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## ZIONIST EXPANSIONISM AND THE ISRAELI ECONOMY

**Sarah Graham-Brown**

Both allies and enemies of Menachem Begin's Likud coalition government agree on one point: this is the most "ideological" of Israeli governments, determined to follow ideas which assert the hegemony of "Eretz Israel" from the Gaza Strip to the Litani River and from the Mediterranean to the Jordan.

Israel now occupies part of South Lebanon in pursuit of this strategy, but at the same time, its businessmen are selling fruit, chocolate, and textiles to the Lebanese. It is building settlements at an ever-increasing rate on the West Bank and Gaza, and while part of its industry relies on cheap Palestinian labor, another part derives its profits and employment from feeding off a constantly growing military machine.

These phenomena are not just the creation of Likud ideology but the result of the long process of economic and structural development of the Zionist State. It is this development which, with the support of the United States, has made it possible for the so-called "wild men" like Ariel Sharon to act as they have.

### THE ROOTS OF THE ZIONIST ECONOMY

Since the beginning of the Zionist project, economic considerations have been crucial to its success. Funds brought in from Europe by middle-class Jewish immigrants were important in financing Jewish industrial development in Palestine in the late 1920s and the 1930s. This was coupled with the Jewish Agency's success in persuading the British administration to adopt some protectionist measures to help new industries.

Although private capital was important in these developments, the corporate Zionist institutions, which channelled and allocated money from abroad, had the most influence in shaping the Jewish economy in Palestine during the Mandate period. The major funds under the control of the Jewish Agency and the World Zionist Organization, particularly Keren Hayesod (Palestine Foundation Fund, founded 1920) and Keren Kayemeth LeIsrael

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(The Jewish National Fund, founded in 1901 and responsible for much of the land-buying program), played a role similar to that of a state authority in allocating capital resources. In addition, the Histadrut trade union federation and the kibbutz and moshav movements, which had their roots in this period, were influential in shaping economic and political policy, although it was not until the 1950s and 1960s that they took on major significance as economic institutions in their own right.

Since 1948, the way in which Zionism had developed during the Mandate, as a kind of State within a State, ensured that the economic institutions created at that time continued to play an important role. The dominance of Labor Zionism through the first twenty-five years of state power allowed its affiliated institutions to consolidate their positions.

Thus the economy developed in part through the operation of private capital, in part through the development of nationalized enterprises, and in part through the accumulation of capital by the major quasi-state institutions.

The most significant example in the last group is the Histadrut, which is not just a trade union confederation but a major employer of labor and one of the largest concentrations of capital in the country. The Histadrut's construction company Solel Boneh, which was started in the 1920s, was ranked in one recent survey as the fourth largest building company in Europe. It is also said to be the third largest contractor in the developing world, after Brazil's Mendes Junior and South Korea's Hyundai.<sup>1</sup> Its industrial holding company Koor Holdings' share of total industrial output was 9.6 percent in 1977 and 12 percent in 1981; of total industrial employment, 8.1 percent in 1977 and 10.2 percent in 1981; of investment 11.3 percent in 1977 and 14.7 percent in 1981.<sup>2</sup>

The kibbutz movements, especially the two largest groups, Kibbutz HaMeuhad and Kibbutz Ihud (since 1982 joined together as the United Kibbutz movement), have been transformed from "pioneering" agricultural settlement movements into corporate institutions with large financial holdings and interests which span tourism and industry as well as agriculture. "... [I]ndividual kibbutzim and regional economic organisations owned by kibbutzim and moshavim began a process of rural industrialisation which has reached impressive proportions in recent years; thus the working settlement came to receive considerable benefits from the

1. *Jerusalem Post*, Weekly International Edition, November 7, 1982. [Hereafter *JP*. All references are to the international edition and the date given is the beginning of the week concerned].

2. *JP*, July 25, 1982.

public support offered to industry as well as that available to agriculture.”<sup>3</sup>

Thus, in addition to being one of the most highly subsidized agricultural movements in the world, the 260 kibbutzim now run some 350 industrial and tourist enterprises. Their factories produce not just foodstuffs, agricultural tools, and irrigation equipment, but also shoes, steel helmets, optical equipment, textiles, computer components, chemicals, and plastics.<sup>4</sup> While these institutions have clearly developed an economic character far from the original vision of their founders, they have continued to have an important influence (up until the election of the Likud government in 1977 and arguably beyond) in shaping policy on key issues of Zionism: land, labor, and immigration.

The acquisition of land was always seen as a cornerstone of the Zionist enterprise. This stemmed partly from the practical need to create an economic base to sustain a large immigration drive. It was on these issues of land acquisition and immigration that the Palestinian nationalist movement fought in the 1930s. These priorities and the impact they had on the Palestinian people have led some observers to classify Zionism as settler colonialism.<sup>5</sup> However, while there are obvious parallels with the development of settler colonies like South Africa, or Kenya under British colonial rule, there were certain differences in the ideology and goals of the settler groups and consequently in their political and economic practice. But it will be argued here that in recent times the economic and political strategies of the ruling groups in Israel and South Africa have become more congruent.

During the Mandate period, the Zionist movement was distinguished from white settlers in Africa in several ways. Zionist ideology, while nationalist in sentiment, also had a socialist/collectivist strand influenced by the ideals of both populism and Marxism current in Russia and Eastern Europe at the turn of the century. In practice, the Zionist settlers in Palestine wanted land for their own use, and they essentially did not want the existing population to remain on it in any capacity. This view was expressed in the slogan “Land without people to a people without land” and fuelled attitudes which ranged from outright hostility to Palestinians to indifference to their existence and their rights. The Palestinian peasantry was “in the way” of settlers wishing for “renewal through labor” and the most rapid possible development of the Yishuv in Palestine.

3. Neal Sherman, “From government to opposition: the rural settlement movements of the Israel Labour Party in the wake of the election of 1977,” Settlement Study Centre, Rehovot. Working Paper No. 2 (1980), p. 7.

4. *JP*, Special Supplement on Kibbutz Industries, September 12, 1982; E. Pallis, “Swop around at the co-op,” *Guardian* January 21, 1983.

