



**The Politics  
of  
Foreign  
Aid**

**U.S. FOREIGN  
ASSISTANCE AND AID TO  
ISRAEL**

**Mohamed Rabie**







**THE POLITICS  
OF  
FOREIGN  
AID**



**The Politics  
of  
Foreign  
Aid**

**U.S. FOREIGN  
ASSISTANCE AND AID TO  
ISRAEL**

**Mohamed Rabie**

---

**PRAEGER**

New York  
Westport, Connecticut  
London

**Library of Congress Cataloging-in-Publication Data**

Rabī', Muḥammad.

The politics of foreign aid : U.S. foreign assistance and aid to  
Israel / Mohamed Rabie.

p. cm.

Bibliography: p.

Includes index.

ISBN 0-275-93000-9 (alk. paper)

1. Economic assistance, American—Israel. I. Title.

HC415.25.R33 1988

338.91'73'05694—dc19 88-3096

Copyright © 1988 by Mohamed Rabie

All rights reserved. No portion of this book may  
be reproduced, by any process or technique, without  
the express written consent of the publisher.

Library of Congress Catalog Card Number: 88-3096

ISBN: 0-275-93000-9

First published in 1988

Praeger Publishers, One Madison Avenue, New York, NY 10010  
A division of Greenwood Press, Inc.

Printed in the United States of America



The paper used in this book complies with the  
Permanent Paper Standard issued by the National  
Information Standards Organization (Z39.48-1984).

10 9 8 7 6 5 4 3 2 1  
**137899**

**BELMONT COLLEGE LIBRARY**



HC

415.25

.R33

1988

To Maha, Aseel, Haneen, and Kareem



# Contents

<i>Introduction</i>		ix
<b>PART I: FOREIGN ASSISTANCE: OBJECTIVES AND PROGRAMS</b>		
1	Foreign Aid Objectives	3
2	Foreign Aid Programs	11
3	Foreign Assistance in Historical Perspective	35
<b>PART II: AMERICAN AID TO ISRAEL</b>		
4	U.S. Official Aid	53
5	Military Assistance	65
6	Economic Assistance	75
7	Private Assistance	85
8	Other Grants and Subsidies	95
9	The Cost of Supporting Israel	111
<b>PART III: FOREIGN AID AND THE FUTURE OF ISRAEL</b>		
10	Foreign Aid and the Israeli Economy	127

11	Foreign Aid and the Future of Israel	147
12	Concluding Remarks	155
	<i>Notes</i>	159
	<i>Selected Bibliography</i>	173
	<i>Index</i>	179
	<i>About the Author</i>	189

# Introduction

Global interdependence, both economic and political, has made international relations highly complex. While a politically stable and economically vibrant world is in the best interests of all nations, the responsibility for sharing the benefits of interdependence rests primarily upon the shoulders of the rich and powerful, especially the superpowers. They are, however, chiefly concerned with issues affecting their national security and view global interdependence as a means to protect their perceived national interests. Furthermore, in those countries where an elected leader is not expected to govern for a long time, the span of national interests has become narrow. In the U.S., for example, domestic considerations, especially those related to pressure applied by political lobbies and special interest groups, have become the overriding influence on both the form and substance of foreign policy.

The United States International Security and Development Cooperation Programs, as Secretary of State George Schultz has said, “are essential instruments of America’s foreign policy and are directly linked to its national security and economic well being.”<sup>1</sup> “Foreign assistance is . . . one of the most cost-effective means at our disposal for enhancing our national security,”<sup>2</sup> adds William Schneider, Jr., former undersecretary of state for Security Assistance, Science and Technology. Such programs include military sales and grants, economic assistance, Food for Peace, and other financial contributions to many multinational organizations and agencies. The total budget of all foreign assistance programs, which exceeded \$14 billion in 1986, represents about 1.5 percent of the U.S. federal budget, and about 7 percent of the annual budget deficit.

Israel and Egypt together receive over 45 percent of total U.S. military and economic assistance. Israel, which received about \$7.5 billion in the 1985–86 period alone, is the largest and most favored recipient of American aid, ac-

counting for 25 percent of the total. In addition it has enjoyed an absolute immunity against any cuts in the amount of its aid even when the foreign aid budgets were deeply cut. In fact, U.S. aid to Israel has experienced a marked and steady increase year after year since 1973. Furthermore, in 1985 all American aid to Israel was converted to outright grants that need not be repaid.

For these reasons, U.S. aid to Israel will be the focal point of this book. The history and magnitude of that aid will be reviewed, and its impact on Israel's economy will be evaluated. Because American efforts in helping Israel are said to have enhanced U.S. security, and to have advanced American economic and political interests in the Middle East, this book will examine the impact of aid to Israel on regional peace, international security, and U.S. economic interests.

**I**  
**FOREIGN**  
**ASSISTANCE:**  
**OBJECTIVES AND**  
**PROGRAMS**





# 1

## Foreign Aid Objectives

The major objectives of U.S. foreign aid have been to assist the American government in implementing its foreign policy goals around the globe. While such goals, as explained later, are many and varied in nature, they tend to concentrate on achieving the following objectives:

1. Enhancing the U.S.'s national security and its international role and prestige;
2. Facilitating U.S. access to the world's major markets, energy resources, and strategic minerals;
3. Countering Soviet military and political influence around the world and undermining communist economic and political systems;
4. Maintaining Israel's military superiority vis-à-vis the Arab countries.

On March 14, 1986, President Reagan said, "Our nation has responsibilities and security interests beyond our borders in the rest of this hemisphere, in Europe, in the Pacific, in the Middle East, and in other regions—that require strong, confident, and consistent American leadership."<sup>3</sup> Meeting such responsibilities and security interests, he added, cannot be done "without an active diplomacy backed by American economic and military power."<sup>4</sup>

As an instrument of foreign policy, foreign assistance provides the means to help secure American interests and project American power in many regions of the world. Richard W. Murphy, assistant secretary of state, said on April 16, 1986, that foreign assistance programs "provide critical reinforcement to policies and institutions that the U.S. is committed to support in principle as a global power exerting influence to protect legitimate interests."<sup>5</sup>

These programs, moreover, not only serve as a vehicle for supporting foreign governments that share the U.S.'s national goals, but also help protect govern-

ments that are willing to facilitate the implementation of American policies in their regions. In addition, they promote American values and acquaint other nations with American social, economic, political, and military institutions.

Secretary of State George P. Schultz defined the objectives served by the U.S. foreign assistance programs as follows:<sup>6</sup>

1. Supporting the Middle East "peace process";
2. Strengthening U.S. alliances and defense cooperation relationships;
3. Promoting regional stability in Central America and the Caribbean; and
4. Supporting economic reforms and democratic forces throughout the world.

The Department of State added some new objectives when it presented its 1987 Security Assistance Program to Congress. It said that "the two traditional goals of the security assistance strategy have been, and are today:

- a. To build coalition defenses against Soviet-inspired or other threats to U.S. global and regional interests; and
- b. To enhance regional stability and contain regional conflicts by helping friends and allies to defend themselves."<sup>7</sup>

The International Security and Development Cooperation Programs are evidently designed to advance all these objectives by providing the critical military and economic assistance, military skills and training, and modern technologies that enable countries friendly to the U.S. to make better use of their own resources. As defined above, the overriding considerations of all U.S. foreign assistance programs are, without doubt, strategic. Economic assistance, nonetheless, provides many countries with the means to fight hunger and at times improve overall economic performance.

Foreign assistance programs are generally divided into two major categories: development assistance and security assistance.

Development assistance programs are intended to provide recipient countries with the economic and technical means to accelerate the growth of their economies. However, feeding the starving masses in many Third World countries has recently become the major objective of such programs. As a result, "improving the quality of life" has replaced economic growth as the major objective of all development assistance programs.

Security assistance programs, on the other hand, are intended to provide recipient countries with the military, technical, and financial resources to strengthen their defense capabilities. American concern with national security has been so obsessive that security considerations have become the dominant feature of most foreign aid programs. In fact, after World War II, programs which provided military and economic aid to many European countries "were almost totally justified in these terms."<sup>8</sup>

But as the focus of potential conflicts between the East and the West shifted from Europe to the Third World, security issues became more complex. Conflicts having no direct impact on U.S.-Soviet relations but with the potential of inviting direct or indirect involvement of the superpowers have further complicated the nature of national security issues and the method for dealing with them.

The Iran-Iraq War, for example, has been fought over geopolitical and religious considerations between two regional powers, neither of which is a close ally of a superpower. The war did cause both superpowers to become involved in a strange and rather unconventional way. Because the Soviet Union backed Iraq, providing much needed military hardware, it had to forego cultivating its Iranian neighbors. At the same time, North Korea, a Soviet client-state, supported Iran rather than follow the lead of its Soviet benefactor.

France, a major Western power and an American ally, also backed Iraq in its war with Iran, thus seeming to follow the lead of the Soviet Union. But Israel, which is a U.S. client-state, elected to back Iran. Israel began selling Israeli- and American-made arms and spare parts to Iran as early as 1979. In doing so, Israel provided the most radical and the strongest anti-American government in the region with the military equipment it needed to wage a bitter war not only against Iraq but also against Western values and interests in the entire Middle East region.

The U.S. government, which for six years claimed to have maintained a neutral position in regard to the Iran-Iraq War, has also provided the radicals of Iran with limited but critical quantities of military equipment. Thus, the Reagan administration has undermined its own antiterrorist policy and improved Iran's chances of winning the war against both Iraq and Western influence in the region. Helping Iran, moreover, has increased the threat facing the region's other oil-rich Arab states, which the Carter and Reagan doctrines were meant to protect.

These are grounds for believing that the U.S. involvement in the Gulf War was intended to prolong it.

Admiral John Poindexter, the president's former national security advisor, testified in Congress that one of the major reasons for selling American arms to Iran in 1986 was to maintain the balance of military power in the Gulf War. Intelligence reports which he received from the Israelis led him to believe that Iran's position in the war was deteriorating and that a new infusion of arms was needed. He further testified that President Reagan had agreed to sell arms to Iran in order to enhance its fighting capabilities and restore the balance of power in the Gulf War.<sup>9</sup>

Prolonging the war, however, has only served to provoke more violence in the entire region, escalate the arms race, encourage Iran to reject UN calls for ending war, and indirectly promote instability rather than stability. Among leaders of the area who are acutely aware of this state of affairs is Mr. Abdulla Y. Bishara, secretary general of the Gulf Cooperation Council. Mr. Bishara has observed that "the secret arms sale to Iran . . . did not contribute to the U.S. objectives of maintaining the stability of the Gulf region."<sup>10</sup>

As Iranians began to attack Kuwaiti oil tankers, Kuwait asked both superpowers to protect its oil fleet and shipping lanes. The Soviet Union agreed to lease three of its tankers to Kuwait and provide those ships with naval protection against the Iranian threat. The United States, on the other hand, agreed to reflag eleven of Kuwait's ships and instructed its navy to escort these ships through the Strait of Hormuz. As a result, both were forced by circumstances to share the responsibility for protecting Kuwaiti ships. While the Soviet response to Kuwait's request was motivated by a desire to increase its influence in the Gulf region, the U.S. response seems to have been aimed at preventing the Soviet Union from achieving its own objectives there.

### **FOREIGN AID OBJECTIVES IN THE MIDDLE EAST**

Secretary of State Schultz has repeatedly said that one of the most important foreign policy goals of the Reagan administration has been to help achieve a lasting peace in the Middle East. Yet, since the creation of Israel in 1948, the Reagan administration, in the view of many of its supporters as well as its critics, has devoted less time than almost any other American administration to doing this. After eighteen months of active involvement following the 1982 Israeli invasion of Lebanon, the administration began to distance itself from the politics of the region and concentrate on the foreign assistance aspects of its Middle East policy, with very limited goals and little effort for the achievement of peace.

Nevertheless, Secretary Schultz continued to maintain that U.S. foreign assistance plays a crucial role in furthering the peace process,<sup>11</sup> while the Reagan administration continued also to claim that its foreign assistance programs have been designed to advance regional stability and to promote the resolution of conflicts throughout the region. Mr. Robert H. Pelletreau, former deputy assistant secretary of defense for Near Eastern and South Asian affairs, outlined U.S. foreign policy goals in the Middle East as follows:<sup>12</sup>

- a. To promote stability in that strategically important region;
- b. To insure the security and well-being of Israel;
- c. To assist other friendly states in the region with their security needs;
- d. To foster the peaceful resolution of regional conflicts, especially between Israel and the Arab states; and
- e. To maintain Free World access to the vital oil resources of the Arabian Gulf.

Yet America's vested interests in the region go far beyond the policy goals listed by Mr. Pelletreau. They include a commitment to help Israel maintain a qualitative military edge over neighboring Arab states and a pledge to defend the Arabian Gulf region against any Soviet threat. Since most Arab countries are in a state of war with Israel, American strategy and policies in the Middle East have, in effect, been to prevent any political, military, or economic dete-

rioration of Israel that might alter the existing balance of power in the region. American assistance given to other friendly Middle Eastern states is meant principally to deepen their dependence on the U.S. and thus reduce their need to seek Soviet assistance.

Because of the special U.S.-Israeli relationship, the practices and effects of U.S. Middle East policy seem to have placed American security needs on a collision course with the country's political objectives.<sup>13</sup> While the extension of security guarantees to the Arab Gulf states through the Carter and the Reagan doctrines was meant to enhance political stability in the region, the maintenance of Israel's military superiority and the schemes to prolong the Gulf War have only heightened Arab fears and deepened Arab suspicion of U.S. intentions. Israel's repeated use of force to underscore its superiority and America's unwavering support for an Israel that can do no wrong have inevitably been major forces motivating the revival of Islamic fundamentalism and the growth of anti-American feeling.

Israeli requests for American aid enjoy the backing of both the State Department and the U.S. Congress. The Department of State claims that its support for Israel is intended to enable the state to maintain a qualitative military edge over its Arab neighboring states, gain the self-confidence necessary for making peace, and induce the Israeli government to make necessary economic policy changes. The enthusiastic support which the U.S. Congress has for Israeli aid, however, is influenced primarily—as numerous congressmen and senators have acknowledged—by the desire for the Jewish vote and campaign contributions.

The result is that Israel has managed to increase aid money and concessions from the U.S. Congress year after year while escaping accountability and supervision by the specialized U.S. government agencies (as explained in chapter 2). In addition, the successive Israeli governments have failed to revitalize their struggling economy, resisted making concessions toward the establishment of peace in the Middle East, and rejected the few serious American peace proposals, notably the "Reagan Initiative" of September 1, 1982.

Thus, U.S. policy in the Middle East has become a vehicle for helping Israel implement its own agenda at the expense of long-term U.S. and Arab interests. For example, the Iran-contra congressional hearings revealed, according to the *Washington Post*, that "Israel pushed hard to send Iran anti-tank TOW missiles, though anti-aircraft Hawk missiles were requested by Tehran [in order] to give Iran enough TOW's to destroy Iraq's tank force and thus handle the concerns the Israelis had with Iraqi armor."<sup>14</sup> Oliver North has also testified that he believed that Iranian middleman Ghorbanifar "was an Israeli agent whose apparent task was to find some way to sell North—and through him the Reagan administration—on continuing the dying Iran arms scheme—by the inducement of diverting profits to the Contras."<sup>15</sup> While selling arms to Iran was in contradiction of declared U.S. policy of combating international terrorism, diverting arms profits to the contras is widely believed to have violated the Boland Amendment, and thus U.S. law. The *California Tribune* said on July 9, 1987, that

“both the original arms-for-hostages scheme and the fateful money diversion to the Contras were apparently the creation of Israel government agents.”<sup>16</sup>

The Tower Commission, which was appointed by President Reagan to investigate the Iran affair, provided further evidence of Israel’s ability to get the U.S. to follow the Israeli agenda. It reported that “Israel had longstanding interests in a relationship with Iran and in promoting its arms export industry. In addition, elements in Israel undoubtedly wanted the United States involved for its own sake so as to distance the Arab world and ultimately to establish Israel as the only real strategic partner of the United States in the region.”<sup>17</sup> Since Israel had been shipping arms to the Khomeini regime without interruption since 1979, it hoped Washington would legitimize its trade by becoming implicated as well, and thus share the responsibility “for dealing with terrorists and arming the most dangerously destabilizing power in the Middle East.”<sup>18</sup>

In the meantime, U.S. credibility in the world, and in particular in the Arab and in most other Islamic countries, has been very much undermined, to the point where few if any Arabs wish to identify with American policies or interests in the region. In addition, as will be demonstrated in succeeding chapters, the recent history of the Middle East indicates that American aid extended to the region has been either misused, abused, or misplaced. As violence continues to escalate, economic conditions continue to deteriorate and the forces of instability and extremism continue to gain credibility and legitimacy vis-à-vis the existing political and social orders in the region.

## EVALUATION OF OBJECTIVES

The delivering of American aid to foreign countries normally stems from two primary motives:

- a. To attempt to influence events and political developments in the recipient country in a way most conducive to achieving the donor’s perceived long-term interests; and
- b. To try to intervene in the economic policies of recipient countries, including helping certain industries and restructuring others.

The attempt to influence events and internal political developments is a traditional practice of colonial powers; it has become a function that aid-recipient governments as well as American and European liberals have tried to keep within bounds. Supporters of the free enterprise system tend to reject intervention in the economies of other countries because they consider it unproductive. Thus, on both ideological and economic grounds, the operation of foreign aid programs seems to have its supporters and its critics. However, neither supporters nor critics have been able or willing to stress their viewpoints enough to change the direction of the U.S. foreign aid program. As a result, the objectives and operation of the program have remained very much the same since its inception in 1946.

In his State of the Union address, President Reagan noted that “dollar for dollar our security assistance contributes as much to global security as our own defense budget.”<sup>19</sup> Secretary Schultz added that “foreign assistance is a prudent investment in our future and the world’s future . . . strengthening our friends is one of the most effective ways of protecting our interests and furthering our goals.”<sup>20</sup>

However, the primary purpose of U.S. foreign aid, as stated in the Foreign Assistance Act, calls for the following:

1. The alleviation of the worst physical manifestation of poverty among the majority of the world’s poor;
2. The promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits;
3. The encouragement of development processes in which individual civil and economic rights are respected and enhanced; and
4. The integration of developing countries into an open and equitable international system.<sup>21</sup>

U.S. military and economic programs cannot be achieved without the cooperation of other concerned nations. By earmarking the bulk of American economic and military aid for a small number of countries, most of which are governed by repressive and/or expansionist regimes aspiring to regional hegemony, U.S. aid strategy seems to have opted to cultivate friends rather than effect genuine economic and political change.

A policy aimed at gaining more influence in a foreign country through increased military and economic assistance does not always guarantee the securing of U.S. interests. Recipient governments tend to follow their own interests, which may not be congruent with those of the U.S. In countries where governments have no popular mandate to govern, arms transfers are more likely to exacerbate internal tensions. In regions where U.S. assistance is meant to help a country whose policies are alien to those of its region, such as Israel, arms transfers are likely to provoke a regional arms race. Strengthening a country in the hope that it will play the role of a regional power, as was done in Iran under the Shah, tends to strengthen the forces of instability in the region rather than deter aggression or promote regional cooperation. Therefore, foreign assistance programs that are not meant to address wider regional and popular issues are not expected to achieve their objectives; consequently they are unlikely to avoid disappointments and, at times, total failure.

For example, Egypt, Somalia, and Indonesia sought in the 1970s the restriction of Soviet influence in their respective countries despite heavy Soviet military and economic assistance. The people of Iran and Nicaragua revolted against their respective governments in the late 1970s partially because of their alliance with the U.S. and heavy dependence on American aid. Even Israel’s own experience, both as a recipient and supplier of foreign aid, offers ample proof of

the need to avoid exaggerating the degree of political leverage derived from defense and economic relationships. Dependence by a number of Afro-Asian governments upon Israeli military advisors and equipment did not inhibit those governments from severing ties with Israel after its occupation of more Arab land in 1967. Notwithstanding continued Israeli overtures, and at times intimidation, most African and Asian countries continued to support resolutions condemning Israel at the United Nations.<sup>22</sup> On the other hand, Israel's dependence on U.S. military and economic aid did not deter successive Israeli governments from adopting policies toward the Khomeini government of Iran and the apartheid regime of South Africa which continue to be at variance with U.S. foreign policy.

U.S. humanitarian aid has served most of its objectives, especially in Africa, although providing such aid through repressive regimes has, in most cases, caused income disparities to widen. Selling U.S. surplus food to Third World countries at low prices, moreover, has served to retard agricultural development and reduce food production in many recipient countries. In Egypt, for example, food aid has been allowed to exert disincentive effects on Egyptian farmers and agricultural production through a continued downward pressure on domestic food prices.

