly, utilising semi-structured interviews, we studied the experiences and impressions of different actors involved in the policy process. We conducted over forty interviews focused on different aspects of Arab integration with former government ministers, members of parliament from the entire political and ethnic spectrum, high-ranking civil servants, leaders of relevant non-governmental organisations (NGOs), and Arabs involved in government programmes as both clients and workers. Such interviewee diversity enabled the triangulation of information, increasing validity and reliability. Interviewees were selected for their institutional position (e.g., former minister of welfare) or because they were mentioned in reference to policy/programmes in government documents, in newspapers or by other interviewees.

Arab-targeted government programmes

Israeli governments have embraced the SIS, but it fails to show up in macro-level figures. Investment in public education during the first decade of the twenty-first century remained stable: it made up 5.2 per cent of the gross domestic product (GDP) in 2000 and was at the exact same level in 2012 (OECD, 2015a). The share of active labour market programmes (ALMP) – the other prototypical social investment programme – in GDP during these years declined from 0.2 per cent to 0.1 per cent (OECD.Stat, 2017). However, after unemployment rates are accounted for – a major determinant of ALMP spending – by dividing spending shares by unemployment rates, the decline remains but is smaller in magnitude (from 1.53 to 1.42)[3]. Nevertheless, an examination of aggregate figures could be deceptive, as the following review of the government's policy approach to the Arab minority suggests.

The Arab-Israeli minority (hereafter, Arabs)[4] is a large group with full formal citizenship rights: it comprises about 20.7 per cent of the Israeli population. Not all ethnic minorities are disadvantaged, but Arabs suffer from severe disadvantages compared to Israel's Jewish population. In 2011, Arabs comprised only 13.1 per

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cent of the workforce even though they make up 18 per cent of working-age adults. Hourly pay for Arab salaried workers is 43 per cent lower for men and 21 per cent lower for women than it is for their respective Jewish counterparts (Yashiv and Kasir, 2013). Unsurprisingly, low labour market participation and low pay result in family poverty rates that are well above the national average: 53.5 per cent compared with 19.9 per cent (National Insurance Institute, 2012).

ALMP are intended to increase employment, operating mostly through programmes focused on the supply side of the labour market: job training, job placement, and so on. The ALMP's goal is to structure programmes in ways that increase the capacity and motivation of individuals to participate in the labour market. Proponents of the SIS, however, stress that getting people into work is necessary but not sufficient. Programmes of this type must also pay attention to the quality of work, not just its availability. This view arguably departs from the neoliberal 'workfarist' goal of getting people off welfare regardless of the quality of work on offer (Morel *et al.*, 2015).

Until about 2005, the Israeli government paid little attention to the Arab sector despite its marginal social and economic position. However, in recent years, Arabs have received targeted and preferential treatment in a range of programmes despite the fact that recent governments are hawkish and lean to the right.

Arabs now receive preferential treatment in terms of wage subsidies. The Investment Promotion Centre (an agency of the Ministry of the Economy) offers wage subsidies to encourage employment in targeted areas (e.g., in economically less-developed regions). Although this is a general programme, it fixes wage subsidies at a higher rate for Arabs than for Jews. The number of Arab workers subsidised by the programme is small but is constantly growing: an increase from 266 in 2010 to 2,252 in 2013 (Ministry of the Economy, 2014).

Placement and one-stop-shop job centres are other avenues for the state to increase Arab labour participation. A new organisation, *El Fanar* (The Lighthouse), runs 21 government-funded job centres across the country specifically designed for the Arab public. These centres offer placement services, career counselling, and job training and actively solicit potential employers to recruit programme participants. Both the scale and the success rate of the programme have increased every year over its four-year existence: from 4,000 participants with a 40 per cent placement rate in 2012 to 8,080 new participants with a 68 per cent placement rate by 2015 (Ministry of the Economy, 2016). A recent OECD report, dedicated to labour market policy in Israel, described these centres as a 'welcome development' (OECD, 2015b: 11). Although, in principle, the job centres are intended for a diversity of occupations, the vast majority of placements are in low-skilled jobs.