5. See, for example Maxime Rodinson, *Israel: A Colonial Settler State?* (New York, 1973).

The South African settlers' use of land and labor was different. The black population was gradually driven off the best land, but at the same time the use of taxation and forced labor drove part of this peasantry to the towns to serve as cheap labor for the white economy, which expanded rapidly from the end of the last century on the basis of mineral wealth.

By contrast the ideology of *avoda ivrit* (Hebrew labor) and the practical requirement to employ new immigrants meant that, with the exception of a few private companies and some Jewish citrus plantation owners who did use cheap Palestinian labor, the norm was for Jewish enterprises to hire Jewish labor. Insofar as Palestinians did enter the wage labor force it was mainly through employment in British-run concerns and in public works.

By the early 1930s the Histadrut launched a campaign to force Jewish employers who used non-Jewish labor to stop doing so. The Histadrut led the campaign for *avoda ivrit* at this stage in order to defend wages and jobs for its exclusively Jewish membership. The kibbutz movements joined the campaign. Sherman writes: "Moreover, the [kibbutz] movements together with the [Labor] party and the party-dominated ... Histadrut were successful in monopolising the symbolism inherent in the working of the land. The Labour Zionists discredited the competing claim of the independent, private agriculturalists in the struggle over 'Hebrew labour.'"<sup>6</sup>

Meanwhile, land buying through the Jewish National Fund and other Zionist organizations brought some 1.58 million dunums under inalienable Jewish ownership by the end of the Mandate.<sup>7</sup> This land, less than 10 percent of the total, was concentrated in the coastal plain, in the Marj al-Amer, and from the latter years of the Mandate, in the Galilee.

After 1948 and the expulsion of some 800,000 Palestinians, vast amounts of land were taken under the control of the Custodian of Absentee Property and became de facto state property.<sup>8</sup> Since 1948 the Jewish National Fund and other agencies have continued to acquire land within the boundaries of pre-1967 Israel through purchase and expropriation from the remaining Palestinian population, which is concentrated in the Galilee, the central "triangle" southeast of Haifa, and the Negev desert in the south. A recent example—in 1980 the villagers of Qalansuwa in northern Israel challenged in the courts the right of the neighboring moshav of Tenuvot to cultivate land to which some of the villagers had title. The Israeli Land Authority got the Custodian of Absentee Property to issue a document in which the

6. Sherman, "From government," p. 3.

7. E.T. Zureik, *The Palestinians in Israel* (London, 1979), p. 47.

8. For details of how the Custodian of Absentee Property operated, see S. Jiryis, *The Arabs in Israel* (New York, 1976), passim.

owners of the property were declared as “absentees” on a technicality relating to the villagers’ situation in 1949.<sup>9</sup>

Leaving aside the hundreds of thousands of people forced off their land into exile (in a predominantly peasant population), those Palestinians who remained “inside” have had the amount of land available to them for cultivation progressively diminished, while a high level of population growth has further exacerbated the situation. Particularly in the Galilee, there has been a deliberate policy of “judaization,” and in the 1970s settlers were coming and setting up new “outposts.” This followed government policy in the 1960s to establish so-called “development towns” in these regions to tip the population balance in favor of the Jews.<sup>10</sup>

#### CHANGING PRIORITIES: 1950–1982

In the early 1950s the State was preoccupied with the absorption of new immigrants, both refugees from Europe and the much larger number of immigrants from Middle Eastern countries (referred to in Israel as “Oriental Jews”). The new immigrants were mainly people without large amounts of money or high levels of education and were absorbed into the lower end of the labor market. But by the 1960s, as the economy expanded, there was an increased demand for labor.

By 1966, when military rule was lifted on areas with large concentrations of Palestinians, there were already some Palestinians working as wage laborers for Israeli concerns. For political reasons these workers, whose numbers grew rapidly in the 1960s, were not physically integrated into the urban sector, even though many worked in industries and services located in the main cities. They continued to live in villages. In many cases their villages became little more than dormitories, having by this time a very limited economic base in relation to population because of lack of land, paucity of services, and lack of capital.

This development constituted the first major break with the principle of *avoda ivrit* since the 1930s. In 1966 the exclusively Jewish Histadrut formally opened its ranks to Arab workers. An “Arab department” was set up to deal with Palestinian workers, but to this day these “Israeli Palestinian” workers have no influence within the union’s power structure.

Thus began a pattern which has been elaborated and intensified since the 1967 war. A class structure has emerged from the jumble of nationalities,

9. *Ha'aretz*, April 13, 1980.

10. For a particularly forthright statement of these judaization policies, see Israel Koenig’s report, *Hamishmar*, September 7, 1976, translated in *Journal of Palestine Studies*, no. 21 (Autumn 1976):190.

cultures, and skill groups among the immigrant Jewish communities. Class divisions generally run along community lines. Ashkenazi Jews from Europe and the United States have the highest levels of skills and dominate the professions and the economic and political establishment. Oriental Jews, who now support the Begin government in large numbers, are still few and far between in the top echelons of government and the economy. Most analysts see their support for Likud as a protest at the domination of the Ashkenazi Labor establishment over what has become Israel's working class. Below them in status and economic position come the Palestinians living in Israel.

In the years after 1967 a new category was added to the ranks of the labor force—the workers who commute daily from the occupied West Bank and Gaza Strip. For them the weak economy at home, circumscribed by the policies of the occupation regime and the initially higher wages in Israel, made work there the best available option.

The economy of the West Bank, the only one of the occupied territories which could be said to have an economic structure of any viability at all, has been penetrated and undermined by the Israeli economy and now stagnates. The Gaza Strip and the Golan Heights (annexed in January 1982) are in much the same position, but they started from a very slender economic base at the time of the occupation, and as entities are the fortuitous creation of political and military conflict. Gaza particularly suffers from gross overpopulation in relation to resources and was therefore an easy source to tap for cheap labor.

Over the years of occupation, real wages for workers from the territories (always lower than those paid to Israelis) have been eroded by the high levels of inflation which Israel has imported into the territories. But Jewish settlement in the West Bank and the restrictions imposed on agriculture (on the use of water and on the markets open to West Bank produce) have acted as a disincentive to remain a farmer when migrant labor is still available.