Military assistance seems to have lost its primary objective of being a tool to implement U.S. foreign policy. Covertly providing military assistance to Iran, despite its strong anti-American policy, and to Israel, despite its overt refusal to abide by United Nations resolutions, placed U.S. foreign policy goals on a collision course with foreign policy practices, and consequently reflected badly on its credibility. The Reagan administration's lack of interest in formulating a well-defined Middle East policy, furthermore, has reduced U.S. policy in the region to that of an arms dealer, nothing more. Since arms are eventually intended to kill and destroy, U.S.-Middle East policy has become, especially in the 1980s, a major force perpetuating conflict and instability rather than promoting peace and cooperation.



## 2

# Foreign Aid Programs

American programs aimed at providing military and economic assistance to foreign countries are many and deal with a wide range of needs. They include cash and credit sales of military and nonmilitary equipment, economic and military loans and grants, training of foreign military personnel, and financial contributions to multinational organizations and agencies such as the peace-keeping operations, United Nations development programs, refugee resettlement, and others. Yet, the diversity of these programs and the apparent conflict between their many objectives have caused the foreign assistance program to suffer from lack of direction and to lose, as a result, most of the support it had previously enjoyed inside and outside of Congress.

Nevertheless, U.S. foreign assistance programs continue and administration after administration continues to claim success and to ask Congress for more funds year after year. A vivid illustration of the lack of direction is found in the percentages earmarked for Israel and Egypt. Close to 45 percent of the entire foreign military and economic aid budget goes to those two countries. In addition, Congress appropriated for the last two fiscal years less money than the administration had requested while keeping aid to Israel and Egypt at previous levels. For example, the House Appropriations Subcommittee on Foreign Operations has approved a \$13.2 billion aid package for fiscal year 1988, \$2 billion less than the administration had requested and a cut of about 9 percent in real terms from the fiscal 1987 budget of \$13.9 billion. Meanwhile, Israel and Egypt received the same amount of money as they did in 1987.

As a result, the U.S. government could no longer provide assistance to other needy countries in quantities sufficient to make a difference. When aid to Israel and Egypt is netted out, "the residual is small and, indeed, raises the question if the U.S. can achieve its goals and objectives in many countries at a level of

assistance that is in fact symbolic rather than substantive.’’<sup>23</sup> A State Department official said that after allocations of earmarked funds in the fiscal 1988 foreign aid budget to the four top countries (Israel, Egypt, Pakistan, and Turkey), ‘‘security assistance to the rest of the world would have to be cut by 67 percent from the Administration’s request.’’<sup>24</sup>

Allowing a small number of countries to get most of the monies allocated for foreign aid has created an unhealthy relationship between the U.S. and the major aid-recipient countries. Those countries have become dependent on U.S. aid, while the U.S. has become hesitant to pressure them and less able to abandon them. Consequently, the capacity to meaningfully influence the economic programs of those countries has been diminished, and the will of those countries to make politically difficult economic decisions has been weakened.

On the other hand, the development of such relationships led to the emergence of a special constituency within the administration and Congress. This constituency appears to be more interested in upholding the existing programs and relationships than in evaluating the rationale of previous ones. For example, the Israelis, who spent about \$2 billion of U.S. aid money on the development of the Lavi fighter between 1983 and 1987, debated the project’s feasibility for almost two years before killing it. In contrast, the U.S. Congress, which has appropriated the money for the Lavi project, has repeatedly refused to entertain proposals introduced in 1985 and 1986 to examine its feasibility. (See chapter 8.)

Furthermore, the emphasis on fighting communism caused most programs and projects to be formulated within a narrow frame of East-West conflict. Successive U.S. administrations continued to work through systems and relationships established in the early 1950s rather than attempt to conceive new programs and reshape situations in a way conducive to achieving the long-term interests of both the U.S. and the recipient countries.

Major programs through which the bulk of U.S. official foreign assistance is channeled are as follows.<sup>25</sup>

## **SECURITY ASSISTANCE PROGRAM**

The Security Assistance Program consists of loans and grants extended by the U.S. government to countries considered important to U.S. security and strategic interests. Those loans and grants are intended to assist recipient countries in meeting their security requirements, which are deemed essential for enabling them to contribute to U.S. security policy in their respective regions.

In a Department of State document, the principal foreign policy and defense objectives of the Security Assistance Program were outlined as follows:<sup>26</sup>

- To promote Middle East peace;
- To enhance cooperative defense and security;
- To deter and combat aggressions; and
- To promote regional stability.

Major security assistance programs that are considered of special importance to the security of both the U.S. and aid-recipient countries include the following:

### **Foreign Military Sales (FMS)**

This program provides the credit needed to enable eligible foreign governments to purchase American defense equipment, spare parts, military services, and technical training. In addition to standard treasury interest rates, a concessional rate component provides flexibility to address the needs of governments whose economic conditions require more favorable credit terms. For example, the FMS credit program appropriated by Congress for fiscal 1986 totaled \$4.96 billion, of which \$1.123 billion were given at treasury rates of interest for fourteen individual country programs, \$744 million at concessionary rates of interest for eleven countries, and \$3.1 billion in forgiven credits for Israel and Egypt.

While Israel received \$1.8 billion, or 36.2 percent of the total, Egypt received \$1.3 billion, or 26.2 percent of the total.<sup>27</sup> Therefore, Israel and Egypt were the recipients of \$3.1 billion, or approximately 62.5 percent of the entire Foreign Military Sales budget; twenty-five other countries were the recipients of \$1.87 billion, or less than 38 percent of the program's budget. Moreover, Israel and Egypt, unlike other recipients of FMS funds, received the entire assistance in the form of grants that need not be repaid.

### **Military Assistance Program (MAP)**

This program provides grants for eligible foreign governments to obtain needed defense articles and related services. The MAP was the primary program in security assistance in the 1950s and 1960s but declined dramatically after the Vietnam War, while Foreign Military Sales increased. Appropriations for this program, however, have grown during the past five years, and as of fiscal year 1983 most of the MAP sales were provided as grants. In 1986, Congress appropriated \$785 million for the MAP program. (See tables 1 and 2.) Concessional loans and grants represented more than 75 percent of the total.

### **International Military Education and Training (IMET)**

This program provides grants for professional military training and education of foreign military personnel. Training is conducted either in the U.S. or overseas. This program includes the introduction of American socioeconomic and political institutions to foreign trainees. Mr. William Schneider, Jr., former undersecretary of state for Security Assistance, Science and Technology, said that "these grants not only provide needed professional military training, but they also represent a low-cost method of providing a valuable channel of communication and influence with an important sector of a country's leadership especially in the Third World."<sup>28</sup> Though this program is the smallest in terms of appropriated funds,

**Table 1**  
**Military Assistance Program (dollars in thousands)**

Fiscal Year	Executive Branch Request	Authorized	Appropriated
1950	1,400,000	1,314,000	1,314,000
1951	5,222,500	5,222,500	5,222,500
1952	6,303,000	5,997,600	5,744,000
1953	5,425,000	4,598,400	4,219,800
1954	4,274,500	3,681,500	3,230,000
1955	1,778,300	1,591,000	1,192,700
1956	1,959,200	1,450,200	1,022,200
1957	2,925,000	2,225,000	2,017,500
1958	1,900,000	1,600,000	1,340,000
1959	1,800,000	1,605,000	1,515,000
1960	1,600,000	1,400,000	1,300,000
1961	2,000,000		1,800,000
1962	1,885,000	1,700,000	1,600,000
1963		1,700,000	1,325,000
1964	1,405,000	1,000,000	1,000,000
1965	1,055,000	1,055,000	1,130,000
1966	1,170,000	1,170,000	1,470,000
1967	917,000	875,000	792,000
1968	620,100	510,000	500,000
1969	420,000	375,000	375,000
1970	425,000	350,000	350,000
1971	690,000	690,000	690,000
1972	705,000	500,000	500,000
1973	780,000	553,100	553,100
1974	685,000	512,500	450,000
1975	985,000	600,000	475,000
1976	790,000	245,875	252,200
1977	279,000	235,800	264,550
1978	230,000	228,900	220,000
1979	133,500	133,500	83,375
1980	160,200	111,900	110,000
1981	104,400	106,100	110,200
1982	131,400	231,400	171,412
1983	557,000	238,500	383,325
1984	747,000	639,700	711,750
1985	924,500		805,100 <sup>c</sup>
1986	949,350	805,100	785,000 <sup>c</sup>
1987	996,450		

*Note:* Military Assistance Program included International Military Education and Training Program prior to FY 1976.

*Source:* U.S. Department of State, Congressional Presentation for Security Assistance Programs, Fiscal Year 1987, vol. 1, p. 91.

it is the largest in terms of the number of participating countries. For FY 1986, Congress allocated to the IMET program about \$54.5 million, up from \$28.4 million in 1981. The number of countries participating in this program increased from 63 in 1981 to about 100 in 1986. Furthermore, the number of participating students increased from 4,721 in 1981 to 7,823 in 1985.<sup>29</sup> (See tables 3 and 4.)

**Table 2**  
**Military Assistance Program Budget Authority Obligations (dollars in thousands)**

Country	Actual Fiscal Year 1985	Estimated Fiscal Year 1986	Proposed Fiscal Year 1987
<b>East Asia and Pacific</b>			
Burma	0	0	1,000
Fiji	300	287	300
Philippines	25,000	38,280	50,000
Thailand	5,000	4,785	5,000
Regional Total	<u>30,300</u>	<u>43,352</u>	<u>56,300</u>
<b>Near East and South Asia</b>			
Morocco	40,000	33,495	60,000
Tunisia	15,000	33,495	40,000
Yemen	5,000	1,914	5,000
Regional Total	<u>60,000</u>	<u>68,904</u>	<u>105,000</u>
<b>Europe and Canada</b>			
Portugal	70,000	66,990	75,000
Turkey	215,000	205,755	220,000
Regional Total	<u>285,000</u>	<u>272,745</u>	<u>295,000</u>
<b>Africa</b>			
Botswana	4,000	3,350	6,000
Central African Republic	0	0	1,000
Chad	5,000	5,742	9,000
Civic Action-Africa	5,000	4,785	10,000
Djibouti	2,500	1,914	3,000
Equatorial Guinea	0	957	1,000
Guinea	3,000	1,914	5,000
Kenya	20,000	19,140	20,000
Liberia	12,000	4,785	8,000
Madagascar	2,050	1,435	3,000
Malawi	1,000	957	2,000
Niger	5,000	3,828	4,000
Senegal	3,000	2,870	4,500
Somalia	33,000	19,140	35,600
Sudan	45,000	19,140	50,000
Zaire	7,000	6,699	12,000
Regional Total	<u>147,550</u>	<u>96,656</u>	<u>174,100</u>

### Peacekeeping Operations

This program is designed to enable the U.S. to initiate multilateral operations that will help maintain peace in some parts of the world, and to facilitate American participation by providing the funds and personnel necessary for the continuation of such operations. Currently, the U.S. contributes to the Multinational Force and Observers in the Sinai, which was established following the conclusion of the Camp David peace treaty between Israel and Egypt in 1979. In addition, the U.S. contributes to the UN force in Cyprus and South Lebanon and supports the Caribbean Peace Force in Grenada. In FY 1986, \$32.54 million was allocated

**Table 2(Continued)**

Country	Actual Fiscal Year 1985	Estimated Fiscal Year 1986	Proposed Fiscal Year 1987
American Republics			
Belize	500	479	1,000
Bolivia	3,000	2,870	6,000
Colombia	0	0	10,000
Costa Rica	13,000	2,393	3,100
Dominican Republic	5,000	3,828	7,000
Eastern Caribbean	5,000	7,178	9,000
Ecuador	2,000	0	8,000
El Salvador	134,750	125,367	134,650
Guatemala	0	4,785	10,000
Haiti	300	479	500
Honduras	72,800	58,664	87,500
Jamaica	7,360	7,656	8,000
Panama	10,000	3,828	9,800
Uruguay	0	0	2,500
Regional Total	<u>253,710</u>	<u>217,527</u>	<u>317,050</u>
Nonregional			
Financial Adjustment	-25,460	0	0
General Costs	54,000	48,233	48,000
Narcotics Aircraft	0	957	1,000
Nonregional Total	<u>28,540</u>	<u>49,190</u>	<u>49,000</u>
Total Budget Authority/ Obligations	<u>805,100</u>	<u>748,374</u>	<u>996,450</u>

*Note:* Countries included in Eastern Caribbean are Anguilla, Antigua, Barbados, British Virgin Islands, Dominica, Grenada, Montserrat St. Christopher-Nevis, St. Lucia, and St. Vincent and the Grenadines.

*Source:* Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987, September 16, 1986, pp. 115-16.*

for this program. (See tables 5 and 6.) However, in 1982 the U.S. government allocated \$146 million for peacekeeping operations due to the high expenses incurred in setting up the Sinai force.

### **Economic Support Fund (ESF)**

Through this program, loans and grants are provided to countries considered to be of special importance to U.S. security interests. It is an extremely flexible program, offering short-term economic assistance, primarily for balance-of-payments support. It also funds the building of infrastructure and other economic development projects. The funding of the ESF is administered by the U.S. Agency for International Development (AID) which is the official U.S. arm in charge of bilateral economic relations. Israel, which is the largest recipient of

**Table 3**  
**International Military Education and Training Program (dollars in thousands)**

Fiscal Year	Executive Branch Request	Authorized	Appropriated
1976	37,000	33,750	28,750
1977	32,200	30,200	25,000
1978	35,000	31,000	30,000
1979	32,100	31,800	27,900
1980	32,900	31,800	25,000
1981	32,500	34,000	28,400
1982	42,000	42,000	42,000
1983	53,700	43,000	46,000
1984	56,532	56,452	51,532
1985	60,910		56,221
1986	65,650	56,221	54,490
1987	68,830	68,830	59,497

Source: U.S. Department of State, *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987*, vol. 1, p. 92.

funds allocated to this program, receives its designated share as a cash transfer. Unlike other ESF recipients, Israel also receives its share on a front-load basis and is free to spend it as it chooses without U.S. accountability or supervision. Egypt is currently the second largest recipient of funds allocated to the ESF program. Projects financed by such funds in Egypt, however, are not only monitored by AID, but in most cases are also contracted for and administered by it.

Being a security assistance program, ESF is intended to promote economic and political stability, with emphasis on domestic economic forces and regional political conditions. Therefore, a country's perceived importance to U.S. security interests and its possible role as supporter of U.S. foreign policy objectives determine the level of ESF extended.

While U.S. law stipulates that ESF shall not be used for military purposes, it has been as important to the recipient countries' defense capabilities as any direct military assistance. For example, Congress passed a resolution in 1984 requiring that ESF extended to Israel each year be large enough to cover all the costs of servicing previous Israeli military loans. Since the costs of servicing such loans would normally be charged to the ministry of defense, ESF given to Israel has actually become another military subsidy.

In 1986, Congress appropriated \$3.64 billion for this program, of which Israel received \$1.2 billion, or 33 percent, and Egypt received \$815 million, or 22.4 percent. Together Israel and Egypt received \$2.015 billion, or 55.4 percent of the entire ESF budget.<sup>30</sup>

### History and Development of Programs

The Military Assistance Program was established in 1950 and is the oldest security assistance program. In that year, the U.S. Congress appropriated about

**Table 4**  
**International Military Education and Training Program Budget Authority**  
**Obligations (dollars in thousands)**

Country	Actual Fiscal Year 1985	Estimated Fiscal Year 1986	Proposed Fiscal Year 1987
<b>East Asia and Pacific</b>			
Burma	224	239	350
Fiji	95	96	125
Indonesia	1,809	1,914	2,800
Korea	1,943	1,818	2,200
Malaysia	981	909	1,235
Papua New Guinea	52	48	85
Philippines	2,167	2,105	2,750
Singapore	50	48	75
Solomon Islands	30	29	60
Thailand	2,318	2,01	2,500
Tonga	47	48	60
Regional Total	<u>9,716</u>	<u>9,455</u>	<u>12,240</u>
<b>Near East and South Asia</b>			
Algeria	64	48	150
Bangladesh	336	263	370
Egypt	1,675	1,723	2,000
India	282	311	400
Jordan	1,877	1,675	2,000
Lebanon	705	478	800
Maldives	22	24	55
Morocco	1,479	1,435	1,850
Nepal	125	96	125
Oman	155	144	205
Pakistan	970	885	1,400
Sri Lanka	148	144	185
Tunisia	1,603	1,435	1,800
Yemen	1,378	1,148	1,550
Regional Total	<u>10,819</u>	<u>9,809</u>	<u>12,890</u>
<b>Europe and Canada</b>			
Austria	49	57	75
Finland	32	48	75
Greece	1,366	1,244	1,750
Iceland	22	29	50
Ireland	0	0	50
Luxembourg	0	29	0
Portugal	2,959	2,297	3,000
Spain	2,926	2,297	3,000
Turkey	3,590	3,158	4,000
Yugoslavia	96	96	160
Regional Total	<u>11,040</u>	<u>9,255</u>	<u>12,160</u>



Table 4(Continued)

Country	Actual Fiscal Year 1985	Estimated Fiscal Year 1986	Proposed Fiscal Year 1987
Africa			
Benin	83	48	75
Botswana	287	287	400
Burkina Faso	17	48	150
Burundi	141	144	170
Cameroon	147	191	300
Cape Verde	70	57	100
Central African Republic	108	96	165
Chad	207	191	250
Comoros	0	29	50
Congo	0	48	90
Djibouti	126	96	150
Equatorial Guinea	71	57	130
Gabon	125	144	150
Gambia	62	57	75
Ghana	293	215	300
Guinea	122	144	150
Guinea Bissau	4	48	75
Ivory Coast	161	120	150
Kenya	1,693	1,627	1,800
Liberia	1,157	981	1,400
Madagascar	55	72	75
Malawi	218	191	300
Mali	156	144	150
Mauritania	77	48	75
Niger	214	239	275
Nigeria	0	96	100
Rwanda	62	57	75
Sao Tome	0	43	50
Senegal	524	478	500
Seychelles	17	48	60
Sierra Leone	60	57	100
Somalia	1,132	1,101	1,550
Sudan	1,430	1,148	1,750
Swaziland	50	48	60
Tanzania	0	0	75
Togo	43	72	75
Uganda	6	96	200
Zaire	1,341	1,292	1,600
Zimbabwe	214	191	250
Regional Total	<u>10,473</u>	<u>10,049</u>	<u>13,450</u>

**Table 4(Continued)**

Country	Actual Fiscal Year 1985	Estimated Fiscal Year 1986	Proposed Fiscal Year 1987
American Republic (continued)			
American Republics			
Argentina	0	10	100
Bahamas	44	48	60
Belize	100	72	100
Bolivia	360	287	400
Brazil	0	10	100
Chile	0	0	100
Colombia	826	837	950
Costa Rica	231	191	250
Dominican Republic	721	694	850
Eastern Caribbean	348	374	400
Ecuador	688	670	650
El Salvador	1,500	1,435	1,600
Guatemala	455	287	500
Guyana	0	0	50
Haiti	443	431	600
Honduras	1,104	1,053	1,300
Jamaica	283	239	300
Mexico	200	191	250
Pacams	5,106	2,105	3,000
Panama	589	574	750
Paraguay	95	48	125
Peru	657	703	850
Suriname	42	48	50
Trinidad Tobago	39	48	50
USARSA	0	2,852	4,000
Uruguay	100	96	125
Venezuela	96	72	150
Regional Total	<u>14,027</u>	<u>13,375</u>	<u>17,660</u>
Total Country Programs	56,075	51,943	68,400
General Costs	<u>146</u>	<u>204</u>	<u>430</u>
Total Budget Authority/ Obligations	<u>56,221</u>	<u>52,147</u>	<u>68,830</u>

Source: Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, pp. 117-20.

Note: Countries included in Eastern Caribbean are Anguilla, Antigua, Barbados, British Virgin Islands, Dominica, Grenada, Montserrat St. Christopher Nevis, St. Lucia, and St. Vincent and the Grenadines.

**Table 5**  
**Peacekeeping Operations Around the World (dollars in millions)**

Fiscal Year	Requested	Authorized	Appropriated
1979		\$ 30.90	\$ 27.40
1980		21.10	22.00
1981	\$ 25.00	25.00	25.00
1982	146.00	146.00	141.00
1983	43.48	19.00	31.10
1984	46.20	46.20	46.20
1985	49.00	44.00	44.00
1986	37.00	37.00	34.00
1987	39.00	34.00	34.00

Sources: House, *Foreign Assistance and Related Programs Appropriations Bill, 1986*, August 1, 1985, p. 93; Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, p. 55; U.S. Department of State, *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987*, vol. 1, p. 93.