El Fanar is a nonprofit specifically established for the purpose of running the job centres. Nonprofit organisation involvement reflects the general government (neoliberal) preference for indirect delivery but also appears to create a unique advantage in the Arab case. A beneficial by-product of nonprofit delivery is that nonprofits help to address the government's trust deficit of the Arab public. Given a long legacy of discrimination, Arabs tend to doubt the sincerity of government efforts. Nonprofits do not face similar suspicions and are therefore better able to elicit Arab cooperation. In numerous interviews with both government officials and Arab entrepreneurs, the opinion was expressed that nonprofits are better positioned than the government to engage with the Arab public because they do not engender the same distrust as government programmes.

Given that Arabs are, on average, less educated than Jews in Israel, and the neoliberal state's assumed emphasis on getting people into work regardless of workplace quality, government programmes are expected to be geared to the low end of the employment market. However, this does not seem to be the case. To begin with, in the past few years, the government has made Arab higher education a priority. Government subsidies are used to attract Arab high school graduates to higher education and to facilitate their transition from high school to higher education and from higher education to the labour market. Indeed, the Israeli government budgeted (in 2011) NIS 300 million over a six-year period for this purpose (Shaviv *et al.*, 2013)[5].

In the past decade, considerable activity, a combination of government and nonprofit, has centred on involving Arabs in Israel's technology-intensive industries, especially its thriving high-tech sector. For example, Tsofen, a nonprofit, works to increase Arab participation in high-tech industry, mainly through sponsoring training programmes but also through placement programmes and efforts to attract high-tech firms to Arab towns. Although it cooperates with the Ministry of the Economy, most of its funding comes from non-government sources (interview, 20 August 2014). Other nonprofits do not rely on government funding. One is Maantech, which facilitates the hiring of Arab engineers at large high-tech firms. It brings together representatives of different large multinational corporations (MNCs), such as Cisco and Microsoft, operating in Israel. Although the organisation is not a recipient of public funding, even here state involvement is important. The initiative to establish the organisation came in large part from the late president of Israel, Shimon Peres, who urged high-tech MNCs to increase the share of Arabs in their Israeli branch operations. In fact, even after the organisation was established, the President's Office regularly monitored its activities (interview, 2 June 2014). Hence, even when the state takes an arm's-length approach, it still takes a leading role in the promotion of Arab integration.

Several government initiatives are specifically intended to support the demand side of the labour market. A programme launched in 2014 by the Ministry of Economy's Office of the Chief Scientist, the agency in charge of Israel's R&D policy, specifically supports technology startups by Arabs (and ultra-Orthodox Jews, another disadvantaged demographic in the labour market). The programme offers preferential treatment for Arab technological entrepreneurs in terms of both the stringency of application-screening criteria and the generosity of public funding: while 'normal' startups must match public funding with private resources, at least at a one-for-one rate, Arab startups benefit from a funding ratio of 85 per cent (public) to 15 per cent (private). The programme, in its first year, extended grants to sixteen companies for a total of NIS 25 million (correspondence with the Office of the Chief Scientist, 21 December 2015).

Finally, efforts to invest in Arab labour market integration were also manifested in a programme dedicated to public transportation in Arab neighbourhoods. A major barrier to Arab access to the labour market is that most available jobs, especially higher-paying ones, are located outside Arab population centres, and no public transportation connects Arab towns to these workplaces. From 2010 to 2014, in several different programmes, the state invested NIS 312 million in an effort to improve the transportation infrastructure, including public transportation, from Arab towns to proximate non-Arab towns where work, and institutions of higher education, are located. Thanks to a government programme, in a single year (from 2011 to 2012), the number of weekly bus rides in Arab towns increased by about 350 per cent, from 33,450 to 117,900 (Prime Minister's Office, 2013). Between 2005 and 2014, the number of Arab neighbourhoods connected to the public transportation system increased from 81 to 138 out of 157 (Benita, 2016). A 2015 government decision (Israel Government Decision 922, 30 December 2015) decreed that 40 per cent of total annual public transportation infrastructure improvement funds or NIS 100 million (the higher of the two) be allocated annually for upgrading public transportation infrastructure in Arab towns over a five-year period.