By 1976 about one-third of the labor force in both the West Bank and Gaza Strip worked in Israel. This figure does not seem to have decreased since then. It is difficult to say exactly how many workers go to Israel at any one time since the official statistics only count those who go through the labor exchanges and a substantial number do not.

Most Israeli Palestinians go back to their villages every night because they cannot afford and are not welcome in urban accommodation. West Bank and Gaza workers commute because the military government does not permit them to remain overnight except in special circumstances; however, a number do stay illegally, sometimes with the connivance of their employers. Some of the villages of the West Bank show the same symptoms of "dormitorization" which have become the norm in Palestinian villages inside pre-1967 Israel.



Those Zionists who once advocated the dignity of manual labor (including the Histadrut, the kibbutz movement, and the Labor Alignment parties) now concede that there are menial jobs in the economy, urban and rural, that most Israeli Jews are unwilling to do. These are the jobs which have been passed over to the Palestinians. Cleaning, dishwashing, unskilled building work, semi-skilled industrial work, and agricultural labor are the main categories. This phenomenon of cheap migrant labor has become a generally accepted norm despite the fact that Palestinians are distrusted and feared by many Israelis.

Initial doubts in the Histadrut were dispelled by the realization that the jobs in question were not ones that most of its members wanted. In its role as an employer, the Histadrut had a considerable interest in encouraging this labor flow, particularly for Solel Boneh, a big employer of unskilled Palestinian labor in construction. In many cases, the kibbutz and moshav movements have also allowed the use of territories workers. In this respect Israeli policy since the 1960s displays marked similarities to those of nationalist governments in South Africa since the 1950s.

Another aspect of Israeli policy similar to colonial settler policy is the drive to acquire land for settlement. The settlement campaign has been conducted in the occupied territories in various ways, generally with political rather than directly economic motives. This, however, has not made the economic consequences any less great.

Settlement since 1967 has developed in roughly three phases. The first, under Labor Alignment governments, stressed the development of so-called "strategic settlements" usually established under the aegis of the Israel Defence Forces (IDF). Many began as *nahals* (army settlements) on land expropriated by the IDF, which only later became civilian settlements. A number of settlements were established by the kibbutz and moshav movements, particularly in the Jordan Valley (Kibbutzim HaMeuhad and Ihud), in the Golan (Kibbutz Artzi), and in the Gaza Strip (a mixture of all three major movements). Most of the kibbutz and moshav settlements followed the pattern of these movements' earlier settlements to the extent that they attempted to create a productive base, usually in agriculture, and received massive subsidies to do so.

This phase of settlement rested mainly on the ideas of Yigal Allon, who in 1970 set up the Inter-Ministerial Committee on Settlements of which he was the first head. His successor was Israel Galili, a supporter of the Allon Plan to establish lines of settlement, especially in the Golan Heights, the Jordan Valley, and the eastern ridge of the West Bank hills, away from the main Palestinian towns along the central spine of these hills.

Various attempts were made to squat on land not designated for settlement under the Allon Plan. The best established of these "illegal" settlements was Kiryat Arba close to Hebron. Started in 1968, by 1977 it had



developed to a substantial size. From this settlement came the nucleus of the Gush Emunim movement (founded 1974), who demanded settlement “all over Eretz Israel”—in other words, all over the occupied territories and particularly in the heartland of the West Bank.<sup>11</sup>

The ideas of Gush Emunim virtually became government policy with the 1977 accession of the Likud coalition to power. Their greatest champions were, apart from Prime Minister Menachem Begin, former Defence and Agriculture Minister Ariel Sharon (who also headed the settlements committee) and the joint chairman of the World Zionist Organization Settlement Department Mattityahu Drobless.

Although Gush Emunim and their allies succeeded in taking over substantial amounts of land, sparking anger and attempts at resistance by West Bank Palestinians, they could not get sufficient “ideologically committed” people to settle on it. According to Israeli journalist Yosef Goell, writing in the *Jerusalem Post*, the “strenuous efforts” of Gush Emunim, backed since 1977 by the Begin government, “have produced a Jewish population (in the West Bank) which numbered substantially less than 20,000, over two-thirds of them children. . . . What also seemed clear in 1980 [was] that Gush Emunim had come close to the bottom of the barrel in its search for ideologically motivated settlers.”<sup>12</sup>

The most recent settlement policies are concerned to fill this gap, since an important part of this government’s strategy is to create as many “facts” as possible in the territories to rule out negotiation on their future. In their search for new settlers, the government and private enterprise have turned to the urban overspill of Jerusalem, Tel Aviv, and other Israeli cities which have long had severe housing problems. The economic and political implications of this new move will be discussed later.

By 1981 it was estimated that the amount of land available to West Bankers for any purpose had dropped by forty percent or more since 1967 by a combination of expropriations for settlement and IDF closures of land for “security reasons.” Since 1981 the pace of expropriation and, in a few cases, sale has increased rapidly, so by now the total may be much higher.

The Israelis claim that they do not take “cultivated” land, but detailed studies on the expropriated land show that substantial areas were cultivated with crops, trees, or vines or, just as important to the rural economy, used for grazing.<sup>13</sup> This loss of land, combined with the “pull” of wage labor in

11. See D. Newman, “Jewish Settlement in the West Bank: the Role of Gush Emunim,” Centre for ME Studies, Durham University, Occasional Papers No. 16, 1982. *passim*.

12. *JP*, January 9, 1983.

13. See table in *Journal of Palestine Studies*, no. 41 (Autumn 1981), p. 103.

Israel, has combined to shrink the agricultural sector and the number of people employed in it.

Another important aspect of the Israeli occupation's impact on the economies of the territories relates to Israel's own economic health. The occupation opened up new prospects in Israel's search to secure a natural resource base. As a State, Israel not only does not have substantial mineral wealth like South Africa, but it also lacks sufficient basic resources such as water and sources of energy.

