# The Transition from Liberal Democracy to Illiberal Democracy: Multifaceted Economic Shifts

Assaf Razin
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# Mechanics

- Gradually weakening the independence and authority of institutions like the judicial, electoral commissions, and oversight bodies.

- Appointment of loyalists to key positions within these institutions to ensure compliance with the controlling coalition agenda.

- Introducing legal and administrative measures that hamper opposition parties, such as restrictive campaign laws or regulations.

- Using state resources to favor the ruling party,  preventing opposition parties to compete on a level playing field. Employing voter-suppression tactics, or biased electoral boundaries to ensure a favorable outcome for the ruling party and using state-controlled media to promote the image of the ruling party and undermine the credibility of the opposition candidate.

- Gradually tightening control over media outlets through legal measures or ownership changes and accumulating power in the hands of the executive branch, bypassing legislative and judicial checks. Utilizing emergencies or crises to justify the concentration of authority in the executive office. Weakening or eliminating term limits which allow the leader to stay in power for an extended period. Weakening Civil Society and NGOs; Impose restrictive laws on non-governmental organizations (NGOs) and civil society groups that advocate for human rights and democracy. Use of security concerns as a pretext to limit individual freedoms, such as freedom of assembly and association. Gradually introducing laws and regulations that restrict citizen rights in the name of maintaining order and security. Solidifying control over the legislative process and suppressing any remaining challenges to the regime's authority. Suppressing dissent through coercive measures, surveillance, and targeted repression.

- And more…

# Part I

- **Razin and Sadka** observe that Israel's economy is the most tech dependent in the world, with 13 percent of the country's GDP and 31 percent of all exports originating in the high-tech sector; thus, the global high-tech slowdown has hit Israel harder than other advanced economies. Pointedly, the domestic legal system is key to both entrepreneurship, innovation, and the securing of steady flows of venture capital, to finance such endeavors.

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- **Barry Eichengreen**, taking a broad perspective, in reviewing the literature, suggests that while the relationship between democracy and economic growth remains unsettled, due to the endogeneity and poor measurement of the two variables, the connection between judicial independence and growth is more robust. Judicial independence is a well-defined concept, and the economic literature consistently presents theoretical arguments for its positive impact on economic outcomes, with few arguments suggesting negative effects. This contrasts with the mixed conclusions in the literature regarding the economic impact of democracy.

- **Itai Ater, Itzchak Tzachi Raz, and Yannay Spitzer** focus on the financial-market response to the announcement of a judicial reform. The explore in detail the case of Israel, examining the widening-spreads in stock returns and bond spreads, and the shekel-dollar exchange rate movement, finding strong evidence of a negative impact of the emerging judicial reform on key measures: excess currency depreciation, widening bond spreads, and equity risk-premium.

# Part II

- In his essay, **Noam Yuchtman** delves into the profound implications of the Israeli government's challenge to judicial independence, probing two pivotal questions. Firstly, he explores why such a challenge posed a significant threat to the fabric of a liberal, democratic society. Secondly, he investigates the motivations behind the robust street protests mounted by opponents of the judicial overhaul.

- The crux of the matter lies in recognizing the paramount role of *de facto* power in shaping the intricate components of a democratic system, thereby safeguarding the essence of a democratic society. Beyond the hallmark of elections, liberal democracies thrive on a complex interplay of formal and informal institutions, governmental bodies, non-governmental organizations, laws, and norms. Understanding the interdependence of these complementary elements is essential in deciphering the conflict surrounding Israel's institutions and comprehending the specific manifestation of this conflict.

- Societal mobilization typically encompasses the broad involvement of the entire society, especially non-elites, in the political sphere. The capacity for coordination and mobilization through protests within civil society is a direct result of invested *de facto* power. This insight holds promise for opposition movements within Israel, particularly as the conflict surrounding the institutions unfolds. Mass movements not only reveal the prevailing norms but also signal the nature of future mobilization, creating a formidable challenge for future governments to legislate against these norms or for judges to erode them.