**Table 6**  
**Peacekeeping Operations in the Sinai: U.S. Contribution to the Multinational Force and Observers in the Sinai (dollars in millions)**

Fiscal Year	Projected	Actual
1982	\$ 125.00	\$ 113.00
1983	34.50	22.10
1984	37.20	32.20
1985	28.00	23.00
1986	28.30	18.30
1987	25.00	

Source: Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, p. 89.

\$1.3 billion to this program, while close to \$6 billion was devoted to it in 1952. This tremendous increase was dictated by the security requirements of South Korea. In 1955, funding for this program declined to about \$1.2 billion and remained fairly stable for more than a decade. In 1967, it resumed its gradual decline, and in 1979 it reached \$83.4 million. The Reagan administration, however, reversed that trend, and by 1986 funding for MAP approached \$800 million.

The second oldest program is the Economic Support Fund which was established in 1964. It started at a modest level of \$330 million a year, and reached \$611.5 million in 1974, thus doubling in ten years. The second ten years,

**Table 7**  
**Foreign Military Sales Credit Program (dollars in thousands)**

Fiscal Year	Executive Branch Request	Authorized	Appropriated
1969	120,000	296,000	296,000
1970	275,000	250,000	70,000
1971	772,500	750,000	700,000
1972	510,000	400,000	400,000
1973	527,000	400,000	400,000
1974	2,725,000	2,525,100	2,525,000
1975	555,000	405,000	300,000
1976	2,430,200	1,298,750	1,205,000
1977	2,179,600	740,000	740,000
1978	707,750	682,000	675,850
1979	1,042,500	1,044,300	1,024,500
1980	658,880	673,500	645,000
1981	734,000	500,000	500,000
1982	1,481,800	800,000	800,000
1983	950,000	800,000	1,175,000
1984	1,000,000	1,315,000	1,315,000
1985	5,100,000		4,939,500
1986	5,655,000	5,371,000	5,190,000
1987	5,661,000		4,922,523

Sources: U.S. Department of State, *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987*, vol. 1, p. 89; Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, p. 123.

however, witnessed a 500 percent increase in the size of this program. Between 1984 and 1985, the size of the ESF was doubled again; as a result, funding exceeded \$6 billion in 1985. In 1986, Congress appropriated some \$3.7 billion for this program, reducing its size to a level comparable to that of 1984. It must be noted, however, that the big jump in 1985 was due to a supplemental aid package of \$2 billion which Congress appropriated for both Israel (\$1.5 billion) and Egypt (\$500 million).

The Foreign Military Sales program, which started in 1969 at less than \$300 million, grew faster than other programs. In 1986, Congress appropriated some \$5 billion for FMS, most of which were given to Israel and Egypt as outright grants.

As table 7 shows, this program experienced dramatic increases in 1974 and again in 1976; these were due to increased military aid to Israel. In 1974, Israel received about \$2.5 billion in military assistance, up from \$308 million in 1973; and in 1976 it received \$1.7 billion, up from \$300 million in 1975. The Reagan administration's emphasis on security, moreover, caused funding for both ESF and FMS to enter a new phase characterized by continuous increase. While funding remained level at about \$3.2 billion a year during the Carter administration, it reached some \$4.5 billion in 1982 and exceeded \$11 billion in 1985.

The International Military Education and Training program, in comparison, is the newest and smallest. It was established in 1978, but has not yet doubled in size after almost ten years.

Tables 8, 9, and 10 compare security assistance funding for various countries in 1985, 1986, and 1987 (as proposed by the administration), and provide information detailing which countries received U.S. aid, in which programs they participated, and the funds allocated to them.

The aforementioned programs are considered crucial to U.S. national security and foreign policy goals. They are presumably designed to assist in securing U.S. interests and implementing its global strategy. Combined, the security assistance programs received from Congress in 1986 about \$9.36 billion, of which \$3 billion, or 32 percent, went to Israel, and \$2.115 billion, or 22.6 percent, went to Egypt. Together Israel and Egypt, therefore, received about 55 percent of the entire FY 1986 U.S. security assistance. It is also worth noting that Israel and Egypt received during a two-year period (1985–86) a supplemental aid package of \$2 billion, all of which was in the form of an outright grant.

In addition to what Israel and Egypt have received, other Middle Eastern countries such as Turkey, Pakistan, Jordan, and Lebanon were recipients of substantial U.S. assistance.<sup>31</sup> In 1986, Turkey received about \$530 million, and Pakistan about \$590 million. Together, Jordan and Lebanon were the recipients of some \$200 million, or about 2.1 percent of the Security Assistance Program. All together, Middle Eastern countries received about \$6.5 billion, or approximately 70 percent of the entire 1986 security assistance package.<sup>32</sup>

Yet despite such an unprecedented amount of aid, security assistance programs in the Middle East have neither accomplished the much-desired peace, nor solved the structural problems of either the Israeli or the Egyptian economy. Moreover, they appear to have contributed to violence in the region and hindered the emergence of a comprehensive political settlement of the Arab-Israeli conflict. U.S. credibility, furthermore, has suffered a serious setback not only in the Arab and Islamic countries but also among Israelis seeking an accommodation with the Palestinian people. American interests and nationals have become favorite targets for radicals opposed to Israel's existence and to the spread of Western values and influence in the region.

## ECONOMIC AND FINANCIAL ASSISTANCE

Foreign economic and financial assistance programs are intended to support the foreign policy objectives of the United States. By facilitating the export of American agricultural products, manufactured goods, and technology, economic aid programs help to expand foreign markets for American goods and services. By promoting economic development aimed at meeting basic human needs in many Third World countries, and providing food to alleviate the sufferings of the hungry in many parts of the world, economic assistance programs also serve to underline the humanitarian concerns of the American people regarding the

**Table 8**  
**Foreign Military Sales Financing Program Budget Authority Obligations (dollars**  
**in thousands)**

	ACTUAL FY 1986			ESTIMATED FY 1986			PROPOSED FY 1987		
	TREASURY RATE	CONCESSION RATE	TOTAL	TREASURY RATE	CONCESSION RATE	TOTAL	TREASURY RATE	CONCESSION RATE	TOTAL
Promote Middle East Peace:									
Egypt	0	1,175,000	1,175,000 <sup>a</sup>	0	1,244,100	1,244,100 <sup>a</sup>	0	1,300,000	1,300,000 <sup>a</sup>
Israel	0	1,140,000	1,140,000 <sup>a</sup>	0	1,722,600	1,722,600	0	1,800,000	1,800,000 <sup>a</sup>
Jordan	42,500	47,500	90,000	19,140	62,205	81,345	50,000	65,000	115,000
Total	42,500	2,622,500	2,665,000	19,140	3,028,905	3,048,045	50,000	3,165,000	3,215,000
Enhance Cooperative Defense and Security:									
Greece	242,000	258,000	500,000	83,546	347,104	430,650	500,000	0	500,000
Morocco	0	8,000	8,000	0	957	957	0	10,000	10,000
Oman	40,000	0	40,000	19,140	0	19,140	40,000	0	40,000
Panama	0	0	0	0	3,828	3,828	0	4,000	4,000
Philippines	0	15,000	15,000	0	14,335	14,335	0	50,000	50,000
Portugal	55,000	0	55,000	9,570	33,495	43,065	21,500	45,000	66,500
Spain	400,000	0	400,000	382,800	0	382,800	400,000	0	400,000
Turkey	235,000	250,000	485,000	79,288	330,165	409,453	145,000	455,000	600,000
Total	972,000	531,000	1,503,000	574,340	729,904	1,304,248	1,106,500	564,000	1,670,000

	ACTUAL FY 1986		ESTIMATED FY 1986		PROPOSED FY 1987	
	TREASURY RATE	CONCESSION RATE	TREASURY RATE	CONCESSION RATE	TREASURY RATE	CONCESSION RATE
Deter and Combat						
Aggression:						
El Salvador	0	10,000	0	0	0	0
Korea	230,000	0	162,690	0	230,000	0
Pakistan	325,000	0	311,025	0	340,000	0
Thailand	95,000	0	42,347	38,184	42,500	61,000
Tunisia	25,000	25,000	0	25,839	0	27,000
Yemen	0	0	0	0	0	3,000
Total	675,000	35,000	516,062	64,023	612,500	91,000
			710,000		580,085	703,500
Promote Regional						
Stability:						
Botswana	0	5,000	0	0	0	2,000
Cameroon	0	5,000	0	0	7,000	0
Colombia	0	0	9,570	0	0	10,000
Dominican Republic	0	3,000	0	0	0	3,000
Ecuador	2,000	2,000	1,914	1,914	0	0
Gabon	0	0	0	0	5,000	0
Indonesia	12,500	20,000	0	19,140	0	35,000
Malaysia	4,000	0	1,914	0	5,000	0
Peru	3,000	5,000	0	0	0	5,000
Total	21,000	40,000	13,398	21,054	17,000	55,000
			61,500		34,452	72,000
Worldwide						
Total	1,711,000	3,228,500	1,122,944	3,843,886	1,786,000	3,875,000
			4,939,500		4,966,830	5,661,000

<sup>a</sup>Repayment forgiven.

Source: U.S. Department of State, *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987*, vol. 1, p. 61.

**Table 9**  
**Economic Support Fund (dollars in thousands)**

Fiscal Year	Executive Branch Request	Authorized	Appropriated
1964	435,000	380,000	330,000
1965	405,000	405,000	401,000
1966	764,000	684,000	684,000
1967	750,000	715,000	690,000
1968	720,000	660,000	600,000
1969	595,000	410,000	365,000
1970	515,000	414,600	395,000
1971	600,000	414,600	414,600
1972	800,000	618,000	550,000
1973	848,800		600,000
1974	732,000	629,000	611,500
1975	1,425,400	1,200,000	1,200,000
1976	1,923,300	1,856,200	1,739,900
1977	50,200	464,100	279,700
1977	1,893,500	1,895,500	1,757,700
1978	2,232,200	2,235,000	2,219,300
1979 <sup>1</sup>	2,204,400	2,202,000	2,282,000
1980	2,115,100	1,935,000	1,946,000
1981	2,030,500	2,065,300	2,104,500
1982	2,931,500	2,973,500	2,926,000
1983	2,886,000	2,873,500	2,962,250
1984	2,949,000	3,074,000	3,254,250
1985	3,438,100		6,084,000
1986	4,024,000	3,800,000	3,706,000
1987	4,093,800		3,900,000

*Note:* Military Assistance Program included Foreign Military Sales Credit Program prior to FY 1969.

*Source:* *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987*, vol. 1, p. 89.

world's poor. Financial aid channeled through multinational organizations and agencies also enables the U.S. to influence, though indirectly, the economic policies and political orientation of most recipient countries in a way conducive to achieving U.S. objectives.

The United States provides economic and financial assistance both bilaterally and multilaterally. While bilateral assistance is direct and necessitates the presence and involvement of U.S. agencies in recipient countries, multilateral assistance is indirect and does not necessarily lead to U.S. involvement in the economic and financial affairs of other countries.

### **Bilateral Assistance**

Assistance programs provided on a bilateral basis are administered by the Agency for International Development (AID) and are intended to promote U.S.



Table 10

## Economic Support Fund Program—Fiscal Year 1985–87 (dollars in thousands)

Fiscal Year- Region/Country	1985 Actual	1986 Estimated	1987 Request
<b>Africa:</b>			
Botswana	10,000	7,623	8,000
Chad	5,000	9,519	7,000
Djibouti	3,500	2,950	5,000
Kenya	25,000	14,355	22,000
Liberia	43,000	28,203	40,000
Madagascar	3,000	2,844	4,000
Malawi	15,000	--	--
Mali	18,000	--	--
Mauritius	7,000	1,914	3,000
Mozambique	13,000	9,570	15,000
Niger	5,000	4,373	7,000
Rwanda	12,000	--	--
Senegal	15,000	11,484	15,000
Seychelles	2,000	1,914	2,500
Somalia	30,000	22,011	30,000
Sudan	114,000	54,812	90,000
Zaire	10,415	15,000	20,000
Zambia	40,000	9,527	16,000
Zimbabwe	28,000	9,549	11,000
South Africa Republic		4,785	10,000
Sahel Regional		678	
South Africa Regional	18,924	28,764	30,000
APEPR		48,827	75,000
Subtotal	<u>417,839</u>	<u>288,702</u>	<u>410,500</u>
<b>Asia, Near East, Europe:</b>			
Afghanistan	543	17,617	15,000
Cambodian Resistance		3,350	5,000
Cyprus	15,000	14,000	3,000
Egypt	1,065,000	1,030,596	815,000
Fiji		957	1,500
Israel	1,950,000	1,898,400	1,200,000
Jordan	100,000	89,323	108,000
Lebanon	18,775	21,866	2,000

Table 10(Continued)

Fiscal Year- Region/Country	1985 Actual	1986 Estimated	1987 Request
Asia, Near East, Europe: (continued)			
Morocco	15,000	11,484	20,000
Oman	20,000	9,556	18,800
Pakistan	200,000	239,250	250,000
Philippines	140,000	119,625	95,000
Poland		4,000	
Portugal	80,000	76,487	80,000
Spain	12,000	11,484	12,000
South Pacific		957	1,500
Thailand	8,000	5,000	5,000
Tunisia	20,000	18,974	20,000
Turkey	175,000	119,625	150,000
Asia/ Near East Regional	18,202	19,316	25,000
Subtotal	<u>3,837,520</u>	<u>3,712,242</u>	<u>2,826,800</u>
Latin America Caribbean:			
Belize	14,000	1,914	3,000
Bolivia		14,355	15,000
Costa Rica	160,000	120,582	150,000
Dominican Republic	95,000	40,000	50,000
Ecuador	4,414	20,097	15,000
El Salvador	285,000	177,045	240,000
Guatemala	12,000	47,850	70,000
Haiti	5,000	3,471	5,000
Honduras	147,500	61,248	90,000
Jamaica	81,000	58,000	100,000
Panama	50,000	5,742	28,000
Peru		9,570	42,000
Uruguay		14,355	15,000
Caribbean Regional	31,128	25,172	35,000
Central American Regional (ROCAP)	97,993	51,678	75,000
LAC Regional	1,490	7,433	12,000
Subtotal	<u>985,025</u>	<u>658,512</u>	<u>945,000</u>
Other:			
Oceanographic Research	1,000	1,435	1,500
American School and Hospitals	6,000		
Unallocated/Transfer in Subtotal	7,000	1,435	1,500
Total	<u>5,247,384</u>	<u>4,660,891</u>	<u>4,183,800</u>

Source: Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, pp. 83-85.

interests and economic philosophy. Policy guidelines established by the president of the United States (but oftentimes amended by congressional concerns) govern the programs, which are designed to meet the particular needs of each country. Foreign economic assistance guidelines call for the following:<sup>33</sup>

1. The implementation of effective and efficient economic policies by the developing countries;
2. The strengthening of the indigenous private sector in the development process;
3. Creating and strengthening the institutional and technological capacities of the developing countries; and
4. Encouraging the diffusion of technology in aid-recipient countries, and expanding research and development efforts, particularly through joint projects between American and Third World scientists.

Bilateral economic assistance includes many programs, which are expected to serve American interests through meeting the many and sometimes complicated needs of recipient countries. However, the major programs through which the bulk of U.S. bilateral economic assistance is channeled are the following.

*Development Assistance.* These programs have been designed to help foreign nations meet some of their basic needs. Loan and grant funds are provided for purchasing the necessary goods and services needed in key development fields of food production, education, and health. It is understood, though, that all such goods and services are to be purchased from the United States. In general, development assistance programs reflect the administration's emphasis upon policy dialogue, private enterprise, technology transfer, and institutional development and change. They also attempt to complement other measures such as trade, investments, private banking, and other forms of nonconcessional support for development.

For FY 1986 Congress appropriated to the administration about \$2 billion for development assistance programs, which included agriculture, rural development, and nutrition development; health development, child survival fund, education, and human resources development; science and technology; and other development programs.<sup>34</sup>

*Public Law 480 (P.L. 480; Food for Peace).* This program is divided into three different titles:

- Title I provides concessional food sales and permits the U.S. government to respond to the pressing economic needs of developing countries;
- Title II provides food aid on a grant basis to recipient countries; and
- Title III provides support for longer-term programs in the field of agricultural and rural development.

Titles I and II have been designed to facilitate market development for American agricultural products overseas and to permit the U.S. to provide support in times of natural disasters, such as famine and drought.

The need to integrate all foreign assistance programs with U.S. foreign policy objectives, however, has caused P.L. 480 programs to become more an instrument of foreign policy than a purely humanitarian and disaster-relief program.

*Migration and Refugee Assistance.* This program provides the funds needed to continue helping refugees overseas, and to facilitate the resettlement of refugees in the United States. The focus of this program continues to be on both humanitarian and foreign policy considerations that are associated with refugee movements and population. In 1986, the foreign aid budget allocated about \$325 million for this purpose.<sup>35</sup>

In addition to the abovementioned programs, bilateral economic assistance programs include the following budgets in FY 1986:

—American schools and hospitals abroad—\$33.5 million;<sup>36</sup>

—International disaster assistance—\$21.5 million;<sup>37</sup>

—Sahel development program—\$77 million;<sup>38</sup>

—International narcotics control—\$55 million;<sup>39</sup> and a few other smaller programs.

### **Multilateral Assistance**

Multilateral assistance programs are intended to complement bilateral programs and are administered by international organizations and institutions. Such assistance provides the necessary encouragement to effect economic policy reforms in recipient countries in accordance with U.S. economic policy guidelines established by the president of the United States. The International Monetary Fund (IMF) approaches to diffusing the Third World debt crisis since 1982, and the incentives it has established to effect structural changes in the economies of the most indebted countries, such as Brazil, Mexico, Argentina, and Egypt, are good examples of the role played by multilateral assistance.

Congress, for FY 1986, appropriated more than \$1.4 billion to the many multinational organizations and institutions.<sup>40</sup>

Since such organizations and institutions are many, and most are complex in nature, no attempt will be made to describe them and define their functions. Only the names of the prominent ones will be noted:

—International Bank for Reconstruction and Development

—International Development Association (IDA)

—International Finance Corporation (IFC)

—Inter-American Investment Corporation

—Asian Development Bank

—African Development Fund

—International Fund for Agricultural Development

—United Nations Children's Fund (UNICEF)

- Organization of American States (OAS)
- International Atomic Energy Agency

## **PROGRAM OBJECTIVES AND IMPLICATIONS**

As outlined above, U.S. assistance programs encompass the many military and economic programs designed to help achieve U.S. foreign policy objectives by meeting some of the needs of the recipient countries. For such objectives to be attained, and for foreign assistance programs to be effective, a complementary relationship must bind the military and economic programs together. As each program attempts to achieve its own objectives, it must reinforce conditions compatible with the other programs' objectives.

Foreign military assistance that helps deter external or internal threat usually serves to strengthen political stability and improve conditions for economic development. To the degree that U.S. military assistance meets the security requirements of a foreign country, it frees some of that country's resources, which otherwise would have to be devoted to those same requirements. As a result, such resources would supposedly become available for investment in areas where they are most needed, notably in the economic field.

On the other hand, foreign economic assistance that improves the economic performance of a particular country is, in fact, an improvement in that country's ability to meet its own security requirements, and maybe those of the donor as well. U.S. economic assistance, which helps free resources from the economic sector, makes such resources readily available to be invested in other sectors, notably in the military.

While political instability usually increases the risk that potential investors would be forced to take, underdevelopment of a country's economic infrastructure reduces the level and efficiency of economic activity. Political instability and the lack of political freedom together create domestic conditions conducive to the emigration of the most talented and highly skilled human resources. In fact, the "brain drain" phenomenon, which involves the resettlement of some of the poor countries' best-educated and most-experienced human resources in the rich and industrialized countries, has become a major international concern. While the continuation of this phenomenon underscores the inability of those underdeveloped countries to absorb their talented people, it helps, at least partially, to explain the causes of those countries' continued poverty and underdevelopment.<sup>41</sup> Therefore, the "brain drain" process continues to cause a large number of Third World countries to lose those individuals and groups that are best equipped to assume responsibilities for the tasks of economic development and military preparedness.

