Survival questions for Israel: economic and military strategy

by Mark Burdman

Since the election of Ronald Reagan as President of the United States, a great deal of speculation has appeared in the international press about what the election will mean for U.S. relations with Israel, and, by extension, for America's relations with the Middle East as a whole.

Much speculation has narrowly focused on the high density of "pro-Israeli" advisers in Reagan's camp, or on the possible countervailing "pro-Arab" trends from Reagan's base of support in the energy-production industry and in the corporate community generally.

The "pro-Israel" versus "pro-Arab" focus has missed the point about what is likely to be the most pressing question facing Reagan's policy team where the Arab-Israeli conflict is concerned: the disastrous plight of Israel's economy.

With annual inflation rates of 200 percent, a per capita foreign debt of approximately $6,000—by far the highest in the world—and a savage gutting of investments in industry and in social services, Israel's economy is now a primary destabilizing factor in the Middle East equation. Under the current economic conditions in Israel, no Israeli leadership has the capability to make firm, long-range decisions, but must engage in considerations of the shortest-term expediency. Any further worsening of the economic plight of the country could be the catalytic factor pushing Israel's strategists into fatal miscalculations.

Ultimately, the resolution of this problem does not lie in Jerusalem or Tel Aviv but in Washington. Israel's economy is enormously dependent for its day-by-day operations on the United States. Reagan's actual policy in coping with Israel's economic collapse, and not his professed feelings for Israel, is the key to how Israel manages this crisis.

If Reagan's policy team encourages the Israeli government to continue to adhere to the austerity strictures of Milton Friedman, as the Israeli leadership has done for the three-and-a-half-year reign of Prime Minister Menachem Begin, then the resulting devolutionary economic consequences inside Israel will propel the country into strategic miscalculation or war.

If, by contrast, the Reagan team commits itself to a policy of debt relief for Israel in the overall context of an Arab-Israeli regional development package, then the economic impetus for military confrontation will be greatly reduced.

The latter option has been recently facilitated by the just-concluded November summit meeting of Arab heads of state in Amman, Jordan which, under the influence of Iraq, Jordan, and Saudi Arabia, resolved to foster a "Year 2000" two decade program for the industrialization and development of the Arab world. In the view of Arab policy-makers, this "Year 2000" program constitutes an implicit offer to Israel to be a partner in development of the Middle East overall, with the Arab-Israel peace settlement as backdrop.

The latter option also would provide American support for a growing number of leading scientists and economic planners in Israel who are speaking out for an anti-Friedmanite perspective. This group is insisting that only a policy of rapid growth in Israel's high technology, nuclear energy, and scientific sectors can prevent the nation from disintegrating into chaos.

That such a group would surface vocally in past weeks is a reflection of how profound Israel's economic crisis has become. Conversely, as a review of the economic facts of life in Israel shows, this group is not exaggerating in the least when it warns that Israel's economy and society will collapse if dynamic solutions are not quickly put forward—both in Israel and in the United States.

'Never been worse'

The magnitude of the crisis was the subject of a recent emergency meeting called by leaders of the Israeli

Manufacturers Association and Hevrat Ovdim, the holding company for the industrial concerns of the Histadrut national labor confederation. The meeting was called to release the findings of a joint research team that had been commissioned to study the state of Israel's industrial sector.

The conclusion of the team's report was that "things have never been worse in many, many years for the industrial sector."

This somber conclusion was based on comparing what happened in Israel's industrial sector from 1976 to 1979 to what has been occurring during 1980. The team found the following startling realities: in 1980, industrial production dropped by 5 percent, as against a yearly 5.5 percent rise during the previous four years; workers employed in industry dropped by 8 percent, relative to a yearly rise of 3.7 percent in the previous four years; and investment in industry experienced a *negative* growth rate of −20 percent, as against a drop of less than 1 percent in each of the previous four years.

"These discouraging figures," the report stressed, "are a result of the government's policy of freezing the growth of the economy and reducing local consumption. Both steps were taken to reduce inflation. This policy has proved a failure."

