number of Israeli engineers in industry from 9,500 today to 19,000 in 1991, not counting engineers in the military, service sector, educational system, etc. Under present trends, Israel cannot produce them. There has been zero growth in science and engineering graduates since 1976-77 (see **Figure 3**).

In the 1950s and 1960s, the majority of Israeli college students took science and engineering courses, but now only 25 percent do. One reason is that Begin's budget cuts have caused a deterioration in university laboratory infrastructure. In another interview, Horev pointed to a second reason: Israeli high schools no longer require physics and chemistry for graduation. Israeli economist Yoram Weiss, now working at Stanford University, told *EIR,* "A few years ago, we loosened the requirements for education in order to give the students more freedom, just as you have done in the United States. So the students decided to take business courses or computer courses rather than physics and chemistry. This is related to the shift in Israel to services." Thus the technetronic orientation itself has undermined the basis for its own continuation.

There is also the well-known problem of emigration. Sick of the living conditions in Israel, many of its brightest young people are leaving, including many engineers and scientists.

## From Milton Friedman to Shmuel Flatto-Sharon

"Patinkin's Boys," they are called, the economists who dominate Israel's professoriat and bureaucracy. Don Patinkin, Hebrew University Economics faculty chief and later Hebrew University president, was trained at the Friedmanite University of Chicago. He in turn trained most of the other economists now operating in Israel's universities and bureaucracy. Other graduates of Chicago and the Chicago-allied Iowa State University include Finance Ministry director Ezra Sadan and Bank of Israel vice president Yakir Pressner.

"Patinkin is not Milton Friedman," Israelis are quick to say. "He is not for total free enterprise." Yet Friedman's hand is quite evident. He was brought to Israel in 1977 by Menachem Begin, in an attempt to handle Israel's 35 percent inflation. Friedman recommended a drastic dose of "free enterprise" including the rapid elimination of Israel's foreign exchange controls, and the turning of state-run businesses over to private ownership. The "Patinkin boys" argued that a more gradual shift was needed.

Begin followed Friedman's advice: inflation soon leaped to 130 percent, and the Israeli shekel dropped from its 1977 value of 96 cents to less than 3 cents as of this writing, with a continuing devaluation of more than 5 percent per month.

Friedmanism in not a problem only of Begin's Likud Party. Patinkin himself exercised his influence in the Labour Party. When Begin came to power, a different group of Chicago trainees came to the fore, led by Ezra Sadan.

Israel's best period of economic development was in the 1950s and early 1960s. Economic czar Pinchas Sapir, who filled various cabinet posts, used a system of state-run enterprises and governmental and semi-governmental industrial development banks to channel credit to critical development sectors, often at extra-low or even "negative" interest rates, i.e., rates less than inflation. This is the same system so successfully used by such countries as Korea and Japan.

At the same time, the Labour-allied Histadrut trade union federation ran a large number of companies through its Hevrat Ovdim holding company. One of the largest Histadrut companies, Koor Industries, at 30,000 workers, is Israel's largest employer, producing 10 percent of Israel's industrial output and 12 percent of its exports.

Even while the Labour Party was still in power, but particularly after Begin's accession, Sapir's usage of the government-associated development banks was attacked as a boondoggle partial to consumer and luxury goods. Yet, Israel's capital formation was much higher in those days than now.

In the mid-1960s, as Israel entered into balance of payments crisis, many of its Chicago-style economists argued that Israel must cut imports—by cutting economic growth! Labour Prime Minister Levi Eshkol followed this advice.

When Begin came to power, he steadily reduced the power of the directed credit institutions, giving much more control of credit allocation to the three giant banks: Bank Leumi, Israel Discount Bank, and Bank Hapoalim. Indeed, according to the *Jerusalem Post,* the 24 percent stock-market crash just engineered by Finance Minister Yoram Aridor is aimed at raising the banks' control of stock market investment from a 50 percent share to 75 percent.

Perhaps the most dangerous application of Chicago economics is the possible turning of state enterprises over to Dope, Inc., epitomized by the attempt, now aborted, to sell off El Al Airline to "private ownership." Israeli sources say a prime contender to purchase it was Marcus Katz, a crony of convicted drug-runner Shmuel Flatto-Sharon. Flatto-Sharon is a member of parliament in Begin's Likud bloc.