Israel's need to secure its national water supplies has had a very significant impact in the occupied West Bank and on Israel's Arab neighbors. The ratio of water use to available water resources in Israel is very high, largely because of extensive irrigated agriculture—some seventy-five percent of all water consumption is in the agricultural sector. Part of its water supply comes from the Jordan River diverted above Lake Tiberias, thus depriving Jordan of most of the river's waters.<sup>14</sup>

The Jordan waters are taken down to the main centers and to the Negev by the National Water Carrier system completed in the 1960s. Added to this is the water pumped up from the aquifer under the coastal plain, which experts say is now in danger of being overpumped and becoming saline. These and other minor sources make up about two-thirds of Israel's water supply. The other third comes from an aquifer which lies under the western slopes of the West Bank, which the expansion of the economy and consequent increase of water use has made vital since 1967. For this reason the military government has imposed strict controls on Palestinian water consumption for domestic and agricultural purposes in the West Bank and in the Gaza Strip. Only the Jewish settlements are free from these restrictions. The importance for the Israelis of maintaining control over this vital resource was probably one of the motives behind Begin's statement in early 1979 that "autonomy" meant autonomy "of people" and not of land or what lay under it.

Also of importance in the context of last year's invasion of Lebanon is Israel's longstanding interest in controlling the Litani River, now within the area of South Lebanon under direct occupation.<sup>15</sup> Israeli engineers have also suggested the possibility of diverting a part of the Nile waters to Israel. While this has apparently not gone beyond drawing-board speculation, it is indicative both of the degree to which local resources are stretched and the current expansionist climate which makes it quite plausible to look for water sources outside pre-1967 borders.

Energy is the other major gap in Israel's natural resource base. Oil was

14. See S. Kahhaleh, *The Water Problem in Israel: Its Repercussions on the Arab-Israeli Conflict*, Institute of Palestine Studies, Study No. 9 (E) (Beirut, 1981).

15. See "Eyeing the Litani," *The Middle East*, May 1979, p. 46.

obtained mainly from Iran until about 1977 when Israel began to diversify its suppliers. It has since been getting much of its oil on long-term contract from Mexico. Under the peace treaty with Egypt, a proportion of the liftings from the Sinai fields is sold to Israel.

The Israelis themselves have also searched for oil and gas, though without great success, both inside Israel and in the West Bank and Gaza. In 1979 the state exploration company Lapidot was sinking test bores on a hillside not more than a kilometer from the new campus of Bir Zeit University.<sup>16</sup>

A further indication of Israel's inclination to regard the territories as part of "Eretz Israel" economically as well as politically is the plan to build a canal/pipeline from the Mediterranean to the Dead Sea, making use of the drop in altitude to generate hydroelectric power. Quite apart from the unpredictable chemical and environmental effects of pouring less-saline Mediterranean water into the highly saline Dead Sea and the implications for the Dead Sea potash works of both Israel and Jordan, the canal was planned to start on the Mediterranean in the occupied Gaza Strip. The committee which examined the alternative routes decided that the one through the Strip would be the cheapest. This committee was headed by Professor Yuval Neeman, a scientist who is now head of the ultra-right Tehiya party. He saw no problem, political or otherwise, in routing the canal through occupied territory.<sup>17</sup>

Neeman claimed that much of the funding could be provided by floating Israel Bonds in the United States, a method of financing which has been used since the Israel Bonds Organization was created in 1951 for a large number of infrastructural and development projects, including the National Water Carrier, the development of atomic, solar, and conventional energy sources, the building of development towns and villages, exploration for oil, and upgrading of communications networks.<sup>18</sup> While the Dead-Med pipeline canal project may be dumped for the moment, partly because of lower oil prices, over \$100 million was raised by the Israel Bonds Organization, mainly in the United States, for preliminary work on the \$1.4 billion plan.<sup>19</sup>

#### THE DEVELOPMENT OF THE MILITARY ECONOMY

Balance of payments problems caused by the need to import energy sources are the norm rather than the exception in oil-poor States. But while

16. Author's observation, April 1979.

17. Telephone interview with the author, August 1980.

18. For a more detailed list, see E. B. Glick, *The Triangular Connection: America, Israel and the American Jews* (London, 1982).

19. *Financial Times*, April 18, 1983.

this is certainly a burden for Israel, it is by no means the main reason for its chronic deficit. As in the case of South Africa, a political stance of exclusivist nationalism denying the rights of the indigenous population has been sustained by the development of an enormous defense establishment (costing up to thirty percent of the annual budget). Unlike the South Africans, however, the Israelis cannot generate internally the wealth needed to pay for its armed might.

The existence of a state of war since 1948 has also meant that the IDF has exerted enormous influence on Israeli society and the economy. Apart from the social and political effects of army service, including service in the occupied territories, and the considerable direct and indirect influence of the military in politics, the perceived need under Labor and Likud alike to have the country armed to the teeth has also had serious economic consequences. Balance of payments problems have grown increasingly severe. The foreign debt was \$28 billion at the end of 1982, an increase of twenty-five percent in two years.<sup>20</sup> According to Bank of Israel calculations, interest payments on the debt for the year to October 1983 amount to \$1.1 billion.<sup>21</sup>

This in turn has had serious effects on the value of the currency, which after being held at overvalued rates under Labor was allowed to float in 1977. As a result it has sunk against the dollar from IS 1.539 (or IL 15.39) = \$1 at the end of 1979, to IS 38.50 = \$1 in March 1983. This has been accompanied by galloping internal inflation (over 100 percent since 1980), low domestic capital formation, and a generally stagnant economy.

In order to maintain the defense establishment, which in turn is crucial to the continuation of the Zionist State and control of the territories it occupies, Labor and Likud governments alike have relied on an ever-increasing volume of foreign aid. In the 1950s and 1960s, this aid came from various bilateral sources, including the United States and France, and from the Jewish community abroad, mostly in the United States.<sup>22</sup> However the 1970s saw a dramatic increase in U.S. official aid to Israel (see Table 1).

For the first two decades [of Israel's existence] . . . Washington feared that close military relations with Israel would alienate conservative Arab regimes and jeopardise control of Middle East oil. . . . The subsequent alignment of radical Arab nationalist forces with the Soviet Union in the 1955-57 period . . . pushed the U.S. into a closer relationship with Israel. But between the Suez War of 1956 and the June War of 1967, Israel's most important military supplier was France. U.S. military shipments to Israel in these years were

20. *Financial Times*, April 28, 1983.