This last assessment was aimed against the policies of Finance Minister Yigal Hurvitz, Israel's economic czar and a protégé of economist Milton Friedman. Hurvitz was installed in his post in November 1979, two weeks after United States Fed chief Paul Volcker began his policy of jacking up interest rates in the United States. Since that time, Volcker and Hurvitz have been working along parallel tracks to destroy the American and Israeli economies.

The statistics for 1980 cited by the report are the results of one year of Hurvitz's credit-gouging policies.

Like Volcker, Hurvitz has responded to criticism from producers by consciously deciding to make matters worse and generating an economic depression from the top down.

According to the Dec. 9 *Jerusalem Post*, the Israeli Finance Minister is pushing through a new budget that will mandate a 7 to 8 percent cut in public expenditures, and engineer as national policy a 25,000-person increase in unemployment.

Analyzing this latest move, the *Post* editorialized: "A policy designed to create a recession may successfully choke off output and employment. It is not very likely to slow down inflation and may even boost it."

The recessionary/inflationary double punch that Hurvitz is delivering to the Israeli economy is being abetted by his friend Volcker. According to Israeli government economic advisers, Israel is now being compelled to pay 13 percent interest rates on 30-year-maturity defense-related loans from the United States.

"This will be a drain on our economy, will worsen our debt repayment problems, and will deflect monies away from investment in industry," one Israeli economist told *EIR*. "That's why we are watching the new administration's economic attitudes so closely."

The dope-and-arms economy

Hurvitz's policies are not those of a bungler or a lunatic, although they may seem so to many Israelis. Rather, Hurvitz has a conscious, well-laid design to transform Israel into a haven for various quick-buck speculative and nonproductive operations, that are being encouraged as "solutions" to Israel's debt repayment and inflation-derived economic problems.

Hurvitz and his allies in Israel want the country to become a center of arms export, real-estate and asset-stripping speculative ventures, and "legalized" drug trafficking, to the detriment of encouraging economic processes conducive to the production of real tangible wealth. These components of Hurvitz's model economy seem to be the ideal components from the standpoint of generating fast money, although they are insane from the standpoint of the health of Israel's future.

Arms manufacture and export

According to a highly informed Washington intelligence source, Israel is due to become "one of the most intensive armaments-producing countries in the world. Israel will receive funding from South Africa to reach this goal, and will then export the arms it produces to South Africa, China, and elsewhere."

This analysis was lent credence by the recent trip to Israel by South African Finance Minister Owen Horwood. During that trip, Horwood reportedly extended a $250 million South African credit line to Israel, and Israeli sources have indicated that this credit line is in part earmarked for Israel's armament industry.

During the late-November press conference, Israeli Deputy Defense Minister Mordechai Zippori stated that Israeli arms exports had reached the $1.25 billion level over the course of the last fiscal year, a figure considered conservative in the eyes of many analysts, especially in view of a recent *Newsweek* report that Israel and China had concluded a $2 billion arms deal. Arms manufacture, while revenue-generating, is essentially a nonproductive item which tends to exacerbate inflationary trends.

Speculation and real estate

Simultaneously, Hurvitz's Friedmanite free-enterprise policies have opened the door wide for speculative and crime-linked interests to buy up much of Israel. Through easing currency regulations Hurvitz has allowed Israeli interests to become repositories for crime-derived dirty money.

One key indicator of this is the rising star of industrialist Shaul Eisenberg. For months, Eisenberg has been buying up bankrupted textile firms and other businesses in Israel. So extensive has Eisenberg's takeover operation become that he was charged with "buying up the whole country" by a top official in Israel's Labour Party earlier this month. Leading Labour Party representatives have been pressuring the government to prevent him from taking over significant market shares of Israel's Paz Oil Company.

Eisenberg is a newcomer to the Israeli scene: his primary base of operation is Asia, including China. He has been identified by intelligence sources as being involved in arms transfers between Israel and China. According to an Israeli intelligence source, Eisenberg's multinational, multibillion-dollar financial empire "has become a vehicle for the laundering of crime money."