- **Adam Szeidl and Ferenc Szucs** explore the role of the media and the information-propaganda sphere. They discuss the Hungarian experience, and emphasize the importance of false alternative realities and conspiracy theories that are disseminated by government propaganda. They demonstrate how the Hungarian government captured independent media and turned these media into vehicles of propaganda; how the captured media disseminated false alternative realities in order to discredit criticism from independent experts and institutions; how these alternative realities succeeded in reducing trust in experts and institutions, helping the regime; and how this erosion in trust lead to lower quality decision-making in society (e.g., related to Covid). The authors argue that these forces may apply more generally in contexts experiencing populist backsliding, and suggest that early action to

# Part III

- **Dan Ben-David and Ayal Kimhi** examine the education fault line. They highlight trends in the Israeli education system which widens the gaps between different sectors in the society. They find that approximately half of Israel's children receive education at levels similar to low-income countries, which is especially society-gap-creating force given that these children belong to the country's fastest-growing population groups. The education system flaws include low average level of knowledge in mathematics, science, and reading among Israeli children compared with high-income countries and high level of knowledge gaps in these subjects within the country.

- **Eran Yashiv** relates to the cultural and religious segregation, which occur when these groups within Israeli society socialize primarily with members of their own type. It manifests in educational institutions and social interactions which trigger political polarization. He focuses on the fault lines created by demographic trends and cultural-religious segregation forces, taking Israel as a case study. These demographics lead to populist politics, which have given rise to the judicial overhaul. His paper also analyzes the economic ramifications of such reform and the important role Israel's resistance movement has played. The judicial reform has been suspended at its infancy due to strong public resistance and the unexpected war. Eran Yashiv delves also on the interaction between these two forcing elements.

# Drivers of Polarization

- **Economic Disparities and Inequality**

- Economic disparities, coupled with a sense of economic insecurity, can foster resentment and animosity between different socioeconomic groups. When people feel economically marginalized, they are more susceptible to radical ideologies and are often drawn towards political movements that promise economic reform. In 2011, Israel witnessed high cost of living and economic inequalities

- **Quality of Education and Access Disparities**

- Evidently, one of the primary factors contributing to the link between education and polarization is the disparity in the quality of education and access to educational resources. Socioeconomic disparities often result in uneven access to quality education. When certain groups lack access to educational opportunities, it perpetuates a cycle of ignorance and limited exposure to diverse perspectives. This lack of exposure can lead to the entrenchment of existing beliefs and attitudes, deepening ideological divisions. A general low level of education and a high level of education inequality are fertile grounds for populist policies and illiberal shifts. Ben-David and Kimhi (2023) show that Israeli students, and teachers, have consistently been ranked in the lowest tranche of the developed countries in literacy, math and science international exams. The within-country knowledge gaps in these subjects were highest in Israel.

# Drivers of Polarization (continue)

- **Ethnic-Cultural-Religious Segregation**

- The deep segregation between Orthodox and seculars, periphery and center, Sephardic and Ashkenazi Jews, Arab and jews, drive political polarization. Cultural and secular-religious segregation occur when these groups within a society, socialize primarily with members of their own type. It manifests in residential pattering, educational institutions and social interactions, triggering political polarization. Yashiv (2023) observes that the demographic growth of the religious population in Israel, together with populistic politicians, as drivers of emerging illiberal democracy in Israel.

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- **Identity Politics**

The practice of organizing political movements and shaping political agendas based on shared characteristics such as race, gender, sexual orientation, religion, or nationality, has become a significant driver of political polarization in contemporary societies. While identity politics can empower marginalized communities and raise awareness about social injustices, when cynically used, can result in enhanced polarization.

