

MUNIFICENT OBSESSION:
THE RELUCTANT NATIONALIZATION AND THE PROTRACTED PRIVATIZATION
OF THE ISRAELI BANKING SYSTEM

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ABSTRACT

Although Israel's major banks were bailed out by massive government loans in late 1983, they passed into the government's hands only a decade later. Even then, ownership but not control was transferred. Selling the public's stake, which began in late 1993, has proceeded slowly, despite the government's intense desire to return the banks to private ownership. This study in political economy argues that the government's reluctance to nationalize as well as its protracted privatization stems from the historic symbiotic relationship between the government and the leading banks. The partners' tactics of delay and obfuscation were designed to preserve the status quo ante. But when such maneuvers failed and reorganization became inevitable, minimalist reform was the preferred policy. It appears to have succeeded despite some internal resistance.

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