A second indicator is that the Canadian Bronfman family, which made its fortunes in bootlegging whisky in the 1920s to gangster Meyer Lansky, and which is now one of the key families in the "Dope, Inc." cartel, has been making incursions into the Israeli real-estate market. According to the Dec. 10 *Jerusalem Post*, the partially Bronfman-owned Canada-Israel Development, Ltd. has just acquired 25 percent of the shares of one of Israel's largest real-estate interests, the Property and Building Corporation. Real-estate speculation in New York has proven to be a major haven for dirty money. Recently Bronfman-owned companies have bought heavily into New York realties.

The model example of this process in Israel has been the case of Samuel Flatto-Sharon, a member of Israel's parliament who has been indicted by a French court for financial swindles in real estate. Since fleeing to Israel in the mid-1970s, Flatto-Sharon has intruded his way into the Israeli real-estate market to a significant degree.

The 'dope economy'

The increasing involvement of crime-linked speculators in Hurvitz's free-enterprise economy is occurring simultaneously with the increasingly open advocacy of a legal drug market in Israel.

During a Nov. 24-25 symposium on drugs at Israel's Hebrew University, the director of the country's social affairs ministry, Menahem Horowitz, called for the legalization of hashish and marijuana and for the creation of a national distribution system to provide heroin "freely to proven addicts."

Horowitz was followed by a conference coordinator who suggested that cannabis, the active toxic substance in hashish and marijuana, could one day be used as an oral contraceptive, because of its proven ability to damage the reproductive hormones in rats.

These comments provoked considerable shock among Israeli health officials and police. Yet they only reflect a dramatic upsurge in drug use in Israel over the past few years, and the attempt to turn the sale of drugs into a legitimate "business" in Israel.

The intersecting vectors of Hurvitz's policy package—nonproductive arms industry, speculation, and dope economy—are already creating security consequences for Israel that are not being lost on Israeli planners. In sum, Hurvitz's credit-restriction policies against production and industry and his favoring of the "funny money" economy are leading to inward collapse of Israeli society.

This devolution is now being reflected in one of the most sensitive barometers watched by Israeli leaders: immigration to Israel.

According to figures released Dec. 15 by the Israeli Immigration Ministry, immigration dropped from 2,828 in November 1979, to less than 1,000 in November 1980. Reporting on these figures, the Dec. 16 *Baltimore Sun* noted that economists in Israel have been warning that "the worsening economy . . . and deteriorating social climate are driving Israelis abroad in growing numbers."

The crisis in immigration, the worst in 12 years, has more than symbolic importance.

For a significant number of long-term strategic planners in Israel, especially for those who believe in the inevitability or likelihood of further wars with the Arabs, the question of immigration ultimately bears upon the calculation of future manpower capabilities and comparative demographic factors relative to the Arab countries. For these planners, declining immigration is thus perceived, ultimately, as a security threat, all the more so at a time when they regard Israel's security as already negatively affected by the defense budget cuts detailed in Hurvitz's austerity regime.

The devolution of the economy, then, presents Israeli planners with only three possible options:

1) seek a peace agreement immediately, virtually on any terms;

2) seek to reverse the downward trend in Israel's economy, and therefore provide a stable, rational basis for dealing with the Arab countries through a dynamic of mutual development; and

3) seek the devolution of Arab economies. If the Arabs won't devolve voluntarily, but insist on rapid development in their own countries, this option presents Israeli planners with the choice of either fomenting internal civil strife and inter-Arab warfare, or going to war to knock out as much Arab infrastructure as possible.

It is in option three that the obvious dangers lie. Both internal civil strife and inter-Arab warfare have the ongoing potential of spilling over in an uncalculated way into other regions, potentially leading to the destabilization of the flow of oil, and creating superpower confrontation in the region.

Option three explains why Israel's economic problem is a cause for great alarm for the Reagan administration and for the international community at large: it places Israel directly on the course of strategic miscalculation.

Lawfully, some of Hurvitz's old friends in Israel are exactly those most inclined toward this option.