# Drivers of Polarization (continue)

- **Social Media and Echo Chambers**

- The rapid advancement of technology, particularly the proliferation of the internet and social media, has transformed the way people access information, communicate, and engage in political discourse. While technology has the potential to connect diverse voices and foster understanding, it has also played a significant role in deepening political polarization. Szeidl and Szucs (2023) explore the role of the media and the information-propaganda sphere. They discuss the Hungarian experience, and emphasize the importance of false alternative realities and conspiracy theories that are disseminated by government propaganda. They demonstrate how the Hungarian government captured independent media and turned these media into vehicles of propaganda; how the captured media disseminated false alternative realities in order to discredit criticism from independent experts and institutions; how these alternative realities succeeded in reducing trust in experts and institutions, helping the regime; and how this erosion in trust lead to lower quality decision-making in society (e.g., related to Covid).

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# Drivers of Polarization (continue)

- **Election Outcomes**: High levels of polarization in a society can lead to contentious elections. When the political divide is deep and polarized, it can result in close electoral contests, where small shifts in voter sentiment can lead to regime changes. Voters may become more inclined to support radical or populist candidates or parties who promise to address their concerns in the face of perceived gridlock or ineffectiveness from the current regime.

- **Protest and Mobilization**: Polarization can fuel political activism and mobilization. In highly polarized societies, people who feel strongly about their beliefs are more likely to engage in protests, rallies, and grassroots organizing efforts. These movements can coalesce around a shared desire for change and ultimately lead to regime changes through various means, including mass demonstrations and pressure on elected officials. In regard to the effectiveness of the public resistance to Judicial overhaul during the transition to illiberal democracy, Yuchtman (2023) reminds us that the crux of the matter lies in recognizing the paramount role of *de facto* power in shaping the intricate components of a democratic system, thereby safeguarding the essence of a democratic society. Beyond the hallmark of elections, liberal democracies thrive on a complex interplay of formal and informal institutions, governmental bodies, non-governmental organizations, laws, and norms. Understanding the interdependence of these complementary elements is essential in deciphering the conflict surrounding Israel's institutions and comprehending the specific manifestation of this conflict.

# Drivers of Polarization (continue)

- **Gridlock and Dysfunction**: When political polarization is extreme, it can result in legislative gridlock and government dysfunction. If the public perceives that the government is unable to address critical issues due to partisan bickering, it can create a demand for change. In such cases, voters may opt for regime changes to break the deadlock and achieve policy goals.

- **Judicial overhaul**: Without a strong separation of branches of power, changes often come with shifts in the entire policy direction. When a new regime implements policies that significantly differ from the previous one, it can deepen political polarization. Supporters of the new regime may embrace these changes, while opponents may feel alienated and respond with heightened political polarization.

- **Identity-based politics**: Different social, ethnic, or cultural groups support different regimes. This can lead to increased polarization as groups become more entrenched in their positions and view the other side as a threat to their identity or way of life.

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# Israel 2023

- The absence of a constitution, lack of clear separation of powers, proportional representation electoral system leading almost always to coalition governments, a diverse population, and intricate geopolitical challenges collectively fuel the frequent elections and social divisions in Israel. Yashiv (2023) observes that the secular Jewish group, now roughly a third of the adult population in Israel, is economically the strongest. It has relatively high levels of education, exhibits high participation rates in the labor market and in military service, and has relatively high income.  At the other end of the spectrum are the Ultra Orthodox Jews and the Arabs, a little over a quarter of the adult population, who are ranked at the bottom on all the indicators. This sociological division also corresponds to a division of the Israeli economy into a dual structure. The former segment has fostered a very dynamic and successful High Tech sector, which has become the linchpin of the economy. It produces 17% of GDP and around half of Israel's exports. The Arabs and the Ultra-Orthodox, on the other hand, are the majority of households, which are classified below the poverty line and who receive significant social security benefits from the state. This demographic structure and dynamics lead to widening income inequality and polarization. Ben David and Kimhi (2023) argue that roughly half of Israel's children currently receive an education at third world levels, and they belong the country's fastest growing population groups. Manifestations of this process have already begun to surface – most recently in Israel's recent elections, in the growing role of the Haredi sector in the political system – while the long-term implications of the erosion of quality of education is the widening polarization in Israel.
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# Thank You!