In Midst Of War Drive, Israel's Economy Falls

by Dean Andromidas

When he came to power, Israeli Prime Minister Ariel Sharon launched a bloody campaign to force the collapse of the Palestinian Authority. After a year of closures and sieges against the Palestinian towns and cities, the fragile and impoverished Palestinian economy has been brought to its knees. But Israel's own economy is undergoing its worst crisis in nearly 20 years, with no recovery in sight. Well on the way to collapse, the economy could prove the Achilles' heel of Sharon and his generals.

With all economic indicators for the third quarter far worse than expected—including record unemployment, negative growth rates, collapse of entire sectors of the economy, and widespread labor unrest—Israel is now officially in "recession."

Hopefully this economic crisis will drive home to Israelis the existential imperative of peace through development in the Middle East. Lyndon LaRouche's Oasis Plan for the region, could shape initiatives not only to forestall war, but even to allow the Middle East to become a powerful focal point for regional economic development: expanding and developing the region's water resources, and building a system of regional infrastructure that could turn the Middle East into the "Land-Bridge" between Eurasia and Africa.

Reality Shock

The release of the disastrous economic figures for the third quarter, along with widespread labor unrest in the past weeks, have created a reality shock for most Israelis. The causes are the state of low-intensity war, and the collapse of the global economy. Sharon is fully culpable for the first, and incapable of dealing with the second.

Labor strikes swept the country in late November, bringing various sectors of the economy to a standstill. A four-week strike at the National Insurance Institute left the vast majority of Israel's pensioners without their monthly stipends. An airport customs workers strike created more chaos at Ben-Gurion International than a bomb scare. The four-week strike of lecturers closed Israel's leading university; employees of the Labor and Social Affairs Ministry and firefighters are striking.

Things could get worse if the government cannot broker a tripartite agreement with labor and the private sector, to establish an economic "recovery" program, including a wage freeze and job-creation programs. If an agreement is not reached by Dec. 21, the entire public sector could strike, says the Histadrut labor federation.

The labor unrest is driven by high unemployment. The Israeli Bureau of Statistics (CBS) reports that official unemployment has reached 234,500 for the third quarter—a rate of 9.3%. The Finance Ministry and the Bank of Israel central bank expect over 10% unemployment by the first quarter of 2002. If those who have given up looking for work are included, the jobless figure would be at least 350,000 now. Unemployment is particularly high among new immigrants (11.5%) and among Israeli Arabs (24%). But there is also a serious problem of underemployment, as witnessed by a 13% increase in the number of part-time workers. In a country where one in every five families, and one in every four children, lives below the poverty line, this unemployment, combined with high levels of anxiety about the security situation, can have a socially explosive effect.

Industry Falls Across The Board

But even these government figures are rose-colored. Israel's Manufacturers Association has warned that by the end of the year, 14,000 layoffs can be expected in the industrial sector, which at the current level of 398,500, is Israel's second largest employer. Since the collapse of the Nasdaq bubble in the United States, more than 150,000 jobs have been lost in Israel's "high-tech" sector.

Industrial production is expected to shrink by 4% this year compared with last, according to the CBS. The number of employees in the industrial sector will drop by 3.5%, while work hours per employee will drop by 4.5%. The sharpest fall is in electronics, aircraft, and pharmaceuticals, which combined have experienced a 26% drop in production. Still harder hit is tourism, which normally brings in $2 billion annually, which shrank by 51% from 2000 to 2001. Charter flights are gone; even regularly scheduled flights have been cut back, as passengers are now only Israelis.

Israeli Aircraft Industries (IAI), Israel's most important aerospace corporation, saw its profits collapse as a direct result of the Intifada and the downturn in the global aviation industry. European and American companies cancelled the transfer of planned projects to Israel, and international companies cancelled transfers of aircraft for maintenance, concerned that their aircraft could be targetted for attack, if war breaks out in the region.

Israel's GDP shrank 2.8% in the third quarter, after contracting by 0.1% in the second quarter. This is the sharpest percentage contraction since 1953.

Residential construction, which has been historically a key driver of the economy, collapsed by 17.6% this year, reflecting both increasing relative poverty, and a collapse in immigration to Israel, which offers only a harsh security situation and few opportunities.

Exports of goods and services have fallen by 12% over the first nine months of 2001, compared to 2000. The banking sector has been hit hard. Israel Discount Bank, the third largest bank, has reported growing losses for the last two quarters, and a doubling in "doubtful debts" on its books. The profits of two other large banks, FIBI and Bank Hapoalim, dove, after the Bank of Israel demanded all banks increase their reserves to cover these non-performing loans.