Hurvitz is head of the "Rafi" faction, which originated in a 1960s split from the Labour Party. One of his original Rafi allies was Gen. Moshe Dayan, most recently Israel's foreign minister. In an interview with the *Christian Science Monitor* Dec. 10, Dayan stated that Israel was no longer committed to the survival of Jordan's King Hussein, but was willing to see a Palestinian state emerge in Jordan. Behind these words lay Dayan's support for the destabilize-the-Arab-regimes strategy.

Dayan and Hurvitz are close to a clique of Israeli military planners allied to the Club of Rome, the elite club devoted to promoting Malthusian economics. For the Club of Rome allies in Israel, Israel's role is to oversee the maintenance of feudalism and backwardness in the Arab countries. This role is necessitated all the more because Israel itself is going through a process of austerity and devolution.

Progrowth alternative

There is anything but unanimity in Israel about the soundness of option three. As the social-economic crisis is exacerbated, leading scientists are favoring the second choice: rejecting Hurvitz's austerity and speculation policies, and encouraging a high-technology, nuclear energy-based economic growth policy.

Impulses in this policy direction have mostly come from Israel's scientific community.

In November of this year, the newly formed Israeli Academy of Sciences Committee for Projecting the State's Needs in Basic Research released a report on the state of physics research in Israel. The report expressed concern at the decline in physics research, and advised the strengthening of research in the future in the area of plasma physics in particular, in view of "its importance when applied to the solution of the world's energy problems."

Plasma physics research is key to the rapid development of commercially applicable thermonuclear fusion power. According to a Washington source with top-level contacts in Israel, a "school of thought is developing that Israel's survival into the next century depends on the use of fusion power for desalination purposes, to develop the country's water resources. Without such ambitious thinking, the future appears bleak."

The sense of the Israeli Academy of Sciences report was echoed in a mid-November speech by Gen. Amos Horev, the head of Israel's Technion University, an important training center for scientists and engineers. Horev warned that the training of scientists and engineers had "stagnated seriously" in Israel, leaving technological capabilities weakened in the area of defense. He warned that the stagnation "will seriously limit the country's aspirations and capabilities in the future."

Horev is now heading a special government commission to determine whether Israel should go ahead with previous plans to build two or more nuclear reactors in the country to supply future energy needs. The commission is due to issue its findings in April 1981.

To provide a positive national climate for the report, leading Israeli scientists have begun a pronuclear mobilization.

From Dec. 4 to 5, a conference of nuclear societies was held at Ben Gurion University. One of the conference keynoters was Shimon Yiftah, the head of the Israeli Nuclear Society. At a preconference briefing, Yiftah stated: "What makes this year's conference different is that we will be discussing practical options for how and where to build reactors in Israel. We feel the country is finally moving toward nuclear energy and that gives our deliberation new practical importance."

One of the main reasons cited for his optimism, Yiftah noted, was a likely change in policy toward the export of nuclear reactors on the part of the United States now that the Carter administration had been defeated. Yiftah reported that American nuclear scientists and the nuclear industry were "euphoric" over the Reagan victory. This change of American attitude, he stated, would probably mean a reversal of the Carter administration's refusal to supply Israel with two Westinghouse nuclear reactors that had been promised by the Nixon administration in the early 1970s.

The high-technology, nuclear energy direction for Israel is reportedly receiving support within Israel's financial community from a group centered around Ya'acor Levinson, the chairman of Bank Hapoalim, the banking arm of the Histadrut. Levinson, who is likely to be Israel's finance minister if the Labour Party assumes power in Israel's national elections next year, has written articles and given speeches advocating a prioritization of credit allocation for high-technology investments as the key to Israel's future.

According to an Israeli economic expert, "Levinson strongly disagrees with Hurvitz's restriction-of-credit policies. Levinson thinks this is stifling Israel's potentials for growth, and he thinks that economic growth is vital for the country's future. If he had power over economic policy, he would look to provide credit incentives for exports and for the high-technology sector, and to be more restrictive in other, service-related sectors."