Military assistance does not always lead to improved security and strengthened political stability, and therefore does not necessarily contribute to creating the precondition for economic development. Military spending, in fact, entails a burden on development resulting from the high economic and human cost of

maintaining a strong army. "The shift in resources and personnel to operate and maintain sophisticated equipment implies a parallel reduction in the priority given to domestic programs. . . . The change in the military budget can be expected to increase the influence of the armed forces at the expense, not surprisingly, of representatives of development interests."<sup>42</sup>

Likewise, economic assistance does not always increase the level of economic activity or improve economic productivity; it does not necessarily contribute, therefore, to security and political stability.

Ample economic aid could lead recipient governments to neglect the changes necessary to both economic development and security,<sup>43</sup> thus causing wider income disparities and more social and political corruption. If not properly conceived and implemented, economic assistance programs could easily play a major role in creating the preconditions for more domestic instability and slower economic growth.

The incompatibility of objectives sought by the major economic and security programs has impaired such programs' effectiveness, and at times rendered them counterproductive. The complexity of the objectives they seek to accomplish has, in fact, made conflict rather than complementarity the more likely outcome of simultaneous engagement in both sorts of assistance programs.

In extending the policy of Soviet containment to the Third World, the Reagan administration has tied its foreign policy to a variety of fragile and repressive regimes. Whatever the strategic validity to expanding security assistance to countries such as Pakistan, Somali, Guatemala, or Israel, there are clear trade-offs of development and stability for such military support.<sup>44</sup> In some cases, maintaining a strong American connection with certain governments has led to undermining their legitimacy and credibility.

Moreover, the rather small size of the resources provided by each program relative to most recipient countries' GNPs has reduced their potential to effect the necessary economic and security changes. "Smaller budgets diffused to greater number of countries further underlined the apparent naiveté of the ambitious objectives of past decades,"<sup>45</sup> says Gary Wasserman, a former AID official. Consequently, the desired impact of the U.S. foreign assistance program on both the economic performance and security preparedness of most recipient countries remains modest, and more symbolic than real. "Whether as a tool of security or development, U.S. assistance is not often large enough to directly influence events in a manner we prefer," say some experts.<sup>46</sup> Some even argue that current foreign aid policies either contribute to, or are the cause of, much of the poverty that has been spreading in many African and Latin American countries. "Foreign aid is not the answer to Africa's troubles; in fact, aid may be a major culprit contributing to Africa's anguish,"<sup>47</sup> says the man who was the chief economist of the U.S. Agency for International Development during the first Reagan term. "Though causality can never be proved, the implications are hard to avoid: countries which had received foreign aid in the most basic

form for an extended period of time have regressed economically more often than they have developed.'<sup>48</sup>

U.S. assistance given to Europe in the aftermath of World War II has been an example of clear success. In comparison, U.S. assistance programs in most parts of Latin America, Africa, and the Middle East have been either a partial success or a total failure. In Turkey and Korea, in particular, U.S. military assistance seems to have succeeded in keeping the military in control of their respective governments and very much dependent on U.S. aid and protection. While such an outcome has enabled the generals to prevail and maintain their countries' special relationships with the U.S., the much-desired true democracy continues to be beyond the reach of the masses.

In the Middle East, U.S. military and economic assistance programs appear to have failed to achieve their objectives, and have, at times, proved counter-productive. Anti-Americanism in Iran, the spread of Islamic fundamentalism in all Islamic and Arabic countries of Asia and Africa, the increased level of violence in Lebanon after its invasion by Israel in 1982, the continuation of the Gulf War, and the lack of progress in solving the Palestinian question clearly demonstrate the failure of U.S. policy in that region. In fact, the U.S. military support extended to both Iran in the 1970s and Israel since the mid-1960s seems to have been a major cause of Islamic fundamentalism and anti-Americanism, and thus a destabilizing factor reducing chances for peace and increasing the threat of war.

The desired achievement of U.S. national interests through the foreign assistance program, therefore, seems unlikely under the current policies and guidelines. Making some fundamental changes concerning objectives sought, methods used, and guidelines followed are critically needed to reinstate the credibility of this program. Failing this, foreign assistance programs are more likely to continue to expand in all directions, while losing their effectiveness and sense of direction.

Military aid that does not contribute to the spread of democracy and individual freedom is destined to become an instrument of repression and a cause of political instability. Economic aid that does not contribute to economic freedom, equity, and development is destined to become an instrument of corruption and waste and a cause of despair. Since resources devoted to foreign aid are resources taken away from domestic programs—most of which are social programs intended to help America's poor and elderly—current U.S. foreign assistance programs may become programs that take valuable resources from needy Americans and give it to rich foreign states and corrupt Third World officials.





### 3

## Foreign Assistance in Historical Perspective

The Marshall Plan, which was launched after the end of World War II, marked the first attempt to utilize foreign assistance as an instrument of foreign policy. In the aftermath of the war, the U.S. government undertook a major international program of reconstruction and development. Economic assistance provided by the U.S. helped rebuild the war-torn economies of Western Europe and Japan, while military assistance strengthened the defenses of post-war allies in Europe and the Far East.

U.S. assistance of all types, which was extended during the postwar relief and the Marshall Plan periods of 1946–52, exceeded \$40 billion. Of that total, more than \$33 billion, or 80 percent, was in the form of grants, and less than \$7 billion, or 20 percent, was in the form of loans. Economic aid represented about 75 percent, or \$30 billion, of the total, and military aid represented about 25 percent, or \$10 billion of that total.<sup>49</sup>

The Marshall Plan, which was directed toward Western Europe, invested more than \$13 billion in the economies of Europe and coincided with an economic recovery across the continent. Within two years, this massive investment of funds was instrumental in helping “European trade and industrial and agricultural production to surpass pre-war levels.”<sup>50</sup> Critics of foreign aid, however, argue that “Europe would have recovered regardless of U.S. aid, and that the clearest effect of the Marshall Plan was to increase the recipient governments’ control of their economies.”<sup>51</sup>

The Marshall Plan, in fact, was not solely responsible for the significant economic accomplishments of postwar Europe. Other factors, which contributed to increasing demand for almost all types of products, had facilitated the fast pace of development in Europe, Japan, and other parts of the world. While such factors are many, the most noted are the following:

1. The investment of a large sum of capital in a relatively short period of time. The \$30 billion which was provided in economic aid during the 1946–52 period approximates in today's dollars \$120 billion. Such investment accelerated demand for capital goods and services and thus caused employment and personal income to rise;
2. The economies in which funds were invested were already well developed and lacked neither a technological base nor a physical and human infrastructure. Actually, all that was needed to resume production and growth in Europe and Japan was the restoration of security and stability and the investment of funds to rehabilitate the war-ravaged plants, buildings, roads, railways, and other related sectors of the economy;
3. The desire of consumers to buy long-awaited manufactured products, especially consumer durable goods. This demand, which had been suppressed by the war, was tremendous not only in Europe and Japan but also in the U.S. and most other parts of the world; and
4. The world-wide economic expansion, which followed the war, coincided with the availability of cheap energy supplied by abundant Middle Eastern oil.

The apparent success of the Marshall Plan motivated President Truman to call for making the benefits of scientific advances and industrial progress available to help the underdeveloped areas of the world. The president's proposal, which came to be known as "Point Four," called for the development of infrastructure projects in many Third World countries. Point Four was a modest version of the Marshall Plan, designed to help poor countries in Africa, Asia, and Latin America.

In 1951 and during the Korean War, all assistance programs—economic, technical, and military—were united under the Mutual Security Agency. The new management concentrated its efforts on Taiwan, South Korea, and Indonesia. As a result, humanitarian and economic aid was downplayed and security assistance to a few strategic allies was emphasized.

The Food for Peace program was initiated in 1954. In that year, Congress passed the Agricultural Trade Development and Assistance Act, known as Public Law 480. P.L. 480 was originally designed to enable food-deficit "friendly countries" to purchase U.S. agricultural commodities with local currencies, thus saving foreign exchange reserves and relieving U.S. surpluses, particularly of grain. While this program was originated to dispose of costly domestic agricultural surpluses, in the process it helped feed the hungry in many countries of the world.

Critics of the foreign aid program claim that P.L. 480 was setup to enable the Eisenhower administration to reduce embarrassingly huge farm surpluses and thus support American farmers and the U.S. Merchant Marine, regardless of its impact on the economies of food-aid-recipient countries. As one critic put it: "Food for Peace is probably our most harmful foreign aid program. The U.S. is dumping over \$2 billion worth of surplus agricultural commodities a year on Third World countries. Although sometimes alleviating hunger in the short run,

the program often disrupts local agricultural markets and makes it harder for poor countries to feed themselves in the long run.”<sup>52</sup>

U.S. officials have conceded that massive food aid to Indonesia, Pakistan, and India in the 1960s has “restricted agricultural growth—by allowing the governments of those countries to: (1) postpone essential agricultural reforms; (2) fail to give agricultural investment sufficient priority; and (3) maintain a pricing system which gave farmers an inadequate incentive to increase production.”<sup>53</sup> The Food for Peace program appears to have helped American farmers at the expense of the farmers of the food-aid-recipient countries. At the same time, it helped also to conceal the failure of U.S. agricultural policies, while perpetuating the wrongful policies of the food-aid recipients.

Under P.L. 480, close to \$35 billion worth of agricultural commodities has been exported to other countries since 1955. During the late 1950s and early 1960s, the value of such commodities reached one-third of the total U.S. agricultural exports. By the mid-1980s, however, the value of food aid had declined to less than 5 percent of all U.S. agricultural exports.<sup>54</sup> According to Robert Pearlberg, the U.S. Department of State did not initially view P.L. 480 favorably. The advantages of food aid as a foreign policy tool were not clear. For one thing, the U.S. was so desperate to dispose of surplus food that food-aid recipients enjoyed a certain amount of bargaining leverage. Further, the program created frictions with other agricultural exporters, including allies such as Canada, Australia, Argentina, and New Zealand.<sup>55</sup>

Using food as an instrument of foreign policy became more pronounced in the late 1960s and early 1970s as food aid programs were made to serve U.S. military and security objectives. “By 1973, almost half of U.S. food aid was going to South Vietnam and Cambodia. After the U.S. defeat in Indochina, food shipments were rerouted to the Middle East, and Egypt emerged as the largest recipient of P.L. 480 allocations, receiving five times more than any other country.”<sup>56</sup> World food shortages, which coincided with the first energy crisis in 1973–74, helped enhance the political and security role of U.S. food aid programs.

## **DIRECTION OF FOREIGN AID**

During the Eisenhower years (1953–60), about \$41 billion of U.S. assistance was extended worldwide, of which a large proportion remained in grant form. Emphasis on security assistance was strong during that period, as more military grants were extended to a few Southeast Asian countries facing a communist threat.

Foreign assistance programs were costly, and some of them meant stationing American armed forces in foreign countries. As a result, they proved to be unpopular at home, and in some cases abroad as well. Nevertheless, U.S. foreign military and economic assistance programs continued, and a narrowly based

constituency for such programs emerged slowly. The major factors contributing to the emergence of this constituency were:

1. The belief that giving foreign countries financial assistance, American goods, and equipment would develop foreign markets for U.S. hardware and technology;
2. The emergence of the Soviet Union as the other superpower, actively competing with the U.S. for world dominance;
3. The long-established tradition of American generosity and the inclination of the American people to support relatives overseas and aid victims of natural disasters, such as earthquakes, famines, and wars; and
4. The formation of special interest groups and lobbies working on behalf of certain industries and foreign governments, and their ability to manipulate the American system to their advantage.

Some of the projects implemented under the Marshall Plan attempted to increase the European economies' dependence on those industrial or resource sectors in which the U.S. possessed comparative advantage or controlling interest. Some of the tactics used to implement America's overall strategy of economic predominance in Western Europe were related to the oil industry. "The European economies, for example, had traditionally relied on rail transportation systems, but European requests for freight cars under the Marshall Plan were reduced from 49,000 to 20,000. By contrast, Americans insisted on allocating 65,000 trucks, although none were requested."<sup>57</sup> In addition, the Marshall Plan management made sure that American companies got the lion's share of all contracts carried out in Europe and financed by the U.S. As a consequence, American financial and material help, which was instrumental in putting European economies back on their feet, also helped develop new foreign markets for American goods and services.

The emergence of the Soviet Union as a superpower in a position to challenge U.S. policies in many parts of the world helped foreign aid programs gain the political approval they needed to survive. American politicians, academicians, and activists concerned about the West's freedom began to perceive foreign assistance and American economic and military involvement overseas as a precondition for containing Soviet influence and ambitions. To this effect, Clark Clifford, the secretary of defense at that time, wrote in 1947, "If, by default, we permit free enterprise to disappear in the other nations of the world, the very existence of our own economy and our own democracy will be gravely threatened."<sup>58</sup>

When John F. Kennedy became president in 1961, conditions were conducive for increasing foreign aid and widening its scope. The president's youth and energy coupled with the vitality of the U.S. economy and business community combined to motivate Americans to lend their help and support to many of the Third World countries, in particular those newly independent countries of Africa and Asia which looked to the U.S. for help in overcoming centuries of tech-

nological underdevelopment and colonial exploitation. In a special message to Congress, Kennedy proclaimed the 1960s the “decade of development,”<sup>59</sup> and called for increasing foreign aid in general and development aid in particular.

During the first year of the Kennedy administration, the Agency for International Development was established in order to consolidate and improve the management of the various economic assistance programs. With the establishment of AID, the U.S. began to channel the bulk of its foreign aid to the Third World on the premise that American prosperity and security were linked to the economic and social progress of developing countries. However, before the end of the 1960s U.S. military involvement in Vietnam shifted the focus of attention to military priorities, and as a result the development priorities were deemphasized. Many Third World countries’ pleas for economic aid remained unanswered.

From the mid-1960s to the early 1970s, South Vietnam received the bulk of U.S. economic and military aid, while the unpopularity of the war served to weaken the appeal and the effectiveness of the foreign aid program in general. Consequently, the U.S. Congress decided in 1973 to redefine the objectives of the program by putting more emphasis on social services such as education, housing, medical care, and food for the hungry. Even though the Vietnam War had caused the foreign assistance program to lose most of the popular support it had previously enjoyed, the program continued and even expanded in the following years. The increased need of many Third World countries for foreign aid, the determination of the Soviet Union to challenge the West’s influence in many parts of the Third World, and the emergence of a few powerful political action committees and lobbies working on behalf of foreign governments and special interest groups enabled the foreign assistance program to develop a life of its own. In addition, the critics’ ability to meaningfully change the size and direction of the program was also reduced due to the Congress’ unwillingness and, at times, inability to challenge the demands of the numerous domestic interest groups and foreign lobbies, notably the Israeli lobby.

Furthermore, the gap that often exists between the positions of the House Foreign Affairs and the Senate Foreign Relations committees on the one hand, and the full House and Senate on the other, made it difficult to debate and authorize foreign aid bills. Consequently, members of such committees were given, often by default, enormous powers to control foreign aid. Such powers exposed those members to outside influence by those parties, such as the Israeli lobby, that had vested interests in the final outcome of the foreign aid bills. Vulnerability to outside pressure also opened the door for a few to attach restrictive and often ill-conceived amendments to those bills, thus making many aid programs less helpful and at times counterproductive.

Senator Barry Goldwater once complained that political action committees (PACs) “set the country’s political agenda and control nearly every candidate’s position on the important issues of the day.”<sup>60</sup> However, no PACs have more power to influence the political agenda of the U.S. than pro-Israel PACs, and

no national issues have been more subject to control by those PACs than foreign policy issues. The importance of the Soviet bloc and the Middle East to both the U.S. and Israel has served to subject U.S. policy toward those two regions to relentless Israeli pressure and manipulation. As a result, U.S. policy in the Middle East has become a function of U.S. military and economic aid to Israel rather than the force that determines the purpose, nature, and magnitude of such aid.

## SOVIET AMBITIONS AND ISRAELI MANIPULATION

The proximity of the Middle East to the Soviet Union and its strategic importance as a major source of cheap energy has made that region, ever since 1940, the focus of American interest. To secure its interest, Turkey, Iran, Pakistan, and later Israel were armed and assigned a role in implementing U.S. global strategy, especially vis-à-vis the Soviet Union and the Arab world. Israel and Iran in particular were equipped with the most sophisticated military hardware and were asked to assume a regional role in protecting American interests against all real and perceived threats emanating from Soviet expansionism or Arab nationalism.

On the other hand, the Vietnam military venture, which reduced the effectiveness of the foreign assistance program abroad, gave rise to isolationism at home. The 1973–74 energy crisis, moreover, precipitated a short but deep economic recession in the U.S. and most other Western countries. As a result, foreign aid programs lost most of the support they had previously enjoyed, and America's perceived ability and need to provide foreign assistance diminished.

While the U.S. government was busy fighting a war in Vietnam and a student uprising at home, the era of rising expectations was increasing pressure on the resources—often limited—of most developing countries, thus causing an acute need for additional foreign assistance. The Soviet Union began to take advantage of the new situation and managed to establish strong economic, military, and political links with a few strategically located countries in Africa, Asia, and Central America. The U.S., in an attempt to respond to the expanding Soviet influence, began to rely heavily on a small number of countries and to prepare them to share the burden of meeting the Soviet challenges.

At the time when the Soviet Union was advancing its interests in countries where U.S. influence was waning, Israel was advancing its own interests in the U.S. The apparently desperate need for allies in the sensitive Middle Eastern region made U.S. administrations receptive to Israeli political views and aid requests. Israel, in an attempt to promote its aid requests and justify the access it demanded to U.S. military technology, intelligence, and domestic markets, waged a long-term campaign to portray itself as a “strategic asset” of the United States. As a strategic asset, Israel claimed an affinity for the American desire to contain Soviet influence. By taking advantage of U.S. post-Vietnam isola-

tionism and anti-Soviet sentiment, Israel gained a substantial degree of influence on U.S. foreign policymaking, especially toward the Middle East.

“White House aides with close personal and professional ties to Israel seem to have accepted Israeli views on the ability of well-placed weapon sales or military actions to influence the internal politics of Middle Eastern nations. The Administration’s clandestine contacts and arms sales designed to bolster pro-Western moderates inside Iran, for example, had been strongly advocated by Israel from 1979 to 1982, and then again in the last two years.”<sup>61</sup> However, those who accepted Israel’s views seem not to have known that Israel’s political agenda in the Middle East is very different from that of the U.S. and may be detrimental to it as well. In an editorial published November 18, 1986, the *Washington Post* wrote, “No one can blame Israel for President Reagan’s Iran diplomacy. It is not clear, however, that it occurred to those crafting Washington’s Iranian connection that the Israelis have their own agenda in that part of the world and it is not the same as the American agenda.”<sup>62</sup>

The great influence wielded by the Israeli lobby in Washington demonstrates Israel’s determination to reshape U.S. policy toward the Middle East. Such influence, moreover, underlines the lack of a well-defined U.S. foreign policy toward that region. The Reagan administration’s tendency to place all international conflicts in an East-West context induced Washington’s policymakers to rely more heavily on countries committed to containing Soviet influence and, at the same time, to view security assistance as critical to supporting the efforts of such countries. Security assistance, however, did not always represent the bulk of U.S. foreign assistance.

In 1946–49, for example, military aid represented less than 5 percent of the total U.S. foreign aid. In the next four years (1950–54), due to the Korean War, foreign aid grew by about 25 percent; the military portion of it grew to about 50 percent. The perception of an increasing Soviet threat kept military assistance at about the 50 percent level for the rest of the 1950s and most of the 1960s. The growing American involvement in Vietnam caused the military proportion to resume its growth again, reaching a peak of 60 percent in the early 1970s. But as the Carter administration began to give more attention to human rights violations in the Third World, military aid as a proportion of foreign aid reversed its trend and began to decline. The disillusionment and isolationism which followed the Vietnam War made security justification for foreign aid more suspect than before. The shift to humanitarian and development aid reflected a more basic attitudinal change in the U.S.

The Reagan administration reversed the trend again as more emphasis was placed on strategic interests and military alliances. While the 1983 aid package represented an increase of 48 percent over the 1980 level, appropriations for military aid reached \$6.1 billion, or a 700 percent increase over 1980.