21. *JP*, February 6, 1983. For a different set of calculations from the Israeli Central Bureau of Statistics, see *Financial Times*, February 4, 1983.

22. See Glick, *Triangular*, chapter on "The Economics of Israeli Existence."

TABLE I

**U.S. Assistance to Israel 1948-84**  
(In \$ U.S. millions)

Fiscal Year	Total U.S. Aid to Israel	Economic Aid		Military Aid	
		Loans	Grants	Loans	Grants*
1948	3,017				
1949	8,267				
1950	4,850		0.1		
1951	4,380		86.4		
1952	3,839		73.6		
1953	6,496		74.4		
1954	5,793		21.9		
1955	4,864	30.8	15.6		
1956	5,402	35.2	19.1		
1957	4,976	21.8	11.3		
1958	4,832	49.9	10.9		
1959	4,954	39.0	13.4		0.4
1960	4,804	41.8	18.3		0.5
1961	4,737	29.8	7.2		†
1962	7,034	63.5	6.0		13.2
1963	7,314	57.4	4.8		13.3
1964	5,215	32.2	4.9		12.9
1965	5,310	43.9	0.9		90.0
1966	6,989	35.9	5.6		7.0
1967	6,440	13.1			

1968	6,894	76.8	51.3	0.5	25.0
1969	6,791	121.7	36.1	0.6	85.0
1970	6,787	71.1	40.7	0.4	30.0
1971	8,078	600.8	55.5	0.3	545.0
1972	9,243	404.2	53.8	50.4	300.0
1973	9,825	417.3	59.4	50.4	307.5
1974	8,942	2,534.2		51.5	982.7
1975	7,199	653.1	8.6	344.5	200.0
1976	6,398	2214.4	239.4	475.0	750.0
TQ †	2,603	278.6	28.6	50.0	100.0
1977	7,769	1,742.0	252.0	490.0	500.0
1978	9,014	1,791.8	266.8	525.0	500.0
1979	13,845	4,790.1	265.1	525.0	2,700.0 §
1980	9,694	1,796.0	261.0	525.0	500.0
1981	10,549	2,164.0		764.0	500.0
1982	8,980	2,206.0		806.0	550.0
1983	9,280	2,485.0		785.0	550.0
1984 #	9,200	2,485.0			

SOURCES: Library of Congress Congressional Research Service.  
 Security Assistance Agency, *Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts*, September 1981.  
 USAID, *U.S. Overseas Loans & Grants and Assistance from International Organizations 1 July 1945 to 30 September 1981*.

\* Payments waived.

† Less than \$50,000.

‡ Transitional quarter.

§ Comprised of \$500 million in payments waived and \$800 million for military air force base construction.

|| This figure includes \$21 million in economic assistance reprogrammed from the Israeli account in FY 1981.

# Administration's proposals which still have to receive congressional approval.

limited and often clandestine, routed through West Germany and Belgium. By the middle of the 1960s, though, as Soviet influence and Arab nationalist enmity grew, Washington's reluctance to supply advanced weaponry abated. In 1963, President Kennedy approved a sale of Hawk anti-aircraft missiles and in 1965 President Johnson allowed a sale of A-4 Skyhawk jet fighters. . . . In the fall of 1968, U.S. policymakers broadened the military alliance with Israel by agreeing to sell Tel Aviv 50 F-4 fighterbombers, the first such sale to a country outside NATO. [This move] defined a distinct era of U.S. policy in the region. It signalled U.S. *military* as well as diplomatic support for the thesis that Israel should hold on to the conquered territories until the Arabs were prepared to make peace.<sup>23</sup>

Not only have the volumes of military and civilian aid increased rapidly since the beginning of the 1970s as sales of U.S. arms grew, but the grant element has become proportionally greater, in both economic and military assistance. On the military side, from FY 1950 to FY 1981 \$4.95 billion were classified by the Security Assistance Agency as "payments waived," 36 percent of total military assistance of \$13.5 billion over the period. In fact all the waivers have been concentrated in the period from 1974 onwards.<sup>24</sup>

It will be argued here that it is difficult to distinguish the contributions of military and civil aid since much of the civil economy is closely tied up with the defense sector, and many of the stresses which affect the civil sector originate in the spiral of escalating costs to maintain and expand defense capacity. Some observers in Israel feel that military spending, encouraged by U.S. aid and by the political and territorial goals of this administration, is reaching a point where the race cannot be economically sustained, however great the aid.

The editor of the Mapam paper *Ha'mishmar* claims that

there is absolutely no hope of solving Israel's deficit problem by conventional methods. . . . The major flaw in Israel's economic policy, which anyway cannot possibly be successful, is that it misleads the country's political-economic leadership by implying that "in the end everything in the economic sphere will turn out well." This attitude prevents a search for political defense alternatives which could ease our balance of payments problems. I take a very grave view of this, not only because defense expenditure is at the hard core of our balance of payments deficit, but also because an alternative defense policy, if implemented correctly, could significantly reduce this deficit to a . . . manageable level.

23. Joe Stork, "Israel as a Strategic Asset," *MERIP*, no. 105 (May 1982):3-4.

24. Security Assistance Agency, *Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts*, (September 1981).



The alternative, which, as he sees it, would also free Israel of political constraints by the United States, is a policy based on “tactical” nuclear weapons as adopted by NATO.<sup>25</sup>

Israel is already widely believed to have the capacity to make nuclear weapons and has been actively discouraging other pretenders to nuclear status in the region, witness the bombing of the Iraqi reactor in 1981. Such a scenario is not quite as far-fetched as it appears on first sight, particularly after the demonstration of ruthless military adventurism in Lebanon in 1982.

This political and military climate has also had significant effects on the direction of Israeli industrial development. Industries began to be established in the Jewish sector of the Palestine economy in the 1920s and 1930s, but it was not until World War II, with the demands of the British military machine based in Palestine for consumer and industrial goods, which could not be imported because of the Mediterranean blockade, that major strides were made in industry. It was then that the diamond-cutting industry, since 1948 one of the biggest export earners, developed with the cutting of industrial diamonds.