In summary, the Israeli government launched, often in partnership with nonprofits, a range of new programmes aiming to better integrate the Arab minority into the labour market. Although many of these programmes fall neatly into common SIS categories, such as ALMP or education (e.g., job centres and higher education subsidies, respectively), other programmes are associated with areas outside most SIS discussions, for example, R&D and public transportation. These programmes have been established against a backdrop of significant Arab disadvantage in terms of outcomes and considerable disparities in terms of government inputs (TASC Consulting & Capital, 2015). Although these programmes, for the most part, fall short of closing the Arab-Jewish government funding gap, they significantly increased public expenditure for the Arab sector and represent a striking change in the government's attitude towards Israel's largest – and most marginalised – ethnic minority[6]. Indeed, another 2015 government decision (Decision 922, 30 December 2015) went even further, in budgetary terms, and decreed that an additional NIS 15 billion be allocated to investment-type programmes in the Arab sector.

Politics

Arab disadvantage might appear to demand rectification, but awareness of inequality does not necessarily entail egalitarian policy making. Discrimination against Arabs and Arab disadvantage in Israel are nothing new. Nonetheless, for decades, government policy not only did not strive to rectify this state of affairs but reinforced it.

Hence, the different programmes described above and the five-year plan for Arab economic development viewed from a political – and ideological – perspective are surprising. The government's positive stance towards Arab labour market integration is far from obvious, given not only the neoliberal zeitgeist but also the government's hawkish political identity, which is associated with an antagonistic approach to the Palestinians. Indeed, significant growth in government-sponsored programmes and budgets for Arab labour market integration creates a puzzling paradox: programmes and budgets grew under governments that were not only neoliberal but characterised as hawkish, if not racist (Bender, 2014). Although an ideological commitment to equality cannot be discounted (certainly not among civil servants), it is unlikely to be especially strong under hawkish governments.

Moreover, the Arab public has very little independent political power. Although political candidates in party primaries – especially on the left – do vie at times for Arab voters, in the general elections, government parties are likely to receive a very small share of Arab votes (Reiter, 2009). Arab parties have never been part of a government coalition and are unlikely partners, given their anti-Zionist stance. Consequently, their political influence is low.

We believe that the primary motivation for government action is economic and is underpinned by a distinctly neoliberal view. In recent years, Israeli policy makers started to adopt the language of economists who speak of the Arab workforce in human capital terms. A 'knowledge society' has lower demand for low-skilled work. Accordingly, the economic premium from education is higher. The prevalent argument is that Arabs are an underutilised resource and that the entire Israeli economy suffers as a result. Prime Minister Netanyahu embraced this view, as did his predecessor, Ehud Olmert. Thus, at the same time that Netanyahu espoused an anti-Arab nationalist view, he stated in a speech at the Prime Minister's conference for 'Partnership and Growth':

> We are not reaching our full [economic] potential because not all our citizens partake in the labour market, creativity and entrepreneurship. . . . There are two demographics, Arabs and ultra-Orthodox, whose potential is untapped. We have here huge social groups that could

> integrate and work, but we must help them. We have fully embraced this goal. We should afford all segments of society the conditions in which they could become independent. We invested NIS 2 billion in two large programmes. (Solomon, 2011; authors' translation from Hebrew)