The grant component of U.S. foreign aid, which reached peaks of some 90 percent of the total during the Marshall Plan period, declined gradually thereafter. By the early 1980s, grants represented about 40 percent of the economic as-

**Table 11**  
**U.S. Foreign Assistance**

	Fiscal Year 1981		Fiscal Year 1985		Percentage Change 1981- 1985
	Actual	% of Total	Actual	% of Total	
Economic Support Fund	\$2.1	24	\$3.83	26.8	+82
Military Assistance	<u>3.2</u>	<u>36</u>	<u>5.9</u>	<u>41.3</u>	<u>+84</u>
Subtotal (Security Assistance)	\$5.3	60	\$9.73	68	+84
Development and Other Financial Assistance*	<u>\$3.6</u>	<u>40</u>	<u>\$4.57</u>	<u>32</u>	<u>+27</u>
Grand Total	8.9	100	14.30	100	+61

\*Figures exclude funding for Export-Import Bank financing.

Source: House, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, August 5, 1986, pp. 7, 15.

sistance and less than 20 percent of the military assistance.<sup>63</sup> However, the severe economic and financial problems facing most Third World countries, and the near collapse of the Israeli economy in the 1980s, forced the Reagan administration to increase the grant portion of the foreign aid program. The Carlucci Commission, which was convened by the secretary of state on February 22, 1983, to review the goals and activities of the U.S. foreign assistance program, recommended increasing aid and grant levels. It concluded that greater concessionality was needed in order to reduce the debt repayment burden of poorer countries facing serious security requirements.

Changes which have occurred in funding for foreign assistance since 1981, as shown in table 11, indicate that the total budget has increased from \$8.9 billion in 1981 to \$14.3 billion in 1985, or by 61 percent, with most of the increase going to security assistance programs. Development assistance increased 27 percent, the Economic Support Fund increased more than 80 percent, and military assistance about 85 percent. Yet, as a proportion of the total foreign aid package, development assistance declined from 40 percent in 1981 to 32 percent in 1985; Economic Support Fund increased from 24 percent to 26.8 percent only; and military assistance increased from 36 percent to 41.2 percent. Security assistance funding, as a result, increased from 60 percent of the total aid package in 1981 to 68 percent in 1985.

In addition to the above-mentioned increase in funding, the number of foreign



countries participating in the various programs of foreign assistance have also increased substantially. The number of countries in the ESF has grown from twenty-one in 1981 to forty-seven in 1986; those involved in the Military Assistance Program (the grant program) has grown from five to thirty-eight. However, the number of countries participating in the loan program remained stable.<sup>64</sup>

With respect to the geographical distribution of foreign assistance, the Vietnam withdrawal was paralleled by a tremendous increase in assistance to the Middle East. Rearming Israel after its near defeat in the October 1973 war and the desire to support President Sadat of Egypt after he had expelled the Soviets from his country caused American aid to those two countries to rise at an astronomical speed. In 1986, for example, U.S. aid to Israel exceeded \$3.75 billion, or 26 percent of the total foreign aid budget for that year; aid to Egypt was in the neighborhood of \$2.8 billion, or about 20 percent of the total. Thus the two countries received more than 46 percent of the total U.S. foreign assistance. By contrast, American aid to both countries in 1972 amounted to some \$500 million only, or less than 8 percent of the aid they received in 1986.

## **MAGNITUDE AND GEOGRAPHICAL DISTRIBUTION OF AID**

Since 1946, the U.S. government has extended some \$370 billion in economic and military loans and grants to foreign countries, multinational operations, and international institutions and organizations (see table 12). Of that total, about \$250 billion has been in economic aid and about \$120 billion in military aid.

As shown in table 13, between 1946 and 1985 the Middle East and South Asia received about \$100.4 billion in economic and military assistance, 54 percent in economic aid and 46 percent in military aid. Yet, when aid to South Asian countries is discounted, U.S. aid given to fourteen Middle Eastern countries, including seven countries located in the Arabian Gulf region, would be about \$69 billion; about \$30 billion, or 44 percent of the total, has been in economic aid and \$39 billion, or 56 percent, in military aid.

During the same period, twenty-eight Latin American countries received \$21.4 billion in economic and military assistance. Seventeen East Asian countries received more than \$67 billion, mainly due to the Korean War, the Vietnam War, and the communist threat to Taiwan, Indonesia, and the Philippines. If aid to these five countries is discounted, the other twelve countries would have received \$14.7 billion only. Europe received \$47 billion, most of which was in economic aid associated with the Marshall Plan. Africa, which is the poorest continent and the most in need of foreign assistance, received \$16.3 billion, 84 percent of which has been in economic aid.

As for Israel, the largest single recipient of American foreign aid in history, it received, between 1946 and 1985, more than \$33 billion in U.S. economic and military assistance; the sum is about 50 percent that of the aid extended to the fourteen Middle Eastern countries and more than twice the aid given to all

**Table 12**  
**U.S. Foreign Assistance, Fiscal Years 1946–86 (dollars in millions)**

	Economic Assistance	Military Assistance	Total
Total economic and military assistance, fiscal years 1946–85	186,509.0	112,791.0	299,300.0
Total other U.S. loans and grants, fiscal years 1946–85	54,809.0		54,809.0
Economic and military assistance, fiscal year 1986 (estimated)	<u>8,734.7</u>	<u>6,750.4</u>	<u>15,485.1</u>
Grand Total	250,052.7	119,541.4	369,594.1

Source: Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, p. 8.

the poverty-stricken countries of the African continent. Latin America, which is of vital importance to U.S. strategic and security interests, received less than two-thirds of what Israel alone received.

## FOREIGN AID AND U.S. CONGRESS

As noted above, the foreign assistance programs seem to have lost much of the support they enjoyed in the past, especially in the U.S. Congress. The huge budget deficit, which exceeded \$220 billion in 1986, and the trade deficit, which exceeded \$170 billion, and the Gramm-Rudman-Hollings Act have made further increases in foreign aid funding more difficult than ever before. The House Committee on Appropriations said in its 1987 foreign assistance appropriations bill that “support for foreign assistance programs, even in the best of budgetary times, is weak. . . . Many policies and actions of the administration have weakened already soft support for foreign assistance programs within the Congress.”<sup>65</sup> These policies and actions, the bill added, include:

—Pursuing policies which are inconsistent, such as first working to decrease resources for multilateral financial institutions and then working to strengthen and expand those institutions;

—Consistently cutting the “investment portion” of the federal domestic budget from twenty-one cents on the dollar in 1980 to eleven cents on the dollar today; and

Table 13

## U.S. Economic and Military Assistance; Detail by Region and Country—Fiscal Years 1946–85 (dollars in millions)

Country	Economic Assistance	Military Assistance	Total
A. Near East and South Asia	<u>54,466.6</u>	<u>45,921.4</u>	<u>100,388.0</u>
Afghanistan	504.6	5.6	546.2
Bahrain	2.4	0.0	2.4
Bangladesh	2,101.6	1.7	2,103.3
Bhutan	3.8	0.0	3.8
Cyprus	223.3	0.0	223.3
Egypt	11,786.8	6,824.8	18,611.6
Greece	1,910.3	5,375.7	7,286.0
India	11,232.6	146.9	11,379.5
Iran	765.7	1,404.8	2,170.5
Iraq	45.5	50.0	95.5
Israel	10,801.1	20,504.2	31,305.3
Jordan	1,588.2	1,375.6	2,945.8
Lebanon	299.4	264.5	563.9
Maldivé Islands	1.5	0.0	1.5
Nepal	365.2	2.7	358.9
Oman	74.0	190.5	264.5
Pakistan	6,196.3	1,601.8	7,798.1
Saudi Arabia	31.8	292.4	324.2
Sinai Support Mission	0.0	0.0	0.0
Sri Lanka	862.4	6.4	868.8
Syria	581.9	0.1	582.0
Turkey	4,096.8	7,857.8	11,954.5
Yemen Arab Republic	266.9	33.8	300.7
Yemen Peoples Democratic Republic	4.5	0.0	4.5
Central Treaty Organization (CENTO)	39.6	0.0	39.6
Near East and South Asia Regional	653.5	0.1	653.6
B. Latin America	<u>18,069.1</u>	<u>3,306.1</u>	<u>21,375.4</u>
Argentina	199.4	263.6	463.0
Bahamas	0.3	0.0	0.3
Barbados	3.8	0.3	4.1
Belize	60.6	1.2	61.8
Bolivia	973.3	84.5	1,057.8
Brazil	2,446.4	640.0	3,086.4
Chile	1,182.0	217.0	1,399.0
Colombia	1,394.2	278.8	1,673.0
Costa Rica	953.5	34.1	969.6
Cuba	4.0	16.1	20.1
Dominican Republic	1,097.9	76.9	1,174.8
Ecuador	542.3	138.0	680.3
Grenada	59.7	0.1	59.8
Guatemala	636.4	41.9	678.3
Guyana	112.3	0.1	112.4
Haiti	492.0	9.4	501.4

Table 13 (Continued)

Country	Economic Assistance	Military Assistance	Total
Honduras	871.3	265.9	1,137.2
Jamaica	774.5	20.1	794.6
Mexico	373.2	15.6	388.8
Nicaragua	387.5	32.4	419.9
Panama	537.6	50.2	587.8
Paraguay	200.4	30.5	230.9
Peru	1,138.1	276.3	1,414.4
Suriname	6.4	0.1	6.5
Trinidad and Tobago	40.9	0.1	40.9
Uruguay	162.0	89.5	251.5
Venezuela	202.7	152.5	355.2
Other West Indies			
Easter Caribbean			
Regional	452.0	16.7	468.7
Regional Office Central			
America and Panama			
ROCAP	462.9	0.0	462.9
Central America			
Regional	18.9	0.0	18.9
Latin America			
Regional	833.1	0.1	833.2
C. East Asia	<u>28,726.0</u>	<u>38,577.5</u>	<u>67,303.5</u>
Burma	183.3	89.4	272.7
China, Peoples			
Republic of	2.3	0.0	2.3
Hong Kong	43.8	0.0	43.8
Indochina Associated			
States	825.6	731.5	1,557.1
Indonesia	3,321.7	619.9	3,941.6
Japan	2,711.1	1,239.7	3,950.8
Kampuchea	913.8	1,280.3	2,194.1
Korea, Republic of	6,056.5	8,623.3	14,679.8
Laos	904.1	1,606.6	2,510.7
Malaysia	92.2	190.1	282.3
Philippines	2,721.7	1,300.8	4,022.5
Ryukyu Islands (US)	413.7	0.0	413.7
Singapore	2.8	19.3	22.1
Thailand	918.4	2,100.1	3,018.5
Vietnam (South)			
Republic	6,947.9	16,416.1	23,364.0
Western Samoa	14.7	0.0	14.7
Taiwan	2,206.9	4,360.4	6,567.3
Asia Regional	445.5	0.0	445.5
D. Africa	<u>13,765.6</u>	<u>2,570.0</u>	<u>16,335.6</u>
Algeria	203.6	0.1	203.7
Angola	23.0	0.0	23.0
Benin (Dahomey)	65.8	0.2	66.0
Botswana	207.8	24.9	232.7
Burkina Faso	241.1	0.7	241.8
Burundi	59.8	0.3	60.1

Table 13 (Continued)

Country	Economic Assistance	Military Assistance	Total
Cameron	185.8	27.1	212.9
Cape Verde	66.3	0.1	66.4
Central African Republic	30.2	0.3	30.5
Chad	127.8	7.4	135.2
Comoros	3.9	0.0	3.9
Congo, Republic of	19.5	0.1	19.6
Djibouti, Democratic Republic of	26.6	6.5	33.1
Entente States	38.0	0.0	38.0
Equatorial Guinea, Republic of	7.1	0.2	7.3
Ethiopia	494.9	280.2	775.1
Gabon	19.8	15.7	35.5
Gambia, The	55.8	0.1	55.9
Ghana	481.2	2.6	483.8
Guinea	200.7	5.8	206.5
Guinea Bissau	36.7	0.1	36.8
Ivory Coast	49.4	0.7	50.1
Kenya	609.1	216.3	825.4
Lesotho	183.8	0.0	183.8
Liberia	629.8	78.5	708.3
Libya	212.5	17.6	230.1
Madagascar	91.8	2.2	94.0
Malawi	126.8	1.7	128.5
Mali	266.4	3.9	270.3
Mauritania	134.7	0.3	135.0
Mauritius	52.9	0.0	52.9
Morocco	1,381.8	603.0	1,984.8
Mozambique	137.1	0.0	137.1
Niger	258.8	14.9	273.7
Nigeria	406.5	1.8	408.3
Portuguese Territories in Africa	3.4	0.0	3.4
REDSO/EA	0.0	0.0	0.0
REDSO/WA	0.0	0.0	0.0
Rwanda	92.1	1.7	93.8
Sao Tome and Principe	3.7	0.0	3.7
Senegal	327.4	18.2	345.6
Seychelles	14.1	0.0	14.1
Sierra Leone	128.3	0.2	128.5
Somalia	554.1	163.5	717.6
South Africa Republic of OSARAC	168.5	0.0	168.5
Sudan	1,122.2	303.8	1,426.0
Swaziland	87.6	0.1	87.7
Tanzania	347.4	0.0	347.4
Togo	92.5	0.2	92.7
Tunisia	1,014.8	568.4	1,583.2
Uganda	96.1	0.2	96.3
Zaire	865.3	199.9	1,065.2
Zambia	359.1	0.0	359.1
Zimbabwe	259.0	0.5	295.5
Sahel Regional	247.0	0.0	247.0
East Africa (Regional Development Office)	33.3	0.0	33.3
South Africa, Republic of	1.3	0.0	1.3
Africa Regional	775.6	0.0	775.6

Table 13 (Continued)

Country	Economic Assistance	Military Assistance	Total
E. Europe	<u>29,014.3</u>	<u>18,027.5</u>	<u>47,041.8</u>
Albania	20.4	0.0	20.4
Austria	1,135.2	121.9	1,257.1
Belgium	592.3	1,275.2	1,867.5
Czechoslovakia	193.0	0.0	193.0
Denmark	281.9	640.1	922.0
Finland	56.8	0.5	57.3
France	3,918.1	4,548.6	8,466.7
Germany, Democratic Republic of	0.8	0.0	0.8
Germany, Federal Republic of	4,041.1	939.4	4,980.5
Hungary	32.7	0.0	32.7
Iceland	82.2	0.1	82.3
Ireland	146.5	0.0	146.5
Italy	3,420.5	2,545.3	5,965.8
Malta	83.9	0.5	84.4
Netherlands	1,027.6	1,284.7	2,312.3
Norway	301.8	943.9	1,245.7
Poland	681.6	0.0	681.6
Portugal	1,028.0	952.4	1,980.4
Romania	22.4	0.0	22.4
Spain	1,120.0	2,944.2	4,064.2
Sweden	109.0	0.0	109.0
Switzerland	0.0	0.0	0.0
United Kingdom	7,672.1	1,107.5	8,779.6
U.S.S.R.	186.4	0.0	186.4
West Berlin	131.9	0.0	131.9
Yugoslavia	2,109.1	723.2	2,832.3
European Regional	619.0	0.0	619.0
F. Oceania	<u>919.7</u>	<u>120.8</u>	<u>1,040.5</u>
Australia	8.0	115.6	123.6
New Zealand	4.3	4.3	8.6
Pacific Islands, Trust Territory of the	824.2	0.0	824.2
Papua New Guinea	3.3	0.2	3.5
Oceania Regional	79.9	0.7	80.6
G. Canada	<u>17.5</u>	<u>13.0</u>	<u>31.5</u>
H. Interregional Activities	<u>41,528.7</u>	<u>4,254.7</u>	<u>5,783.4</u>
Grand Total	186,507.5	112,791.2	299,298.7

Source: Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, September 16, 1986, pp. 8-12.

—Requesting large increases in foreign assistance programs with an almost exclusive emphasis on security assistance.

In part because of such inconsistencies, the committee's recommendations for 1987 foreign assistance provided for a 16 percent reduction from the budget requested by the president. However, the committee sustained the ESF requests for Israel, Egypt, Pakistan, and Ireland, and the Foreign Military Sales requests for Israel, Egypt, and Pakistan. As a result of slashing the overall budget request while maintaining high aid levels to a few countries, economic aid appropriated to other countries was reduced 32 percent, and military aid funding was reduced by approximately 51 percent.<sup>66</sup> Furthermore, such reductions caused fiscal year 1987 to include cuts of 50 percent or more for many other American allies. Spain, for example, which had been used to receiving \$400 million a year to buy U.S. jets as part of its NATO commitment, received only \$105 million in 1987.

According to the *Washington Post*, the Philippines, which was promised more aid by both the administration and Congress, received \$322 million in 1987, or about \$132 million less than it had received in economic and military aid in 1986. "African economic support fund totals, despite drought and famine and repeated public expressions of U.S. backing, dropped from \$244.8 million in 1986 to \$162.8 million in 1987 for 16 nations and four regional programs."<sup>67</sup> Aid to Sudan was cut from \$26 million in 1986 to \$5 million in 1987, despite widespread poverty and starvation. Zimbabwe's \$5 million 1986 aid package was eliminated altogether.

While the FY 1987 foreign economic assistance level of \$5.65 billion approximates the FY 1986 appropriated level of \$5.64 billion, much of the 1987 assistance was earmarked by Congress for specific countries and programs. The Economic Support Fund, which is the largest recipient of all economic assistance programs, received \$3.9 billion in 1987 as compared to \$3.64 billion in 1986. Major ESF recipients included Israel (\$1.2 billion), Egypt (\$815 million), and other countries with military access and base rights agreements (\$780.9 million). Economic aid to Israel and Egypt which totaled \$2.015 billion in 1987, or 57 percent of ESF, was actually increased by \$87 million over 1986.<sup>68</sup>

Furthermore, on July 29, 1987, the House Appropriations Subcommittee on Foreign Operations approved a \$13.2 billion aid bill for fiscal 1988. This amount is \$2.7 billion less than that requested by the president, and about \$700 million less than the \$13.9 billion appropriated for fiscal 1987.

Before the subcommittee marked up the bill, Chairman David R. Obey said the cuts were necessary to meet ceilings set by the budget resolution.<sup>69</sup> Yet, in order not to hurt countries which receive small amounts of aid, Chairman Obey suggested to the administration and other members of Congress that a small reduction in aid to Israel be enacted. Such a reduction, he maintained, would allow a much larger increase in aid to other countries. Obey told reporters later

on that he had to drop the plan because the Reagan administration and subcommittee Republicans deemed it too controversial.<sup>70</sup>

Cutting the proposed foreign aid budget reflects the rising difficulties which face a Congress trying to justify billions of dollars given to foreign governments each year while domestic programs are slashed. At the same time, the increase in aid to Israel relative to other countries underlines the strength of the Israeli lobby, which has continuously managed to get more grants from Congress regardless of circumstances. In fact, without the supporters of Israel in the U.S. Congress, many administration officials believe there would be no foreign aid bill at all. The American-Israel Public Affairs Committee (AIPAC) says that it instructs its lobbyists first to work for the highest foreign aid package and then to work for the best deal for Israel. James D. Bond, AIPAC's staff director, said that "AIPAC members need to work first for the highest possible amount for 150 international functions in the budget, then a high foreign aid budget within that figure, then a high proportion of that figure for Israel. . . . AIPAC members must become supporters of all foreign aid in general."<sup>71</sup>

Since the inception of the Foreign Assistance Act, Americans inclined to oppose it have always outnumbered those willing to support it. Successive administrations, nevertheless, continued to perceive a need to maintain the program as a means of leverage with friendly foreign countries. U.S. aid to Israel today, however, as part of this book demonstrates, has become more a congressional policy to appease pro-Israel PACs and lobbies than a means to maintain American leverage with Israel.



II  
AMERICAN AID TO  
ISRAEL



## 4

### U.S. Official Aid

Hours after the leaders of the Zionist organization in Palestine proclaimed independence in 1948, President Harry S. Truman extended U.S. diplomatic recognition to the newly created Jewish state. The president's almost instantaneous recognition of Israel, however, was not approved or recommended by his closest advisors. Secretary of State George C. Marshall "opposed the decision so strongly that he bluntly told Truman soon after his recognition announcement that if the election were held the next day he would not vote for him."<sup>72</sup> Virtually all the president's foreign affairs advisors, including the secretaries of state and defense and the joint chiefs of staff, opposed the creation of a Jewish state in Palestine from the standpoint of American national interests. U.S. support for the Zionist program, they were reported to have argued, "would create an opportunity for Soviet penetration of the Middle East, including possible alignment between the Arabs and the Soviets, create a barrier to American access to the region's oil and markets, violate the principle of self-determination for the Palestinian Arabs, and result in destabilization of the entire Middle East."<sup>73</sup> The U.S. action, moreover, was taken against the desires of the Arab people and contrary to the expectations of all the Middle East countries.