Further development and diversification took place in the 1950s in both industry and agriculture. But the real boom period came after the 1967 war and was generally sustained until the mid-1970s. It was at this time that the overall character of the industrial structure began to change. There was by then a base of heavy industry—steel mills, chemicals, etc., along with reasonably well-diversified consumer industries—though overall the economy remained dominated by a few major companies and corporate institutions. In the late 1960s, in the heady days after the IDF’s victories in the June war, the defense establishment and the government began to look at the possibility of using the existing industrial base and the considerable pool of skilled manpower to create a local defense industry which would fill the gaps left by the limitations on imports of sophisticated weaponry from abroad.

U.S. assistance was crucial in achieving this goal. “In November 1971, the United States quietly signed an agreement to provide technical information and assistance that would allow Israel to produce advanced weapons components itself.”<sup>26</sup> Hence the state-owned Israel Aircraft Industries and the military industries company (Taas) have been able to produce the now-familiar range of military hardware and aircraft which includes the Kfir fighter, the Westwind executive and reconnaissance jet, the Reshef patrol boat, the Merkava tank, the Uzi machine gun, and the Galil assault rifle.

25. *Ha'mishmar*, July 16, 1980.

26. Stork, “Israel,” p. 4.

This has often been done in cooperation with private companies drawn into the profitable military sector.

Private capital has, with the encouragement of the defense establishment, also played an important part in the development of sophisticated electronic warfare systems and communications and security systems. The research and development for these high technology industries has been achieved with the cooperation of the United States, both in terms of private U.S. capital and governmental support for research. A General Accounting Office document of 1978 revealed that the United States had paid a contribution of \$100 million to the establishment of three U.S.-Israeli binational research foundations for industry, science, and agriculture. This was one of a number of projects funded by the U.S. government over and above the foreign aid bill.<sup>27</sup>

Many of the most successful "science-based industries" engaged in the manufacture of defense-oriented electronics were established in the 1960s and early 1970s with U.S. capital. AEL Israel Ltd. (established 1967) is 37 percent owned by American Electronic Laboratories. Astronautics C.A. Ltd. (1970) is a wholly owned subsidiary of Astronautics Corporation of America Ltd. Beta Engineering and Development Ltd. (1967) is partly owned by Gerber Scientific Inc. of the United States. Elbit Computers Ltd. (1966) is 37 percent owned by Control Data Corporation of the United States. Tadiran Israel Electronics Industries (1962) is 44.64 percent owned by General Telephone & Electronics.<sup>28</sup>

A good example of how these companies operate is AEL Israel, whose electronic warfare systems were an important element in Israel's success in the air during the invasion of Lebanon. The company employs about 1,100 workers and, according to a profile in the *Jerusalem Post*,

is dependent—inside Israel—on two customers only. One is the armed forces who take 60 percent of the locally sold output and the other is the Communications Ministry. This civilian work is relatively humdrum. . . . The military side is more exciting because it is largely based on original research and development. Moreover it accounts for practically all the company's exports. I should add . . . that what AEL's brain-trusts create for the armed forces has contributed a benefit to the country's defense far beyond the monetary benefit earned by the firm as a business.<sup>29</sup>

The workforce is not only highly skilled but, says Chairman Leon Riebman, "Our technical personnel handle electronic equipment as soldiers. They look

27. *The Middle East*, March 1983, p. 18.

28. *Eurabia*, no. 165, January 1983.

29. David Krivine, "Catching up with the parent firm," *JP*, November 14, 1982.

at it from a military point of view which helps them understand how it can be made to serve its purpose better. In America the soldiers and scientists are separate. They live in different worlds, and there isn't this fusion of ideas."<sup>30</sup>

Defense sponsorship, direct and indirect, of research and development and of these high technology industries has made them the most dynamic and profitable sector of the economy since the mid-1970s. Most other sectors have turned in lackluster performances. As a result those major enterprises with capital to invest have turned to the electronics sector. Apart from Israel Aircraft Industries itself, this includes Koor Holdings and another of the biggest holding companies, Clal Israel. Koor sees its main growth areas as semi-military items, electronics, telecommunications, chemicals, and metals.<sup>31</sup> Koor's President Yeshayahu Gavish also expects Koor "to get a good slice of the orders for re-equipping the IDF after the Peace for Galilee campaign."<sup>32</sup> Among Koor companies which work on the military side are Telkoo, a wholly owned subsidiary dealing in military power supplies and communications; Soltan, which makes shells and military hardware; and Tadiran, of which Koor owns 44.64 percent and which, with a workforce of 8,000, is a major producer of military electronics and communications equipment. The company was listed second in Dun and Bradstreet's "100 leading Israeli companies" in 1982. Tadiran in turn owns a stake in Elop Electro-optics Industries Ltd., which produces optoelectronic defense systems.

Clal Israel similarly has a number of defense-related industries, including a stake in Beta Engineering and Development Ltd., which specializes in anti-guerrilla detection systems and mine detection devices. It wholly owns the smaller but fast-growing Electronics Corporation, specializing in military electronics, and a computer subsidiary, Clal Systems.<sup>33</sup>

The defense contribution to exports is now very significant. According to Trade and Industry Minister Gideon Patt, in 1981 Israeli military exports amounted to nearly \$1 billion, out of \$1.5 billion worth of steel and electronics products.<sup>34</sup> Israel Aircraft Industries exports in 1981/82 were \$517 million. Among the countries to which Israel is reported to have sold arms and defense systems over the past two years are Argentina, Costa Rica, Honduras, Ecuador, Venezuela, Guatemala, South Africa, and Iran.

In 1982 senior Israeli political and military figures including former

30. *Ibid.*

31. *JP*, October 17, 1982.

32. *Ibid.*

33. *Eurabia*, no. 165, January 1983; "Science-based industries," *JP*, August 1, 1982; Profile of Koor, *JP*, October 17, 1982; *Financial Times*, March 2, 1982.

34. *Ha'aretz*, January 6, 1982.