It appears that a neoliberal view of Arabs, as untapped human capital, motivates policy and is sufficiently powerful to offset politicians' hawkish sentiments. The economic rationale for investing in the Arab public was a primary motivator in basically all the interviews we conducted with policy makers and those who interact with them. Social considerations were hardly considered a primary motivation, and sometimes were not mentioned at all. Often – especially in interviews with high-level officials at the Ministries of Finance and Economy – the justification was couched explicitly in the theoretical framework of 'market failure'. Arguing that a plethora of labour market barriers plagues Arabs – low access to capital, discrimination, lack of physical access to workplaces, and a dearth of social-professional networks to rely on in primary labour markets – government ministers contended that the establishment of programmes to address these barriers is economically desirable. In interviews with senior government officials, the view that Arabs were economically underperforming despite possessing marketable skills (e.g., Arab graduates of prestigious engineering programmes employed as schoolteachers, instead of working in the high-tech sector) because of these market barriers/failures was frequently voiced. However, offering similar support to the general population (along the lines that views SIS as a Third-Way leftist solution) is a different matter. Wage subsidies, for example, are offered exclusively for the employment of Arabs (and the ultra-Orthodox and the disabled) and not to the general population (or even the long-term unemployed) because the government is intent on responding to disadvantage stemming from perceived market failure, not disadvantage in general.

Finally, interviews with policy makers also suggested that the government's goal was not simply to get Arabs from welfare to work but – where possible – to integrate them into the primary labour market. However, the primary reason for this approach is not so much concern for Arab welfare as it is for the general economy. For example, Naftali Benet, a former economy minister (and the leader of the Jewish House party, which is even more nationalist than Netanyahu's Likud party), explained that he viewed the integration of Arabs into the high-tech sector as a top priority, which is motivated purely by a concern for the high-tech sector and the economy, not by any desire to do favours for anyone (Knesset Science & Technology Committee hearing, 17 February 2014). Increasing the number of Arabs working in the high-tech sector, for instance, addresses labour shortages in this field (Ministry of Economy 2014). In general, it is well understood that it would be impossible for Israel to be a high-productivity and high-growth economy in the future if a large share of its population is stuck in low-productivity jobs.

Yet, to understand why the policy was advanced, more must be said about agency. First, it should be acknowledged that many of the social investment programmes originated in civil society, only to be embraced later by the government. The main driving force for the government was from high-ranking civil servants in economy-oriented agencies: the MoF, the Ministry of Economy, and the Authority for the Economic Development of the Arab Druze and Circassian Sectors. The fact that the MoF placed Arab economic advancement high on its agenda is critical in explaining the policy outcomes. As is true in other industrialised countries, since the 1980s, the MoF became the focal point of the neoliberal turn in Israeli governance and gained considerable power. As discussed cogently by Jenson (2012), the privileged status of finance ministries in different countries enabled them to successfully promote new SIS-type policies in the 2000s. As a result, the guiding philosophy behind the social investment programmes for minorities in Israel is very much in line with mainstream economic thinking.

Finally, another surprising feature of the Israeli case is the nearly non-existent opposition to programmes aimed at the Arab sector. Even though the programmes were targeted primarily at helping a politically weak and unpopular group, little opposition arose. We argue that three factors played a role. First, the fact that the SIS programmes were narrowly targeted implied relatively low costs, and therefore concerns about (budgetary) trade-offs were minor. In other words, other interests did not view Arab gains as an immediate danger[7]. Second, the targeted programmes had low visibility. While conducting our research, we were surprised by the degree to which both politicians and academics specialising in public policy were oblivious to the existence of these programmes. Thus both the opaqueness of Israeli budgetary allocations and the lack of interest of politicians on the right to take credit for programmes that were unlikely to be popular with their constituency played a role. Finally, relatively modest outlays for the programmes also dampened potential opposition because overall budgetary effects were minor. Of course, as the programmes grow in size and budget, their visibility grows, as does their price tag. This could mean that, in the future, these programmes might face higher political hurdles than they have to date[8].