In justifying his political move, President Truman said: "I am sorry gentlemen, but I have to answer to hundreds of thousands who are anxious for the success of Zionism. I do not have hundreds of thousands of Arabs among my constituents."<sup>74</sup>

President Truman had initially expressed opposition to the idea of establishing a Jewish state in Palestine. Zionists, fearing the consequences, had intensified their lobbying efforts and threatened to muster Jewish votes against him in the 1948 presidential elections. Other pressure tactics were also employed, as the American Jewish leaders and organizations bought newspaper advertising de-

signed to use public outrage over the Holocaust as a basis of popular support for the establishment of a homeland for European Jews in Palestine.

It is obvious, therefore, that the Truman administration's decision to recognize Israel was the outcome of domestic considerations rather than carefully calculated strategic ones.

## THE POLITICS OF AID

When Israel was created in 1948, its military forces had already taken over a larger portion of Palestine's land than the UN Partition Plan of 1947 had provided. As a result, the U.S.'s prompt recognition of Israel represented, in effect, an American decision to sanction Israeli annexation of Arab land. A few days later, the Truman administration gave Israel a \$100 million loan, while Palestinians who had been driven out of their homeland were given neither immediate economic assistance nor moral or political support.

The president's words and deeds gave Zionism a monumental victory; they also served to legitimize the practice of putting the political ambitions of U.S. elected officials ahead of American national interests. A precedent was established, allowing minorities to form political lobbies with the intention of exerting influence over the formation and execution of U.S. foreign policy. As a result, the president's ability to follow an independent course of action in the field of foreign policy, as dictated by American national interests, has ever since been weakened, and the ability of foreign powers to manipulate U.S. foreign policy to their advantage has been enhanced.

The U.S. recognition of and aid to the state of Israel in 1948 not only represented an American commitment to help Israel defend the Palestinian land it had captured, it also emboldened Israel to ignore the legitimate rights of the dispossessed and displaced Palestinians. The Eisenhower and Kennedy administrations adopted policies toward the Arab-Israeli conflict which, in effect, served to reaffirm that commitment. President Kennedy, for example, approved the sale of U.S. weapons to Israel for the first time in 1960, after having received 82 percent of the American Jewish vote in the presidential elections.

Nonetheless, the U.S. commitment to Israel during the 1950s and the first half of the 1960s was limited to insuring Israel's continued existence within the 1948–49 borders established by the armistice agreements with neighboring Arab states. In 1956, President Eisenhower pressured the Israelis and practically forced them to withdraw from the Sinai and Gaza Strip which they had occupied during the Suez Canal war of that year. However, the Eisenhower administration failed to resolve the Arab-Israel conflict because it lacked the capacity to tolerate Arab nationalism and the ability to fully appreciate Israeli ambitions.

The Johnson administration, in contrast, moved to sanction Israeli invasion of three Arab countries in 1967 and refused to apply any pressure on the Israelis to withdraw from the lands they occupied. In fact, the U.S. government used the veto at the United Nations Security Council to ensure that the UN resolution

calling for a cease-fire in June 1967 would not include a call for a return to the prewar lines. Most observers believe, moreover, that Israel could not have won the war without U.S.-supplied weapons and tactical reconnaissance support<sup>75</sup> and consequently could not have maintained its occupation of Arab land without the continued military and political backing of the U.S. government. On June 19, 1967, President Johnson stated in a speech that “a return to the fragile and perilous armistice is not a prescription for peace but for renewed hostilities.”<sup>76</sup> The Johnson administration policy toward the Middle East had, in effect, extended the U.S. commitment to Israel far beyond securing its 1948 borders and into the realm of accommodating its expansionist ambitions.

President Johnson, who desperately needed public support for the war in Vietnam, sought the help of the leaders of the American Jewish community, who in turn sought strong assurances that the U.S. would support Israel in any future crisis. This led to striking a deal with the Jewish state at the expense of three Arab countries whose land Israel occupied in 1967. In its wake, aid levels were increased, extensive credit was extended, and the United States president was forced in 1967 “to cover up the facts concerning one of the most astonishing disasters in the history of the United States Navy, the Israeli attack on the USS *Liberty*.”<sup>77</sup> While Israel received less than \$24 million of U.S. aid in 1967, it received more than \$106 million in 1968, a 450 percent increase in one year. In 1969, U.S. aid to Israel was increased again to \$160.3 million, more than half of which was in military assistance.

In 1973, the Nixon administration moved quickly to save Israel from defeat when the combined forces of Egypt and Syria attempted to liberate their occupied territories. During the first days of the October War, the U.S. provided Israel with a huge quantity of advanced military equipment, including forty F-4 Phantoms, thirty-eight A-4 Skyhawks, twelve C-130 transport aircraft, twenty tanks, and much more.<sup>78</sup> In fact, more than 22,000 tons of military equipment and supplies were airlifted to Israel during less than two weeks. The size of that arms lift was so huge that weapons and ammunition had to be stripped from American units stationed in Germany, the Pacific, and the United States. A special assistant to former-Secretary of State Alexander M. Haig described the arms lift as a “wholesale transfer of American equipment to Israel.”<sup>79</sup> In addition, the U.S. Congress passed emergency legislation giving Israel another \$2.2 billion in financial assistance, of which \$1.5 billion, or more than two-thirds, was an outright grant.

In fact, Israel’s survival was in doubt during the first days of the war until the U.S. undertook two extraordinary measures: ordering American armed forces to a high state of alert worldwide and starting its unprecedented arms lift to Israel. These actions helped secure Israel’s continued existence; they also enabled it to continue its occupation of Arab land, while denying to Syria and Egypt an opportunity to liberate their land from Israeli occupation and, perhaps, establish a lasting peace in the Middle East. Arabs responded to this overt siding with Israel by imposing an embargo on oil exports to the U.S. and a few other Western

countries, causing oil prices to accelerate rapidly. Oil shortages became common in almost all American cities, and the U.S. economy experienced a short but severe economic recession in 1974–75.

Israel's friends in Congress, who cheered the gigantic arms lift to Israel and voted to give the Jewish state \$2.2 billion in emergency aid, voted thereafter to lower the U.S. defense budget, thus depriving American forces of necessary replenishment of arms diminished by the arms lift.<sup>80</sup> America's liberal members of Congress, in fact, have consistently voted for lower defense budgets for U.S. forces but higher military aid to Israel; condemned human rights violations in Latin America yet overlooked Israeli human rights violations of the Palestinian people; voted for sanctions against South Africa while supporting Israel, South Africa's major partner.

The October War was instrumental in shattering two major premises underlying U.S. foreign policy in the Middle East: the Arabs' inability to challenge Israel's superior military power and the Arabs' lack of the courage required to use oil as a political instrument. The U.S. was forced to modify its Middle East foreign policy. While moving to reaffirm American commitment to Israel, primarily through increased military and economic aid, the U.S. also tried to start a peace process that was supposed to lead to a peaceful settlement of the Arab-Israeli conflict.

In 1975, in an attempt to pressure Israel to be more flexible on the issue of territorial compromise, the U.S. government announced that the time had come to reassess its foreign policy in the Middle East. Israel's friends and lobbyists in Washington responded by mustering seventy-six senators to sign a letter to President Ford demanding that the new policy should make clear that "the United States acting in its own national interest stands firmly with Israel in the search for peace in future negotiations, and that this premise is the basis of the current reassessment of United States policy in the Middle East."<sup>81</sup> This and other similar pronouncements by members of the U.S. Senate have been harmful to American foreign policy, because they reduce the president's freedom to conduct foreign policy on his own, and give domestic political considerations more weight than global strategy in defining foreign policy objectives. As a further example, later in 1975, Henry Kissinger, then secretary of state, made a commitment to Israel not to negotiate with the Palestine Liberation Organization (PLO) until it recognized Israel's right to exist and accepted UN Resolution 242.

U.S.-Israel relations in general and American aid to Israel in particular have been expressions of American commitment, and have come about as the result of the mounting pressure applied by the Jewish lobby on Washington's politicians and decision makers. Israel's need for more economic and military assistance and America's need for a foreign policy instrument have combined to push the two states into closer alliance. While the U.S. sees Israel as a helpful tool in realizing America's global interests in many parts of the world, Israel sees the U.S. as the only power that can guarantee its security and survival. The withdrawal of U.S. troops from Southeast Asia, the withdrawal of British forces

from the Arabian Gulf region, and the fall of the Shah of Iran in 1979 all gave the Zionist leaders an opportunity and a pretext to promote Israel as the only dependable United States ally.

Benjamin Beit-Hallahmi, an Israeli professor at the University of Haifa, described Israel's global role in defending its benefactors' interests. "Consider any Third World area that has been a trouble spot in the past ten years and you will discover Israeli officers and weapons implicated in the conflict—supporting American interests and helping in what they call the defense of the West. . . . Throughout the Third World, Israel has succeeded where other Western powers have failed using force to blunt the edge of native radicalism. And they do it with what Washington sees as aplomb, enthusiasm and grace. The Reagan administration cannot send military advisors to Zaire, Guatemala, South Africa or Haiti. Nor would many of America's European allies willingly aid repressive regimes like, say, the Chilean junta. What others regard as 'dirty work,' Israelis regard as defensible duty and even, in some cases, an exalted calling. . . . Some American policymakers may have qualms about what Israel does to aid countries like South Africa and Chile, but they can hardly dismiss what Israel has done to advance their own concerns. The role of regional policeman is something that many Israelis find attractive, and they are ready to go on with the job—for which they expect to be handsomely rewarded."<sup>82</sup>

By the early 1980s the various U.S. administrations had fully accepted Israel's arguments and begun to treat Israel as America's "strategic asset." Israel's role as an instrument of U.S. foreign policy was also enhanced after Israeli equipment and military advisors played a vital role in sustaining the apartheid of South Africa and supported many Third World dictators, who were friends of U.S. administrations, such as Somoza in Nicaragua and the Shah in Iran. On March 19, 1987, the Israeli government acknowledged that it has been selling arms to the white minority government of South Africa, an act violating the 1977 UN embargo and the U.S. Anti-Apartheid Act of 1986 (see chapter 8). In 1983, the U.S. and Israel signed a strategic cooperation agreement; subsequently Israel began to receive even more aid.

At a time of serious economic and security problems for Israel, the actions adopted by the Reagan administration have made U.S. commitment to Israel complete and Israel's dependence on U.S. aid indispensable. Referring to Israel's heavy dependence on U.S. aid, the *Wall Street Journal* wrote in 1985, "It's never going to be easy to break the habit of foreign aid and subsidies Israel acquired during its first turbulent generations."<sup>83</sup> In fact, dependence on foreign aid has been one of Israel's distinct characteristics since the Zionist organization first began smuggling Jewish immigrants into Palestine. Such early aid came primarily from the world Jewry who supported Zionist intentions. After the creation of Israel in 1948, however, "this dependency has taken different forms, and Israel has drawn steadily upon funds from the Diaspora, from German reparations and restitution payments, and—ever more importantly—from U.S. sources, both official and extra-budgetary."<sup>84</sup>

The U.S.-Israel alliance, which began to be forged in the 1960s, and the subsequent defiance by both the U.S. and Israel of United Nations resolutions concerning the Arab-Israeli conflict have helped to heighten mistrust and tension between the superpowers and to increase violence in the Middle East. In 1978, Israel invaded South Lebanon and, in 1982, it moved again to invade Lebanon and occupy its capital. In 1981, the Israeli Air Force attacked Baghdad, the capital of Iraq, and, in 1985, military aircraft were dispatched to destroy the PLO headquarters in Tunis, killing and wounding more than one hundred people, most of them innocent Tunisians. Meanwhile, Arab resistance to Israeli occupation in the West Bank, Gaza Strip, and the Golan Heights continued, causing Arab-Israeli enmity to deepen. As a result, the peace process was stalled and chances for genuine peace diminished.

### **AID AND THE JEWISH LOBBY**

The nature of the American commitment to Israel during the 1950s caused U.S. assistance to remain modest. In the 1960s, aid levels were increased slowly and gradually, and economic assistance represented more than 70 percent of the total aid.

The 1970s, however, saw a tremendous increase in both economic and military aid to Israel, and witnessed the emergence of a strong Jewish lobby representing the most hawkish Israeli views. Meanwhile, Israel's capacity to influence the political decision-making process in Washington increased, and more Americans became susceptible to Israeli propaganda. Factors which helped effect these developments included the following:

1. The realization that the U.S. had become Israel's lifeline, and that without American military and economic aid and diplomatic backing, especially at the United Nations, Israel would not be able to survive.
2. The rise to power in Israel of the right-wing Likud coalition in 1977, and the adoption of new extremist positions aimed at integrating the occupied territories. This necessitated tightening the grip over world Jewry, muzzling the critics of Israeli excesses, and getting more military and economic aid from the U.S.
3. The emergence of a strong anti-Arab feeling in the U.S. following the energy crisis of 1973-74. This was partially caused by the Arab use of oil as a political weapon in a fruitless effort to liberate the lands which Israel had occupied in 1967. As suggested earlier, it was Israel's continued occupation of Arab land which impelled the Arabs to launch the October 1973 war and to use oil as a political instrument to link the continued prosperity of the West to ending Israeli occupation of Arab land.

Following Israel's near defeat by the combined forces of Egypt and Syria in 1973, aid levels were increased and emphasis was placed on military rather than economic assistance. Military assistance, which represented less than 30 percent of U.S. aid to Israel in the 1960s, exceeded 70 percent of the total in the 1970s.



**Table 14**  
**U.S. Assistance to Israel FY 1949–1987 (dollars in millions)**

<u>Year</u>	<u>Total</u>	<u>Loan</u>	<u>Grant</u>
1949–59	552.9	339.3	313.6
1960–69	834.8	801.9	32.9
1970	93.6	80.7	12.9
1971	634.3	631.5	2.8
1972	480.9	424.9	56.0
1973	492.8	388.0	104.8
1974	2,646.3	1,055.0	1,591.3
1975	803.1	296.0	507.1
1976	2,654.2	1,260.2	1,393.9
1977	1,787.5	777.9	1,009.6
1978	1,822.6	772.2	1,050.4
1979	4,913.0	3,058.8	1,854.2
1980	2,146.0	1,091.9	1,054.1
1981	2,408.4	1,117.4	1,291.0
1982	2,245.5	874.0	1,371.5
1983	2,500.6	950.0	1,550.6
1984	2,628.5	851.9	1,776.6
1985	3,372.0	---	3,372.0
1986	3,800.0	---	3,800.0
1987	3,050.0	---	3,050.0
1988	3,050.0	--	3,050.0
<b>Total</b>	<b>43,017.9</b>	<b>14,771.7</b>	<b>28,245.2</b>

Sources: Compiled from: *Israel American Relations*, Congressional Research Service, 1985, p. 11; *The Israeli Economy*, Congressional Research Service, 1986, Table 6; House and Senate, *Foreign Assistance Appropriations Bills, 1987*; proposed fiscal 1988 Foreign Aid Bill as published by the *Congressional Quarterly* and the *Washington Post*, August, 1987.

During the 1980s, both aid levels were increased substantially; the total reached \$3.37 billion in 1985 and exceeded \$3.75 billion in 1986.

Furthermore, the grant portion of U.S. aid, as table 14 indicates, was also increased to unprecedented levels. Grants, which represented less than 4 percent of the total in the mid-1960s, exceeded 46 percent in the 1970s and reached 100 percent in the 1980s. In fact, U.S. aid given to Israel as grants during the last four fiscal years (1985–88) exceeded \$13.3 billion, thus matching the total grants Israel had received during the entire thirty-seven years of its history prior to 1985.

By the early 1980s it had become clear that Israel's military debt, growing at a fast pace, had reached a magnitude that posed a threat to Israel's survival. To remedy this situation, Congress and the Reagan administration shifted to grants and concessional loans, designed to ease Israel's long-term financial obligations. Nevertheless, Israel's economic and financial problems intensified, especially after its invasion of Lebanon in 1982. The Reagan administration then increased aid to new levels and converted all military and economic aid to outright grants. Congress, furthermore, decided that economic aid given to Israel each year would

have to be more than enough to service Israel's past military debts to the United States.

For example, in 1982, despite Israel's invasion of Lebanon and the destruction and atrocities committed by its forces, Congress accorded Israel the biggest subsidy of military and economic aid in its history. Douglas Bloomfield, the American-Israel Public Affairs Committee's staff director, said, "In fact, the Congress increased grant aid by \$510 million above what the Administration recommended, providing the most favorable aid package Israel had ever received."<sup>85</sup> In addition to increasing the grant portion by \$510 million, Congress increased the overall aid requested by the administration by \$200 million. Since that decision was taken against the desire of the administration and despite the strong objections of the secretary of state, it was described as being the "most substantial foreign policy defeat the [Reagan] Administration has yet suffered."<sup>86</sup>

The *Washington Post* described this incident and its consequences: "In late 1982 Shultz got a first-hand look at the strength of Israel's support. He butted heads with AIPAC and Congress over a \$200 million increase in aid to Israel. He lost."<sup>87</sup> Thomas Dine, AIPAC's executive director, called this incident "the real turning point. It was a measure of strength and both sides recognized the other's interests."<sup>88</sup> In a letter to its members, AIPAC wrote in December 1984, "For FY 1985, AIPAC lobbied successfully for the most favorable aid levels ever appropriated for Israel—an unprecedented \$2.6 billion in all grant assistance. These two-year levels [1984 and 1985] represented a \$775 million increase in grant assistance above the Administration's request."<sup>89</sup>

The 1980s, therefore, witnessed a tremendous surge in U.S. financial commitment to Israel. For such a commitment to continue, the influence of the Israeli lobby had to be increased and strengthened. Manipulating the news, financing election campaigns, and blackmailing critics of Israel's excess policies were among the methods used by the Israeli lobby to tighten its control of Congress and increase its influence over the process of the administration's foreign policymaking. Former Congressman Paul Findley wrote: "For many concerned Jews, establishing the conditions which assure continued U.S. backing is a task which merits the highest priority—and one that justifies extraordinary measures. Consciously or not leaders of the pro-Israel lobby accept the impairment of free speech in the United States as a price that must be paid to assure Israel's survival. Whenever anti-Israel or pro-Arab expressions appear, the lobby's response is usually prompt and overwhelming. The aim is to protect Israel from all criticism, but the tactics go beyond legitimate response to argument. They are varied and sometimes ugly: smear and innuendo, complaints to superiors at the workplace, mention in published 'enemies lists,' ostracism, hate mail, anonymous phone calls, threats to one's personal safety, and, in a few cases, physical attack."<sup>90</sup>

Financing election campaigns emerged in the 1980s as the most effective tool favored by the Israel lobby to manipulate the nation's elected representatives. Members of those committees in charge of budgeting, appropriations, and foreign relations have been the subject of more outside pressure and enticement than

others because of the vital role their committees tend to play in foreign policymaking and foreign aid appropriation. "Everything about the way PACs have shovelled money into the . . . elections exudes corruption. . . . All these make more transparent than ever the corrupt PAC system that now holds all Congressmen hostage."<sup>91</sup>

Political campaigns in the U.S. are very expensive undertakings. In the 1984 election, for example, it took about \$270,000 to win a House seat and \$2.9 million to prevail in the Senate.<sup>92</sup> The *Washington Post* reported on July 1, 1987, that the average Senate reelection campaign now costs \$3 million. "To amass that much," the newspaper added, "a Senator must raise \$10,000 a week 52 weeks a year, every year of his term." Election campaigns are financed by contributions paid primarily by the many political action committees, which are private organizations representing special interest groups. "A PAC's sole function is to raise and contribute money to their favorite candidates who are often beholden to the PACs once they win office."<sup>93</sup>

The Israeli lobby in Washington and the many pro-Israel PACs are considered to be the most effective interest groups in the U.S. today. The success they have achieved since the beginning of the 1980s has encouraged the American Jewish community to establish many more PACs in order to cover as many states and issues as possible. While pro-Israel PACs numbered fifty-seven in 1984, they exceeded eighty in 1986; Rex B. Wingerter reported that during the Senate and House elections in 1986 "eighty-one such PACs were involved in channeling campaign contributions to over 230 Senate and House candidates throughout the United States." He added that "it is the ability of pro-Israel PACs located in New York, California or Florida to make substantial contributions in elections in Nevada, Iowa or Maine that is central in building a pro-Israel Congress."<sup>94</sup> In 1984, for example, the "pro-Israel lobby collected more than \$4.25 million in order to influence the 1984 elections in Israel's favor."<sup>95</sup>

On June 24, 1987, the *Wall Street Journal* published an article documenting the apparent linkages between eighty pro-Israel PACs and the American-Israel Public Affairs Committee. According to a computer-aided analysis of the 1986 elections, the Federal Election Commission reported that "no fewer than 51 pro Israel PACs—most of which draw money from Jewish donors and operate under obscure-sounding names—are operated by AIPAC officials or people who hold seats on AIPAC's two major policymaking bodies. The study shows that 80 pro-Israel PAC's spent more than \$6.9 million during the 1986 campaigns, making them the nation's biggest-giving narrow-issue interest group."<sup>96</sup>

Lord Christopher Mayhew said on June 5, 1986, that "Israel's dependence on the U.S. Senate is not a one-way affair. Members of its Appropriations Committee approve large subsidies to Israel; in return, Israel, in effect, approves large subsidies to members of the Senate Appropriations Committee. Such subsidies are given to Congress members as campaign contributions during and before elections. In order to influence the 1984 elections the pro-Israel lobby mustered more than \$4.25 million. Payments to members of the Senate Appro-

priations Committee totaled \$367,000; to the Senate Armed Services Committee, \$387,158; to the Senate Foreign Relations Committee, \$576,940.’’<sup>97</sup> According to the *News/Sun Sentinel*, members of the Senate Foreign Relations Committee received almost \$1 million of PAC money between 1980 and 1986.<sup>98</sup>

During the 1984 election season, Senator Bob Packwood, chairman of the powerful Senate Finance Committee, mailed Israeli shekels to voters soliciting their American dollars. The message from Packwood to these potential donors is a clear illustration of congressional pandering to the wealthy and politically active American Jewish community, says Mark A. Bruzonsky. “Like Israel, I am in a tough fight and need committed friends to come to my aid,” Packwood wrote.<sup>99</sup> As for the shekel message, he explained it as follows: “First, it serves as a constant reminder that the security of our nation depends on the survival and future of our democratic ally in the Middle East. Second, because each time I see it, I am reminded that Israel today faces an economic crisis of catastrophic proportions.”<sup>100</sup>

On April 6, 1986, Thomas A. Dine, AIPAC’s executive director, said that the relationship between the U.S. and Israel has entered “a revolutionary era.” Such an era, he maintained has been “raising U.S.-Israel relations to new heights. . . . In the process, a whole new constituency of support for Israel is being built . . . among officials in the State, Defense, and Treasury Departments, in the CIA, in science, trade, agriculture and other agencies.” He called Congress “the bedrock of the U.S.-Israel relationship,” and stressed its role in securing “the most generous Israel aid package ever, and in blocking arms sales to Arab countries.”<sup>101</sup>

As table 14 reveals, the total of U.S. official aid given to Israel since 1948 has exceeded \$43 billion. Of this, less than \$15 billion, or 34 percent, was in loans; and more than \$28 billion, or 66 percent, was in grants. While the total assistance to Israel during the entire decade of the 1960s amounted to less than \$835 million, the 1970s saw a 2,000 percent increase in aid, which reached approximately \$16.3 billion. The 1980s, moreover, marked another substantial increase in aid levels, exceeding \$25 billion for the decade so far.