Defence Minister Ariel Sharon, Foreign Minister Shamir, and chairman of the board of Israel Aircraft Industries and former head of the air force Major General David Ivri<sup>35</sup> toured Africa and Latin America promoting arms sales. In most cases this is done with the support or at least the acquiescence of the United States. The only real point of competition has been over the question of selling the Kfir fighter (which has a U.S.-made engine), since this competes directly with more expensive American products. This has also been a stumbling block in Israeli plans to build the Kfir's successor, the Lavi. However, in most other cases, the United States seems happy to let the Israelis sell to regimes with bad human rights reputations to avoid having to do so itself.

While some Israeli economists fear the growing economic dependence on the arms trade, it seems likely that in Israel's present political and economic climate, military industries and military exports will remain an important and unusually competitive part of the economy.

#### ECONOMY AND OCCUPATION

As far as the labor force is concerned, the Israeli economy presents two faces. One is the high technology sector which employs highly educated and skilled Israelis. In this sector Palestinians are not to be found, certainly not in positions of responsibility. Even those who achieve the educational levels required would be unable to get the necessary security clearance. Numerous obstacles are placed in the way of Israeli Palestinians who wish to study subjects which would lead to qualifications in these fields. At this level *avoda ivrit* still holds sway.

At the unskilled end of the economic scale *avoda ivrit* has been totally abolished. Arab labor is concentrated in the less capital-intensive industries, many of which have been experiencing difficulties in the last few years. The textile industry, for instance, which like others worldwide has been hit by recession, uses substantial numbers of Palestinian women workers. Plants are spread around the country, partly to reach these pools of cheap labor. More than a third of the 6,000 workers employed by Polgat, the giant textile concern which supplies Marks and Spencer and C & A in Germany, are Palestinians. Delta Textiles, which is licensed to produce and sell with a Pierre Cardin label, has a workforce which is 60 percent Arab. Many textile firms also put out work in Palestinian villages and subcontract to small concerns in the occupied territories.<sup>36</sup>

35. Ivri has since returned to uniform as deputy chief of staff. *Defense and Foreign Affairs*, April 25, 1983.

36. David Lennon, "Israel cuts its cloth to suit the EEC market," *Financial Times*, March 30, 1982.

According to the Israeli Manufacturers Association, the textile industry lost 20 percent of its export markets in 1981. The result, a spokesman said, is "that Israel's exporters face an ever-narrowing profit margin."<sup>37</sup> One way to maintain those profit margins is to keep labor costs down. In textiles, agriculture, construction, and other industries which have a large labor input, this is being done by using non-union labor from the occupied territories, who politically and economically are not in a good position to bargain to improve their position compared with Israeli workers. Trade unions in the territories are not permitted to negotiate on behalf of workers in Israel and even in their local activities are constantly harassed by the military authorities and labelled "political" and "subversive." This may well explain why, despite the recession since 1976, the numbers of workers from the territories shows no sign of diminishing. It appears that demand for this cheapest category of labor has held up for the reasons outlined above.

For the building industry, which relies heavily on this source of labor, the territories have recently opened up another opportunity to escape from the slump. The new approach to settlement, particularly in the West Bank, demands essentially the building of large housing estates, intended to be virtual suburbs of Jerusalem, Tel Aviv, and Haifa. This is not to say that the main aim of this new settlement policy is to pull the building industry out of the doldrums. The main aim is political: to strengthen the Israeli hold on the territories.

The rapid increase in expropriation and building activity, particularly in the so-called "urban" settlements like Efrat, Maale HaAdumim, and Ariel, has certainly had its impact. Construction firms of all sizes have begun to operate in the West Bank to a greater extent than ever before. "Do you know what has prevented a slump in this country? The building work in Judea and Samaria, that's what!" was the opinion of Zvi Salat of the housing materials, plastics, and furniture firm Etz Lavud.<sup>38</sup>

In some cases, there are political implications. Histadrut-owned subsidiaries of Koor (Yuval Gad) and Solel Boneh (Diur) are building houses in the new settlements, and objections were raised by Mapam representatives on the governing body of the labor federation's holding company, on the grounds that the labor movement opposes settlements near densely populated Arab areas, as most of the new ones are. Their view was overruled on the grounds that the Histadrut had to "face realities of a shifting population" as the government provides incentives to move to the territories. The Histadrut's construction companies say they cannot sell flats they have built in the "development" areas in the Galilee and the south. Hence, on grounds

37. *JP*, November 14, 1982.

38. *JP*, February 6, 1983.

of economic necessity, the Histadrut is sanctioning and even assisting the Likud government's policies for the territories. Yeshayahu Gavish said: "Last year, over half of all the construction work in this country was initiated by the government out in the territories. If Koor's Yuval Gad will not compete for jobs there, the company will have no work. . . . We do not determine government policy. . . . We will accept work wherever we can get it, in Judea, Samaria or Kenya."<sup>39</sup>

These and other building companies continue to employ West Bank workers to build the settlements. The "founder" of Efrat (and its future mayor) Moshe Moskovics commented: "We have very good relations with the Arabs in the area. They are doing the construction work."<sup>40</sup>

If industries will be built along with this wave of settlement it appears they will be mostly of the high technology variety. Tehiya's Professor Yuval Neeman (now also minister of science and technology) claims that a number of plants involved in computer development are already operating. He likened future developments in "Samaria" (the north of the West Bank) to California's "Silicone Valley."

Most of the new settlers will not work locally; they will commute daily to the big cities. They have been attracted by the cheap mortgages, large villas, and subsidized facilities which both the government and private enterprise is offering. This takes the pressure off overcrowded accommodations in Israel, where public housing investment is at a low ebb. It may also be seen as a way for the government to discourage the growing wave of emigration among the young, who are fed up with military service, poor housing, and the rising cost of living.

Another way in which the territories occupied by Israel have helped to support its economy is by acting as open markets for Israeli exports. The domestic Israeli market is small, and international markets are growing more and more competitive and protectionist. In the West Bank and Gaza Strip, where the local economies have been stifled by Israeli restrictions and competition, sales of Israeli manufactured goods, consumer durables, and foodstuffs have found some of their biggest outlets. Industry and agriculture in Israel are highly subsidized, but not in the territories, and Israeli goods can be sold in the territories just as if the so-called "green line" did not exist.