Application beyond Israel

The recent growth of Israeli social investment in a disadvantaged minority is a 'least likely' case. In other words, if right-wing Israeli governments are doing it, then such policies could certainly develop elsewhere. Australia appears to offer a comparable case. First, the Australian social investment agenda fails to show up in aggregate figures despite its presence in political discourse. ALMP investment, for example, declined as a share of GDP from 0.36 per cent to 0.26 per cent between 2000 and 2014 (OECD.Stat, 2017). However, at the programme level, things are different. The Indigenous Employment Policy, announced in 1999, intended to create employment opportunities and offer training for indigenous people in the private sector. The budget for employment incentives offered by the programme tripled between 2001/2 and 2009/10 (OECD, 2012). Such exceptional increases were not targeted at the aboriginal minority alone. ALMP for persons with disabilities also increased its budget about threefold over this same period (OECD, 2012: 209).

The reason for the government's focus on these specific disadvantaged demographics resembles the underlying logic of the social investment programmes for the Arabs in Israel. In their study of the SIS in Australia, Deeming and Smyth (2015) discussed the emphasis that the Council of Australian Governments (COAG) put on the need to address the indigenous disadvantage (for programme details, see Council of Australian Governments, 2015). The reform council's views, articulated in 2008, were very much a continuation of the positions espoused by the neoliberal Liberal-National government of John Howard, which employed social investment as an economic policy intended to increase labour market participation. As argued by Deeming and Smyth, social investment policy proponents' neoliberal orientation implied that the programmes' rationale was, above all, economic:

> Significantly, the 'social investment state' reform agenda in Australia emerged from economic not social policy – perhaps explaining why social policy research has been so slow to recognize the major welfare reform trend it embodies. Also it originated under the Liberal-National Coalition government led by John Howard (1996–2007) underscoring its bipartisan appeal. (2015: 307)

The neoliberal logic of social investment was accentuated even further in 2015. A reference group appointed by the right-wing liberal government recommended that Australia adopt the New Zealand social investment model, established by New Zealand's right-leaning National government. A central plank of this approach was that government should target investment to groups that not only suffered from long-term dependency but also were evaluated as likely to provide high returns on investment (McClure *et al.*, 2015: 127). This thinking epitomises a neoliberal targeted approach that considers social investment primarily from an economic actuarial perspective. This recent manifestation of social investment in Australia (and New Zealand), however, appears to depart significantly from more egalitarian perspectives that stress inclusion. Indeed, critics fear that it results in a narrow focus on reducing benefit payments at the expense of expanding quality employment (Chapple, 2016).

Conclusion

The SIS literature speaks of increased investment that ultimately is intended to better integrate workers into the labour market and, in so doing, improve their welfare. Our case study describes the emergence of social investment programmes for Arabs in Israel – a disadvantaged ethnic minority. This study shows that right-wing Israeli governments have targeted this minority in the context of an SIS strategy to better integrate them into the labour market in terms of both overall employment rates and the quality of employment. Government investment programmes cover a broad range of policy areas on both the supply and demand sides of the labour market, as demonstrated by the R&D programme in Israel. Not only do we find social investment but it is also happening in a 'least likely' environment.

However, the Israeli Arab case study departs from the ideal type SIS in terms of its motivation and scope. The primary driving force behind the Arab-targeted programmes is the promotion of general economic growth, not narrowing inequality or addressing minority disadvantage. The latter are at best secondary concerns, and egalitarian outcomes – to the extent that they materialise – might be thought of as a policy by-product. The recent governments that promoted investment in Arabs are identified more with the ideological right than the left in terms of socioeconomic values, and a central proponent of the SIS programmes is the neoliberal-oriented MoF. Moreover, social investment is not an all-encompassing strategy but a response to perceived specific market failures that hinder the realisation of the full economic potential of the marginalised Arab worker. We believe that Israel should be viewed in this light as a *neoliberal targeted SIS* in which social investment programmes are developed for economic reasons, promoted by neoliberal actors (especially right-wing parties and the MoF), target narrow groups instead of being applied to all, and the preferred mode for the delivery of services is private. It is likely that Israel is not alone in this category, as is suggested by the Australian case: right-wing governments target social investment for minorities within a framework guided primarily by considerations of economic returns.