In 1986, Israel received \$1.8 billion in military aid, \$1.2 billion in economic aid, and \$750 million in supplemental aid. In fact, Israel received in 1986 about 25 percent of the total U.S. foreign aid package in military and economic assistance, including aid to international organizations and agencies. Meanwhile, forty-five African countries had to share one-fifteenth of the aid package.

The disparity is more apparent in terms of wealth and population. Israel, with a Jewish population of less than 3.5 million people and a per capita income of about \$5,500 a year, was provided more than \$1,000 per person in U.S. aid. Egypt, with 50 million people and a per capita income of less than \$700 a year, got about \$50 per person. “The 45 African countries, with a combined population of about 460 million, and average per capita income of \$646 a year, received \$2.13 per person in U.S. aid.”<sup>102</sup> Between 1948 and 1985, Israel received about

**Table 15**  
**American Aid to West European Countries, Within the Framework of the Marshall Plan, April 1948 to December 1951 (in 1983 dollars)**

<u>Country</u>	<u>Aid per Person per Year</u>
Austria	\$ 130
Holland	125
Greece	120
France	70
Britain	50
Italy	25
West Germany	25
West European average	50
Israel (1983)	700

**Table 16**  
**Grants and Currency Transfer to Israel not Including Aid in the Form of Loans**

<u>Year</u>	<u>\$ per Person</u>
1983	700
1984	800
1985	1,250

Source: *Al Hamishmar*, May 10, 1985. Reprinted in *Israel and Palestine*, May–June 1985, p. 14.

\$32.4 billion in U.S. official aid, as compared to \$21.3 billion to Latin America and \$16.3 billion to the entire African continent.<sup>103</sup>

U.S. aid given to Israel over the three fiscal years (1985–1987) equals in magnitude the totality of American aid given to all European countries which were devastated by World War II (see tables 15 and 16).<sup>104</sup>

The Israeli daily *Al Hamishmar* put it another way: “The Marshall Plan was not nearly as generous with ruined Western European nations as Israel’s benefactors are with us. During the period of maximum aid, the European countries, which lost 15 to 20 percent of their productive capacity as a result of World War II, received an addition of three percent to their national incomes. This year [1985] Israel will receive a supplement of at least 25 percent to its national income.”<sup>105</sup> However, when other grants, private aid, technology transfer, and

indirect assistance are added, the total American supplement could easily reach 40–50 percent of Israel's national income.

Israel's annual aid package averaged about \$55 million a year in the 1950s; \$83.5 million in the 1960s; \$1,630 million in the 1970s; and almost \$3 billion a year in the 1980s (see table 14). In today's dollars, the total official U.S. assistance to Israel would certainly exceed \$68 billion. However, aid figures noted above, as we will elaborate later, constitute only one portion of U.S. economic and military assistance to Israel. In addition to U.S. official aid, Israel receives private aid and generous governmental subsidies buried in the budgets of many U.S. departments and agencies. These include tax-deductible contributions to Israeli charitable and education institutions; the sale of Israeli bonds in the U.S.; duty free exports to U.S. markets; direct American investment in Israel's economy; contracts for U.S. AID projects in Africa carried out by Israeli rather than American firms; and purchase of high-priced military equipment from Israel; the free transfer of industrial and military technology; and American deposits in Israeli banks.

## 5

# Military Assistance

U.S. military assistance, intended to maintain Israel's qualitative edge over its Arab neighbors,<sup>106</sup> has been very impressive. From 1948 to 1988, the U.S. government has given Israel about \$26 billion in military aid. Of that total, about \$11 billion was provided as loans, and almost \$15 billion as grants. American military support started in earnest in 1962 after the U.S. government decided to include Israel in its global strategy. U.S. military assistance to Israel consequently rose from less than \$1 million between 1948 and 1961 to as much as \$90 million in 1966 and about \$550 million in 1971. (Consult table 17 for details.)

In 1966, military assistance began to increase substantially, but the level remained below \$100 million per year until 1971. In 1974, military grants were extended for the first time as the U.S. government waived repayment of some 60 percent of the \$2.5 billion given to Israel in military aid in that year. This practice continued through 1984, after which all U.S. aid to Israel was converted into outright grants.

The tremendous increase in U.S. assistance to Israel, both economic and military, was a reaction to some major developments that took place in the Middle East in the late 1950s and the early 1960s. On the one hand, the emergence of Arab nationalism as a political and economic force, the French defeat in Algeria, and the gradual withdrawal of the British forces from the region served to weaken Western influence in the Middle East. On the other hand, the acquisition of Soviet-made military hardware by Egypt and Syria and the Soviet's willingness to provide Egypt with the technology and finance needed to build the Aswan High Dam helped to introduce the Soviets to the region. Furthermore, Israel's readiness to put itself at the service of the Western powers during the cold war period seems to have convinced those powers to invest in Israel's

**Table 17**  
**U.S. Military Assistance to Israel (dollars in millions)**

<u>Year</u>	<u>Total Aid</u>	<u>Loans</u>	<u>Grants</u>
1948-1961	0.9	0.9	--
1962	13.2	13.2	--
1963	13.3	13.3	--
1964	--	--	--
1965	12.9	12.9	--
1966	90.0	90.0	--
1967	7.0	7.0	--
1968	25.0	25.0	--
1969	85.0	85.0	--
1970	30.0	30.0	--
1971	545.0	545.0	--
1972	300.0	300.0	--
1973	307.5	307.5	--
1974	2,482.7	982.7	1,500.0
1975	300.0	200.0	100.0
1976	1,700.0	850.0	850.0
1977	1,000.0	500.0	500.0
1978	1,000.0	500.0	500.0
1979	4,000.0	2,700.0	1,300.0
1980	1,000.0	500.0	500.0
1981	1,400.0	900.0	500.0
1982	1,400.0	850.0	550.0
1983	1,700.0	950.0	750.0
1984	1,700.0	850.0	850.0
1985	1,400.0	--	1,400.0
1986	1,800.0	--	1,800.0
1987	1,800.0	--	1,800.0
1988	1,800.0	--	1,800.0
Total	<u>25,912.5</u>	<u>11,212.5</u>	<u>14,700.0</u>

*Sources:* Clyde Mark, *The Israeli Economy*, Congressional Research Service, 1986; House of Representatives, Foreign Assistance and Related Programs Appropriations Bill, 1987, August 5, 1986; Senate, Foreign Assistance and Related Programs Appropriations Bill, 1987, September 16, 1986; House of Representatives, Foreign Relations Authorization Act, Fiscal Years 1988 and 1989, March 27, 1987.

military, and to use it as a tool in their efforts to counter the growing anti-Western forces in the Middle East and elsewhere in the Third World.

In 1967, Israel fought and won the biggest and probably the most decisive war in its history. As a result, it occupied the West Bank from Jordan, the Golan Heights from Syria, and the Sinai and the Gaza Strip from Egypt. France, which had warned Israel against invading the territories of its Arab neighbors, stopped supplying Israel with arms after 1967. Consequently, the U.S. emerged as Israel's major supplier of arms and the only backer of its position vis-à-vis the future of the occupied territories.

Israel's refusal to trade the land it had occupied in 1967 for peace with its Arab neighbors dictated the need to build a superior army capable of defending



the new borders against any military force that might emerge in the Arab world. The decisive Israeli victory over the forces of Jordan, Egypt, and Syria demonstrated Israel's viability as a potential instrument of American foreign policy capable of challenging perceived threats posed by Arab nationalism. Israel's claim that it was the only state in the Middle East to promote Western values and defend American interests against Soviet threats provided extra justification for those U.S. government officials and legislators who were determined to support Israel's military occupation and possible annexation of Arab land.

The provision of Israel with sophisticated American military equipment forced the Arab countries to build their own military machine in order to defend themselves against Israeli aggression and expansionism. Egypt, Syria, and Jordan, for example, had to spend the equivalent of 40 percent of their annual GNP on defense, thus denying their populations the funds needed to improve their low—at times desperately low—standards of living.

## POLITICS OF MILITARY AID

As table 17 demonstrates, aid levels were raised every time Israel went to war against its Arab neighbors. Following the 1967 Six Day War, military aid was increased from \$7 million in 1967 to \$25 million in 1968 and \$85 million in 1969. In 1974, Israel received \$2.5 billion in U.S. military assistance, up from \$307.5 million in 1973, an increase of 810 percent in one year; following the invasion of Lebanon, military aid was increased from \$1.4 billion in 1982 to \$1.7 billion in 1983.

In 1976, Israel was given \$1.7 billion in military aid after signing the disengagement agreements with both Egypt and Syria. For signing the Camp David Peace treaty in 1979, the Carter administration gave Israel \$4 billion in military aid, of which \$1.3 billion was given as an outright grant that need not be repaid. In late 1985, when Israel sent its air force to attack Tunisia, Congress approved a supplemental aid package giving Israel an extra grant of \$1.5 billion to strengthen its military and support its faltering economy. In 1987, the year which witnessed the full exposure of Israel's role in both the Iran-contra affair and the Pollard spying case, Israel was granted a "major non-NATO" ally status.

The huge increase in military assistance to Israel after 1973 caused Israel's military debt to accelerate and accumulate to a magnitude that threatened Israel's survival. The U.S. administration, as a result, began to shift more to military grants and concessional loans, deemphasizing commercial sales. In addition, financial grants were increased in order to enable Israel to service its previous military debt and meet other financial obligations. In 1984, it was decided that all future military and economic assistance to Israel would be given as an outright grant. In fact, all forms of economic assistance were converted into grants as early as 1981. In justifying this decision, William Schneider Jr., then under-secretary of state for Security Assistance, Science and Technology said, "by shifting to all-grant programs, we slow the spiraling increase in FMS repayments

and can actually reduce program size without affecting its integrity.’’<sup>107</sup> He also added that ‘‘our decision to provide all military assistance for Israel . . . on grant basis in FY 1985 reflects our determination that the costs of military preparedness and vigilance . . . not come at the expense of economic well-being.’’<sup>108</sup>

The suggestion to reduce the military aid level and convert all aid to grants came originally from Mr. Yoram Aridor, Israel’s finance minister in 1983. Concerned about Israel’s huge balance-of-payments deficit and foreign debt and their impact on Israel’s economic performance and credit worthiness, Aridor suggested that ‘‘Israel should ask for less military aid than it had been receiving provided that all the aid is in the form of outright grants rather than a mix of grants and long-term notes.’’<sup>109</sup> Yet the administration had proposed the continuation of the 1984 aid package: \$900 million in economic grants and \$1.7 billion in military assistance, split evenly between grants and thirty-year loans. Mr. Aridor suggested instead a \$450 million reduction in military aid, provided that the new request of \$1.25 billion were given as a grant.<sup>110</sup> In the end, Congress granted Israel \$1.4 billion in military aid, \$150 million more in grants than the Israeli minister had actually proposed.

This proposal and its subsequent adoption allowed Israel to establish the principle that all military assistance should be in the form of grants, the same basis that had governed the U.S. economic assistance program to Israel since 1981. It is worth noting also that the \$1.4 billion Israel received in military aid in 1985 represented about 27 percent of the total FMS credit extended by the U.S. government to a total of twenty-eight countries. Moreover, while most aid-recipient countries had to pay interest on the military sales credit extended to them, Israel’s was an outright grant.

As a result of all this, the Israeli government felt free to seek more military aid without worrying about its impact on the country’s foreign debt. During his visit to Washington in January 1985, Yitzhak Rabin, Israel’s defense minister, asked President Reagan for more economic and military aid. The president assured him that his administration would seek a \$400 million increase in military aid when it submitted the 1986 budget to the Congress.<sup>111</sup> U.S. aid in 1986 did in fact exceed \$3.75 billion, of which \$1.8 billion was in military assistance, as compared to \$1.4 billion in 1985.

In May 1985, Senators Daniel Inouye and Robert Kasten introduced legislation to reduce the interest rate on past Israeli debts. According to *Near East Report*, the weekly newsletter of AIPAC, the passage of that proposal would have reduced Israel’s debt servicing by about \$500 million a year, and would have reduced its financial obligations over the life of the existing loans by over \$8.4 billion.<sup>112</sup> This would, of course, have been at the expense of the American taxpayer. Congress, fearing that other debtor nations would ask for similar treatment, rejected the senators’ proposal.

The shift to ‘‘forgiven’’ loans did not alleviate past debts or reduce Israel’s financial obligations. It did, nonetheless, prevent the debt burden from becoming worse and helped facilitate the financing of Israel’s continued military build-up.

The Reagan administration's claim that the shift to grants would reduce funding levels for Israel proved to be unfounded, as more economic and military aid was given to Israel in subsequent years. Total aid given to Israel in 1984, for example, amounted to approximately \$2.63 billion of which about \$1.78 billion was in grants. Aid given to Israel in 1985 exceeded \$3.37 billion, all of which was in grants. As for military aid, it declined from \$1.7 billion in 1984 to \$1.4 billion in 1985 in order to facilitate the adoption of a military all-grant program. Yet, in 1986 the trend was reversed, and U.S. military aid to Israel reached a new high of \$1.8 billion, thus surpassing both the 1984 and 1985 levels.

Senator Kasten, after having failed to convince other senators to reduce the rate of interest on past debt, proposed in 1986 a new bill to allow Israel to borrow U.S. military equipment free of charge. Speaking before a conference committee on October 3, 1986, Kasten said that his proposal "was the result of recent meetings between the U.S. and Israel on mutual security interests."<sup>113</sup> He added that the proposal was "prompted by the positive experience of the U.S. Navy, which last year entered into a leasing agreement with Israel, wherein the U.S. Air Force lease a squadron of Kfir jet fighters to perform the aggressor role in certain training programs conducted by the Navy."<sup>114</sup>

Israelis, in fact, have been pushing for a long time for no-cost reciprocal leases of military equipment. This came to pass in 1984, when the Israeli government offered the U.S. Navy a free loan of twelve Kfir jet fighters—an offer the navy secretary, John F. Lehman, Jr., hailed as a major example of cooperation between allies. In April 1985, when the first Kfirs were delivered to the Oceana Naval Air Station in Virginia Beach, Virginia, Lehman said: "This marks a major event for us, because the Israeli government has made three aircraft available to us at no cost to the U.S. taxpayer. It will save a lot of money for both governments in the future."<sup>115</sup>

But thanks to an exclusive maintenance contract with a firm owned by the Israeli government, Israel Aircraft Services, the navy is paying more than twice as much to service the Kfirs than it pays for any other war plane in its inventory. "This year [1986] according to Navy estimates, maintenance on single-seat, single-engine Kfir F-21A will cost \$5,817 per hour of flight time, compared with \$2,474 per hour for the Navy's hottest jet, the twin-seat, dual-engined F-14A. By comparison, the Air Force, which uses twin-engined Northrop Corporation's F-5Es as Soviet war planes in its simulated dogfights, pays about \$1,400 per flight hour for maintenance. The Kfir hourly cost, in fact, is more than five times the average \$1,036 spent to keep Navy aircrafts flying."<sup>116</sup>

Currently, the U.S. Navy has twelve Kfirs from the Israeli Ministry of Defense in exchange for a maintenance contract. The total cost of this contract will be at least \$165 million through 1988, the equivalent of the cost of buying twelve F-16 Ns, which is an American-made aircraft, superior to the Israeli Kfir, and which costs much less to maintain. In simple arithmetic, by the end of 1988 the U.S. Navy will have lost \$165 million and the opportunity to add twelve more F-16 Ns to its inventory.

The decision to accept the Israeli offer of a “no-cost” loan of the Kfirs was a political decision rather than a technical and strategic one. “The driving force was pressure from the Israelis to get a contract for anything with the U.S. Navy,”<sup>117</sup> one official said. Other navy officials also said that “the Israelis sought the prestige of seeing their war plane used by the United States.”<sup>118</sup> Israeli pressure, therefore, seems to have led Mr. Lehman to accept Israel’s self-serving offer without much consideration of its financial and nonfinancial implications for the U.S. Navy and the American taxpayer. The secretary’s claim that the Israeli offer “made three aircraft available to us at no cost to the U.S. taxpayer” is misleading.

Senator Kasten’s proposal for “no-cost” reciprocal leases with Israel, if passed, could lead to giving Israel as-yet-unspecified quantities of valuable U.S.-made military equipment at no cost and without much publicity. At the same time, the U.S. would be forced to subsidize the Israeli military industry through expensive maintenance contracts, and give Israel free access to U.S. top military technology and intelligence. Since the U.S. has been selling arms to Israel for almost three decades, Israelis have become very familiar with U.S. military equipment. Americans, on the other hand, lack the experience to handle Israeli equipment. They would be forced to seek Israel’s help in both training and maintenance and thus give the Israelis the opportunity to penetrate the U.S. armed forces through unpublicized maintenance contracts. Senator Kasten’s proposal could potentially give Israel more U.S. military aid than any piece of legislation previously enacted. In view of the Pollard spying scandal, it is clear that the adoption of the Kasten proposal would pose a very serious threat to the American national interest. Israelis, given the opportunity to penetrate the U.S. armed forces, might be tempted, if not instructed by their government, to steal American military secrets.

By 1985, military and economic loans to Israel had evolved as an American obligation. The Continuing Resolution for FY 1985 (P.L. 98-453) stated that annual Economic Support Fund aid to Israel would be at least equal to the annual amount Israel owes the U.S. in payments on past debts.<sup>119</sup> In fact, an amendment to this effect was originally introduced in 1982 by Senator Alan Cranston, one of the major beneficiaries of Jewish PAC money, in order to help Israel’s military establishment. President Reagan described Senator Cranston’s actions concerning the U.S. military, by saying: “I cannot think of a single member of the Senate who has a record of anti-military, anti-preparedness, anti-security as [Cranston]—He looks at your home pay as his personal treasury—[He] plays fast and loose with the lives of those who protect us.”<sup>120</sup> Cranston has been and continues to be the strongest supporter in Congress of Israel’s military and a major initiator of amendments designed to give Israel more equipment and deny Arab requests to purchase the same and pay from their own pockets for it.