By 1980 Israeli exports to the West Bank and the Gaza Strip totalled IS 3032.4 million or \$593.69 million (using IMF average rate of exchange of the dollar for 1980).<sup>41</sup> This was second only to exports to the United States (\$953.9 million), and greater than those to West Germany (\$548.6 million)

39. *Davar*, August 27, 1982.

40. Judy Itzkovich, "City on seven Judean hills," *JP*, September 26, 1982.

41. IMF, *International Financial Statistics*, June 1982.

and the United Kingdom (\$465.5 million).<sup>42</sup> The vast majority of exports to the territories are manufactured goods. Thus the territories have provided considerable support in terms of both markets and cheap labor for some important sectors of the Israeli economy which do not have the advantage of being under the umbrella of the defense establishment.

The political and military situation has opened up another avenue to profits since the Israeli invasion of Lebanon. No sooner had the IDF advanced to Beirut than the businessmen were following hard on their heels. Official export figures have to be treated with some caution, but if even the trends are anything to go by, business is booming. Even in June 1982 exports were reportedly valued at \$800,000 and by October the figure had risen to \$9.3 million.<sup>43</sup> The occupying authorities, as in the West Bank and Gaza, can call the terms of trade. Transport is all in Israeli vehicles, and according to information given to Israel Shahak by soldiers, in September the Israelis were permitting only Israeli produce to be sold in fruit and vegetable markets in towns in South Lebanon before 10 A.M.<sup>44</sup>

It now seems that some restrictions are being placed on Israeli products which compete directly with main Lebanese crops, but increasingly the exports are not only foodstuffs, but also textiles, plastics, pesticides, and metal products.<sup>45</sup> "Fortunately," says Mark Mosevics, chairman of Elite (which makes chocolates and sweets), "the war in Lebanon has brought us a new customer. We are selling goods across Israel's northern border in the sum of \$250,000-300,000 a month, in cash dollars."<sup>46</sup> The Israeli Fashion Show in Eilat in February 1983 had relatively poor attendance from European buyers, but *Ha'aretz* reported the presence of five Lebanese buyers at the show. Another boost to the economy has come through the growth of transit trade to Lebanon, tax-free through Haifa port, which also of course uses Israeli transport.

After the peace treaty with Egypt, there were Israeli businessmen who hoped that this would provide them with a large new market and access to wider Arab markets. This development did not occur on any scale. Trade and Industry Minister Gideon Patt said in August 1982 that trade with Lebanon for the months of July and August (which he estimated would total about \$12 million) "had already overtaken the value of trade between Israel and Egypt the previous year."<sup>47</sup> It also appears that some small quantities of Israeli goods are filtering onto Arab markets via Lebanon. "Both the Saudis

42. Central Bureau of Statistics, *Statistical Abstract of Israel 1982*, Table VIII/5.

43. *Financial Times*, January 6, 1983.

44. Shahak's newsletter, November 1, 1982.

45. *JP*, December 5, 1982.

46. *JP*, January 2, 1983.

47. *Ha'aretz*, August 17, 1982.



and the Jordanians have placed a ban on goods from Lebanon in an effort to prevent the spread of Israeli trade in their direction.”<sup>48</sup>

## CONCLUSIONS

Major sectors of the Israeli economy are now deeply embroiled in the process of territorial expansion, both in the occupied territories and in Lebanon. This is the result of the strong relationship of the economy with the defense establishment—both the arms industries and “science-based industries,” and the many firms which supply the “civil” needs of the IDF. It is also a product of firms cashing in on open markets, cheap labor, and land which military occupation has made available.

I have argued that the worsening overall economic situation caused by the combined effects of world recession and the enormous military imports bill has made these “easy” options all the more attractive. It has also been shown how the foundation of this “military-led” economy was laid during the years of Labor Alignment rule. While the Likud government is politically hostile to the economic power of, for example, the Histadrut and the kibbutz movements, these organizations, and the Histadrut in particular, are now quite deeply implicated in the occupation and settlement policies of this government.

In fact, in the short term it is hard to see why, even under a future Labor government, there should be any dramatic reversal in these positions. While a military withdrawal from Lebanon might be effected, it is unlikely that this would be done without the establishment of some kind of buffer zone under the sway of elements favorable to the Israelis. This would probably mean the continuation of the economic penetration of the Lebanese economy which began with the invasion.

In the occupied territories, it remains to be seen whether the current settlement drive succeeds in drawing the number of Israelis it envisages. There is also the element of psychological warfare against the Palestinians there. Settlement, the harassment tactics of the so-called “civil administration” and their Village Leagues, and the virtual strangling of the economies of the territories contribute toward one of the long-standing goals of Zionism, most crudely voiced by Gush Emunim and its supporters: to have land without people.

The particular target group in the West Bank is the growing urban middle class, in general the most politicized and organized sector of society and the worst hit by the frozen economic situation. The present government clearly

48. *International Herald Tribune*, March 15, 1983.

wishes to speed up the already high levels of emigration which would make the task of de facto annexation much easier.

There are, however, certain countervailing elements. One is that after the invasion of Lebanon, which was also seen as part of a “softening up” process for the territories, there are fewer places to which Palestinians can emigrate. The Gulf, formerly the biggest labor market, has tightened up on entry for Palestinians, both for political reasons and because of their relatively strained economic circumstances. This situation, combined with the growing feeling that to stay put in the territories is now a significant political act, may in fact stem the further growth of emigration.

The second point is a contradiction reminiscent of the dilemma adherents of apartheid in South Africa face: they want cheap labor but do not want black people living in “white” areas. While Likud hardliners want to get rid of as many Palestinians as possible, there is little inclination to lose the cheap labor on which parts of the economy have come to depend. A possible, though not immediately likely, alternative would be to bring cheap labor from south and southeast Asia, as has become the practice in the Gulf and in some other labor-short Arab States. The nearest the Israelis have come to this so far, was discussions after the Camp David Accords of using Egyptian unskilled labor; this was not implemented.

As far as the military sector is concerned, the high priority given to “security”—that is, the ability to use massive force and high technology warfare systems against internal and external opponents—will continue, while Zionism continues to pursue the goals of an exclusivist State, and while the United States continues to help it to do so.