Given the politically weak position of disadvantaged ethnic minorities, it would have been reasonable to expect that the inclusiveness of the SIS would stop at the door of these groups. Yet for reasons more economic than social or political, this has not proven to be the case in Israel. The social-political circumstances under which the neoliberal targeted SIS was made possible in Israel could prove relevant elsewhere as well. We argue that, on the one hand, the population share of the disadvantaged group must be significant to underpin the economic rationale for their inclusion; on the other, it is better if programme visibility and costs are relatively low to avoid opposition. As the share of disadvantaged minority populations across different developed societies grows, so should the motivation for establishing this type of SIS[9]. Unlike previous discussions of the politics of inclusion (Häusermann, 2010), here inclusion hinges not on building new coalitions but on economic considerations and low visibility.

Of course, a 'targeted' SIS might not materialise at all for myriad reasons. One possibility is that the state embraces a general social investment policy – which is a fair representation of the situation in the Nordic countries – and then there is little reason to single out minorities. Another is that targeting ethnic minorities could be institutionally proscribed, as is the case in France. Finally, from a political perspective, in Israel, the emergence of the targeted SIS was promoted by policy makers who believed that Arab economic advancement was important for the economy as a whole, given the high, and growing, share of Arabs in the workforce. Moreover, opposition was weak because of the programmes' low visibility and relatively low costs and associated trade-offs. Nevertheless, if economic motivation for SIS programmes is low (due to the low minority population share), if their costs are perceived as high and if they receive considerable public attention, then they are less likely to emerge.

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Notes

1 Benjamin Netanyahu, the current prime minister of Israel, went so far as to incentivise his supporters on election day by posting on his Facebook page (17 March 2015): 'The right-wing government is in danger, Arab voters are coming out in droves to the polls. Left-wing organisations are bussing them out. Get out the vote, and bring your friends and family'.

2 The underlying logic of the 'least likely' case selection is that if X occurs under unfavourable conditions, then it is reasonable to expect that X will occur in cases in which circumstances are more favourable. Therefore, the 'least likely' format offers a platform for generalisation (George and Bennett, 2005).

3 Israel's education spending appears higher than the average in the Organization for Economic Cooperation and Development (OECD) (4.8% in 2012) but is actually lower after the higher share of relevant age groups (5 to 24) in the Israeli population is taken into account. The OECD ALMP share of GDP was considerably higher than that of Israel, 0.53% (OECD, 2012). Data for ALMP spending is derived from OECD's 'Public expenditure and participant stocks on LMP' table, categories 10–70 (active measures).

4 This study focuses on Arab citizens of Israel (Palestinians) and not on Arabs living on the West Bank and in East Jerusalem.

5 At the time the budget was allocated, the exchange rate was about NIS 3.5 to US$1.

6 Because a large share of the budget dedicated to Arab integration has not been set aside in separate budget items, tracing budgetary trends is difficult. However, the growth of a plethora of Arab-targeted programmes has undoubtedly led to a significant increase in government budget allocations, an assessment that is broadly shared. One Ministry of Economy official, in charge of Arab labour market integration programmes, estimated that the growth of programmes dedicated to Arab labour market integration led to a sixfold increase in earmarked funds, even before the beginning of the implementation of the NIS 15 billion program in 2017 (interview, 26 February 2014).

7 The fact that funding for Arab-targeted programmes did not come directly at the expense of programmes for other constituencies is important in this regard.

8 Initial signs of such opposition have already emerged, as some ministers indicated their displeasure with the 2015 government decision that allocated NIS 15 billion for social investment in the Arab sector (Singer, 2015).

9 However, growth in population share implies an increase in costs, budgetary trade-offs, visibility and therefore also opposition. Hence, while we believe that the incidence of targeted SIS is likely to grow over time, growth in such programmes is likely to face major constraints.

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