The high-tech bubble had been a panacea for the Israeli economy, up through its 6.2% growth rate for 2000. The bursting of that bubble has had a devastating effect, and brought many back down to reality. Israel was particularly heavily involved in the telecom sector, where it was providing both hardware and software for all the world's major international telecom firms, which have since lost many billions of dollars. This has left hundreds of bankruptcies and heavy losses among Israel's holding and investment companies such as Discount Investment Corp. (which lost more than $200 million in the third quarter, on top of losses of $100 million in the second). The Israel Corporation and Koor Industries both suffered losses, thanks to the collapse of the telecom and "high-tech" bubble.

Abraham Tal, business correspondent for the daily *Ha'aretz,* wrote on Nov. 22 that the celebrated 6.2% growth rate for 2000 can be attributed to illusory effects of the high-tech bubble, and that, fundamentally, Israel's economy has been in decline for more than five years.

The economic collapse could very rapidly lead to a political crisis in the pending fight over the 2002 budget. The Treasury and the Bank of Israel are demanding massive budget cuts. They are, in particular, demanding the suspension of so-called private bills of individual members of Israel's parliament, the Knesset. These bills call for allocations of funds to various projects outside the government budget—anything from support for yeshiva religious schools, to financing the purchase of schoolbooks. Such a budget fight could push the small, special-interest parties that make up the swing factor in the government coalition, into initiating a government crisis: The Likud-led government of Benjamin Netanyahu fell as a result of just such a budget dispute.

Fall Of The World's Most Subsidized Economy

Israel is an economy like none other. Although it is ranked first among nations in per-capita income, it receives the most economic aid of any country in the world. Israel is the top recipient of aid from the United States, receiving an annual dole of over $3 billion of economic and military aid and long-term credits. U.S. military aid accounts for 20% of Israel's annual defense budget. This has not only allowed Israel to absorb hundreds of thousands of immigrants, but has enabled it to maintain an extremely large military-industrial complex.

Moreover, Israel is the beneficiary of gargantuan capital flows from the billionaires among the Diaspora. The political as well as economic weight of this capital is particularly strong on the political right, in funding the Jewish settlements in the West Bank and Gaza Strip, and above all, in backing Sharon's war policy.

This flow of billions of dollars is not simply "charity." Israel is on the Group of Eight's blacklist of the world's top money-laundering centers. Along with the so-called "Jewish Mafia," there is the Russian Mafia and so-called "tycoons," many of whom claim Jewish descent, such as Boris Berezovsky and Vladimir Gusinsky. With a 25% holding in the Israeli daily *Ma'ariv,* the latter is business partner of the notorious Israeli arms dealer and former Iran-Contra figure Ya'akov Nimrodi. These more colorful donors all have been quick to get Israeli passports. In the latest money-laundering scandal, Switzerland has slapped sanctions on the Swiss branch of Israel's Bank Leumi for involvement in the alleged money-laundering of former Peruvian security chief Vladimiro Montesinos. The Swiss banking authorities demanded that Meir Gruss, Bank Leumi's general manager in Switzerland, step down.

If Israel does not change its banking laws to prevent money laundering, as the Group of Eight demand, it will face sanctions, along with such "black money" holes as Panama, Cyprus, and the Bahamas.

Putting aside their great political influence, these cash cows of Israel's economy are also suffering from the global financial collapse. If their "generosity" begins to fade, the floor will drop out.

War Or Economic Survival

Israel under a Sharon government hasn't the slightest hope of economic recovery. Less well-known than Sharon's terrible war record, is the economic catastrophe that this war policy has wreaked on Israel. Although Israel has always had high inflation, the 1980s Lebanon war, under then-Defense Minister Gen. Ariel Sharon, helped to drive the Israeli economy into three-digit hyperinflation. In 1983, inflation hit 191%; in 1984, 445%; and in 1985, it threatened to soar into four digits. Only after Israel withdrew from most of Lebanon, did inflation begin to decline, and then only after the government instituted an "Economic Stabilization Program" which called for crushing austerity. Its "success" was primarily due to a $1.5 billion aid package from the United States.

Sharon has publicly stated that he is not interested in a peace treaty with any Arab state. He holds on to the illusion that all the Arab states will collapse economically and politically over the next ten years, and Israel, with its "dynamic" economy, will reign supreme in the Middle East. But his policy could utterly bury the Israeli economy, even before he launches general war.

Nonetheless, a glance at Israel's geographic reality demonstrates the crucial role it could play in a regional economic growth program centered on the development of water resources and transportation infrastructure. Lying on a narrow strip on the eastern coast of the Mediterranean, it is endowed with two excellent harbors and lies along what would be the north-south axis of any future rail corridor between Eurasia and Africa. Indeed, without this integration, Israel will never become anything more then a foreign-subsidized crusader state in Samuel Huntington's "Clash of Civilizations."