Senator Charles H. Percy, then Foreign Relations Committee chairman, said that the Cranston amendment, attached to the foreign aid bill, was “extraordinary,” and added that “it makes the American taxpayer responsible for all Israeli

debts and future debts.”<sup>121</sup> Two years later, Senator Cranston’s amendment was approved and Senator Percy’s bid for reelection was denied.

## U.S.-ISRAEL STRATEGIC COOPERATION

While all U.S. administrations—Democratic as well as Republican—have been very responsive to Israeli requests for more military and economic aid, the Reagan administration has been particularly forthcoming and generous. In 1981, the U.S. signed a Memorandum of Understanding of Strategic Cooperation with Israel, aimed at coordinating military policies and activities. By concluding that agreement, the two governments committed themselves to closer military cooperation and, in effect, paved the way for the development of a strategic alliance between Israel and the U.S.

This Memorandum of Understanding gave Israel added confidence to carry out expansionist policies in the Middle East. A few weeks after the signing of the agreement, the Israeli government announced the annexation of the Golan Heights, which it had been occupying since 1967. The impression given was that the U.S. had approved the Israeli move in advance. This move and the Arabs’ reaction to it embarrassed the U.S. and caused its credibility to be further undermined. On June 6, 1982, Israeli troops invaded Lebanon even though the U.S.-mediated truce between Israel and the PLO had lasted a whole year without serious incident. As expected, U.S. military aid to Israel had to be increased to compensate Israel for its losses, and later on the U.S. Marines were sent to Lebanon in order to restore peace and clean up the mess Israel created.

The Memorandum of Understanding, many analysts believe, was the product of a strange combination of misguided foreign policy, Israeli manipulation of the American political process, and incoherent ideological thinking by the Reagan administration. President Reagan’s view of the Soviet Union as the “evil empire” that ought to be destroyed led him to seek the alliance of all those opposed to socialism, regardless of their human rights records, political agenda, or national interests. On the other hand, Israel’s plans to annex the Arab territories it had occupied in 1967, and its desperate need for American financial and military assistance, led Israel to offer its services as an instrument of U.S. foreign policy.

Alexander M. Haig, secretary of state in 1981–82, seemed to have been convinced that the Arabian Gulf region was the Soviets’ next target after they had invaded Afghanistan in 1979. Based on that conviction, he sought the creation of a new Middle East force capable of resisting Soviet threats and possible intrusion. In order to achieve his objective of developing “a strategic consensus” among those countries opposed to Soviet influence in the Middle East, Haig attempted to tie the U.S. to the region’s pro-Western countries in a series of alliances. Such alliances were meant to facilitate the coordination of pro-American, anti-Soviet security policies of Israel and Arab countries friendly to the U.S.

While Israel was very eager to sign a strategic cooperation agreement with

the U.S., the Arab countries rejected the U.S. offer. They disagreed with the American perception of the seriousness of the Soviet threat to their region and Israel's role in defending it. In fact, Arabs saw, and still see, Israel as posing the most serious threat to their security and independence, not as the potential ally presented by the U.S. Repeated Israeli aggression against Lebanon and other Arab countries, and continued Israeli occupation of the West Bank, Gaza, and the Golan Heights, made the Arabs view the liberation of the "occupied territories" as their most immediate objective.

The Memorandum of Understanding was followed in 1983 by another U.S.-Israel strategic cooperation agreement. This new agreement provided Israel with more financial, technological, and intelligence assistance. It facilitated the shift from loans to grants for foreign military sales; permitted Israel to negotiate contracts with American military manufacturers to include Israeli components in weapons systems purchased by Israel; and obligated the U.S. to purchase up to \$200 million a year of Israeli goods and services for use by the U.S. Department of Defense.<sup>122</sup> In addition, Israel was permitted to bid for U.S. defense contracts and to obtain the latest military technology to build its own military industry. The perceived convergence of strategic interests between the U.S. and Israel dictated, furthermore, Israeli access to U.S. intelligence information gathered by satellite from the Pentagon and other specialized intelligence agencies.

While Israel was practically being handed a key to the Pentagon's military stockpile in order to quench its thirst for arms, pro-Israel lobbies in Washington were busy working to deny America's Arab friends the right to purchase U.S. military equipment needed to defend themselves. As a result, Israel gained a significant military advantage over neighboring Arab states, forcing those states to seek non-American military sources.

In the late 1970s, this lobby emerged as a powerful and ruthless organization willing to do anything to achieve its own objectives. In fact, it has been quick to reward its friends with massive campaign contributions and media coverage, and quicker to crush any opposition.<sup>123</sup>

Former Congressman Paul Findley said that "whatever Israel undertakes is characterized as helpful to the United States, an attitude that makes criticism of Israel 'un-American,' and therefore, unthinkable. Its partisans have defined the terms for discussing Middle East issues so rigidly that debate itself is excluded."<sup>124</sup> Irving Howe, speaking in 1977 at the final national conference of Breira, a Jewish organization that called on Jewish institutions to be open to serious debate and proposed a comprehensive peace settlement in the Middle East, including recognition of a Palestinian homeland, said that the tactics used by the Israeli lobby to smear the organization were an "outrage such as we have not known for a long time in the Jewish community."<sup>125</sup> Mattiyahu Peled, a retired Israeli general, said after his U.S. lecture tour was boycotted by Jewish groups that "the pressure applied on those who hold dissenting views [in the U.S.] is far greater than the pressure [on those who hold the same views] in Israel."<sup>126</sup>

Since most American Jews are of the conviction that they are not entitled to question Israeli policies publicly, they tried to impose the same conviction on those public and media personalities in a position to raise sensitive issues and open public debate on controversial ones. As a result, large numbers of critics of Israeli policies were silenced and Israel was able to get its way without much questioning.

“Although the power of pro-Israel PACs to stifle debate on U.S. Middle East Policy is enormous, there is still another way to make sure Israel’s agenda is carried out by Congress: the honoraria system,” said Rex Wingerter.<sup>127</sup> “Members of Congress who wish to get on the lucrative pro-Israel speaker’s list, must accept to say the right things and vote the right way as prescribed by the Israeli lobby. The basic formula is simple: support nearly every Israeli request, almost without regard to its cost, and accept without question the premise that the U.S. and Israel share the same strategic interests in the Middle East.”<sup>128</sup> Senator Lugar, former chairman of the Senate Foreign Relations Committee (1984–86) said that the campaign contributions from supporters of Israel “are a substantial factor” in senators’ reluctance to consider the administration’s argument. The senators, he added, regard the supporters of Israel as “one of those constituents that can cause you a problem if they get activated, so you avoid making an issue with them if you can.”<sup>129</sup>

In short, perceived global considerations and domestic political pressures induced the Reagan administration to formalize a military alliance with Israel and give it more assistance, more grants, and more diplomatic backing than any other country has ever received from the U.S. In fact, the Reagan administration gave Israel during the last seven fiscal years (1982–88) about \$12 billion in military aid and \$9 billion in economic assistance. Grants represented about 87 percent, or \$18 billion of the total, and loans constituted less than \$2.7 billion, or 13 percent only.

Military aid given to Israel by the Reagan administration since 1981 exceeded the total Israel had received during the first thirty-two years of its history. Economic aid exceeded by more than 50 percent what Israel had received prior to 1981 when Reagan assumed the presidency. Military and economic grants, furthermore, exceeded by about 115 percent all grants given to Israel by all previous U.S. administrations since the inception of the Jewish state in 1948.

## THE SIZE OF THE MILITARY AID

As table 17 reveals, U.S. military aid to Israel since its creation in 1948 has reached about \$26 billion, of which about \$11 billion was in military loans and about \$15 billion was in military grants. Between 1948 and 1969, military aid which was extended to Israel had been less than \$250 million. Between 1970 and 1979, military assistance increased at a phenomenal rate and amounted to \$11.67 billion, of which about 60 percent was in military loans. The 1980s, so far, have registered more military aid given to Israel and more loans granted

forgiveness. While \$14 billion has been given to Israel in military aid since 1980, grants have been about \$10 billion, or more than 70 percent of the total.

Strategic cooperation between the U.S. and Israel proceeded uninterrupted despite Israeli behavior which the U.S. could not always condone. By 1987, Israel managed to gain a "major non-NATO" ally status which was accorded by both the administration and the Congress. The new status allows participation in U.S. military research and development projects and opens the door for competition with U.S. defense manufacturers. Israel's ultimate objective, which is yet to be accomplished, is to gain the same status as other members of the North Atlantic Treaty Organization. Such a status would qualify Israel to obtain U.S. financial and military aid beyond the current \$3 billion annually. During his visit to Washington in February 1987, Yitzhak Shamir, Israel's prime minister, called upon the U.S. to grant such a status. Shamir said, "It would be better to formalize the U.S. Israeli relationship, giving Israel the status of a full NATO ally."<sup>130</sup>

Closer U.S.-Israeli relations, however, have served to heighten Arab fear and suspicions and helped to further weaken U.S. credibility in the Arab world. The Saudis, for example, continue to spend about \$17 billion to \$18 billion a year on defense,<sup>131</sup> while the Syrians and Jordanians continue to allocate the equivalent of 40 percent of their GNP to the military. The Arab countries' focus on the Israeli threat has contributed to the regional arms race and further complicated future initiatives to strike a peace between Israel and its Arab neighbors.<sup>132</sup>

As a result, Soviet influence in many Arab countries increased, and U.S. ability to influence Arab policies and military actions diminished.

In view of the U.S.'s loss of credibility and eroding influence in the Middle East, the U.S.-Israel strategic cooperation seems to have been working hard to defeat the very objectives it was meant to accomplish. Israeli tactics to influence the decisions of the Congress in its favor, and Congress' apparent subservience to Israeli demands and perceived wishes, such as the covering up of Israel's role in the Iran-contra affair, reflected badly on the Congress' integrity and on American democracy. Roberta Strauss Feuerlicht, an American Jewish author, said that the Jewish majority in America has "been effectively intimidated and suppressed by the Zionist minority. . . . The degree of suppression is inconceivable in a democratic society." She added that "in the freest country in the world, with the aid and acquiescence of the freest press in the world, a zealous minority successfully suppressed dissent and stoned those who dared to speak out."<sup>133</sup>



## 6

# Economic Assistance

Since its creation in 1948, Israel has been very much dependent on foreign sources of economic assistance. For such assistance to be forthcoming, the Israeli leaders offered the services of their state to those powers whose interests in the Middle East were seen as vital. The importance of the world Jewry to Israel's survival as a source of new immigrants and financial aid, furthermore, necessitated the tightening of the Zionist grip over Jewish organizations worldwide.

Great Britain, France, and to some extent West Germany provided the military assistance Israel needed during the 1950s and most of the 1960s. Economic assistance, on the other hand, was provided primarily by West Germany and the numerous American and European Jewish organizations. These organizations helped Israel raise and sometimes manage the funds needed for the resettlement of new Jewish immigrants and building so-called development towns. West German assistance was provided as military and industrial equipment, war reparations, and development loans at concessionary interest rates. In addition, direct investment by foreigners in Israel's economy and the sale of Israel bonds in the U.S. and Europe have been and continue to be a steady source of financial aid to Israel.

### GERMAN AID TO ISRAEL

On September 20, 1945, Chaim Weizman, spokesman for the Jewish Agency for Palestine, asserted in a note to the four powers occupying Germany at the time—United States, Soviet Union, Great Britain, and France—that the Jews demanded compensation from the Germans. He estimated the value of the damage done to Jewish individuals and institutions in Europe at \$8 billion.<sup>134</sup> On March

12, 1951, Israel issued a note demanding compensation of \$1.5 billion to Israel as payment for the resettlement of 500,000 Jews in Israel.

The Germans swiftly challenged the Israeli claim on both legal and factual grounds. The U.S. government found no grounds for Israel's claim and therefore supported the German position. Nonetheless, the Germans were willing to pay a price to the Jews as they did to the victorious allies in order to pave the way for Germany's admission into the international community. In September 1952, negotiations, which were conducted in secrecy between the Germans and Israelis, were concluded, and in 1953 the first installment of the agreed-upon \$1.1 billion reparation deal was delivered.<sup>135</sup>

In 1960, the German government agreed to extend to Israel a \$500 million, ten-year loan at a concessionary rate of interest. In addition, Germans and German institutions began in 1959 to buy Israel bonds and to invest directly in the Israeli economy. Assistance to Israel was not only confined to financial aid.

Arms deliveries, which started secretly in 1959 via France, accelerated in the 1960s. In 1962, for example, the German government allocated \$60 million in military aid to Israel, and this was followed, in 1963, by a \$20 million deal to provide Israel with American-made tanks.<sup>136</sup> Israeli soldiers were also trained in Germany and Israeli-made machine guns found their way to the German army. Shimon Peres acknowledged Germany's military aid to Israel by saying, "America gave us money; France, arms for money; Germany, arms without money."<sup>137</sup>

Assaf Razin, professor of economics at Tel Aviv University, said that in the 1950s and 1960s "German reparations were the primary source of aid to Israel; over twelve years, reparations totaling \$1.1 billion were given. Payments of German reparations to individuals continue to this day."<sup>138</sup> Estimates of such payments, which are being made regularly to some 200,000 Jews, range between \$750–900 million a year.

By the 1970s, however, West German financial aid began to decline, while Israel's need for foreign capital continued to rise. As a result, the U.S. government and the American Jewish community, represented by its many organizations, were forced to step in and provide the massive assistance needed to maintain Israel's economic viability. The new flow of funds from the U.S. was still insufficient to meet Israel's growing needs; it had to be supplemented by more than \$10 billion of commercial loans. Such loans, obtained from the international financial market, provided the extra funds necessary to keep its economy floating. In addition, the occupation of the West Bank, the Gaza Strip, the Golan Heights, and the Sinai provided Israel with a captive export market, a free source of oil, and a pool of cheap labor. Israel, moreover, began to receive hundreds of millions of dollars a year from taxes paid and tourism generated by the occupied territories. According to Meron Benvenisti, former deputy mayor of Jerusalem, the occupation tax paid by West Bankers to the Israeli occupying authorities "can be estimated after 19 years of occupation at a conservative figure of \$700 million."<sup>139</sup> The *New York Times* said January 5, 1986, that "the Israeli occupation has been beneficial [for Israel], providing a protected market for

Israeli goods and a pool of cheap labor. Yet, the occupation does not constitute even a fiscal burden on the Israeli treasury. On the contrary, Palestinians contribute large sums of money to Israeli expenditure.’’<sup>140</sup>

## FINANCIAL NEED AND U.S. AID

Foreign capital transferred to Israel during the 1950s and 1960s averaged some \$2 billion annually, most of which came as contributions from the world Jewry, the sale of Israel bonds, and German reparations and development loans. During the 1970s, however, due primarily to Israel’s expanded military and the sharp rise in oil prices, Israel’s need for foreign capital was doubled, exceeding \$4 billion a year. By the end of the decade, Israel’s foreign debt amounted to some \$20 billion despite about \$6 billion received in military and economic grants from the U.S. The 1980s witnessed a substantial surge in Israel’s annual financial requirements; foreign debt exceeded \$29 billion. A stagnating economy, a high inflation rate, rising military expenditure, and rising living standards pushed Israel’s need for foreign capital beyond the \$6 billion annually, about 75 percent of which came from the U.S. In fact, some observers believe that total U.S. aid to Israel, direct and indirect, official and private, is valued today at more than \$10 billion a year.<sup>141</sup>

From 1949 through 1965, official aid to Israel averaged about 63 million per year, over 95 percent of which was in the form of economic development assistance and food aid. Between 1966 and 1970, average annual aid increased to about \$102 million per year, but economic assistance declined to about \$27 million per year, or less than 27 percent of the total. In 1971, economic assistance changed from specific programs, such as agricultural development, to the Commodity Import Program. This program, which was designed to help aid recipients purchase American goods, was terminated in 1979.

By the mid 1970s, it became evident that Israel could no longer meet its balance-of-payments and budget deficits with foreign financial aid alone. Consequently, it began to rely more heavily on borrowed capital from foreign sources and on U.S. financial assistance. For example, U.S. economic assistance, which averaged about \$90 million per year between 1972 and 1974, averaged \$670 million per year between 1975 and 1978. In 1979, U.S. economic assistance approached \$800 million, and became, to a large extent, unconditional direct cash transfer for budgetary support.<sup>142</sup>

In 1976, Israel became the largest annual recipient of U.S. aid. Economic assistance extended to Israel during that year exceeded \$780 million, of which \$525 million, or 66 percent, was given as a grant. As of 1981, however, all U.S. economic assistance to Israel had become an outright grant that need not be repaid.

Foreign borrowing caused Israel’s foreign debt servicing to grow rapidly, and therefore provided little relief. In fact, it helped solve Israel’s short-term budget and balance-of-payments deficits by creating long-term financial obligations be-

yond Israel's capacity to repay. The U.S. government consequently was asked again to increase its economic and military aid and provide Israel with more grants and less loans. Economic grants which averaged some \$490 million per year between 1975 and 1980, exceeded \$800 million in 1982 and approached \$2 billion in 1985 and 1986.

Table 18 provides detailed information concerning U.S. economic assistance to Israel since 1949.

As table 18 reveals, economic assistance to Israel remained modest until 1974, and loans represented about 60 percent of the total. In 1975, aid was increased by about 700 percent in one year, and almost 98 percent of the total was given as a grant. In 1976, economic aid was again increased by more than 120 percent and the total exceeded \$780 million; of which more than two-thirds was given as a grant. Since 1975, moreover, economic assistance has been a cash transfer, and therefore has not been linked to specific programs, commodity imports, or development projects as in the case of most other aid-recipient countries.<sup>143</sup>

In the last four fiscal years (1985–88), annual aid reached \$1.2 billion per year, all of which was extended as a grant.

However, due to a supplemental aid package necessitated by Israel's deteriorating financial position, total cash transfers given to Israel over the last four years (1985–88) have in fact exceeded \$6.3 billion. Of the more than \$15 billion given to Israel in the form of economic assistance since 1949, about 86 percent was in the form of grant cash transfers.

In addition to the above, Israel has been receiving substantial amounts of financial aid and other forms of direct economic assistance from the U.S. government. In 1978, for example, the Government Accounting Office (GAO) found hundreds of millions of dollars transferred to Israel via channels not included in the annual foreign aid appropriation bills. *Middle East Magazine*, citing the 1978 GAO study, detailed the following:<sup>144</sup>

- \$55 million water desalinization project;
- \$100 million to set up three U.S.-Israeli binational research foundations in Israel;
- \$40 million in grants to Israeli universities and hospitals from the American Schools and Hospitals Abroad program;
- \$120 million in contributions to the resettlement of Soviet Jews in Israel;
- \$29 million in debt cancellation to Israeli institutions.

Other forms of economic and financial assistance to Israel included granting some 2,700 Israeli products import privileges to the U.S. duty free, allowing Israel to purchase obsolete military equipment at extremely low prices, most of which Israel resold to third parties, and much more. In 1979, for example, Israel was granted \$2.2 billion specifically appropriated for the withdrawal of Israeli military forces from the Sinai. Since Israel had to abandon an air base in the Egyptian desert, Israel requested U.S. help to build two air bases in the Negev.

Table 18

## U.S. Economic Assistance to Israel, FY 1949-88 (dollars in millions)

<u>Year</u>	<u>Loan</u>	<u>Grant</u>	<u>Total</u>
1949	--	--	--
1950	--	--	--
1951	--	.1	.1
1952	--	86.4	86.4
1953	--	73.6	73.6
1954	--	74.7	74.7
1955	30.8	21.9	52.7
1956	35.2	15.6	50.8
1957	21.8	19.1	40.9
1958	49.9	11.3	61.2
1959	39.0	10.9	49.9
1960	45.8	9.4	55.2
1961	38.6	9.5	48.1
1962	68.8	1.9	70.7
1963	61.8	1.6	63.4
1964	36.6	.4	37.0
1965	48.3	.5	48.8
1966	35.9	.9	36.8
1967	5.5	.6	6.1
1968	51.3	.5	51.8
1969	36.1	.6	36.7
1970	40.7	.4	41.1
1971	55.5	.3	55.8
1972	53.8	50.4	104.2
1973	59.4	50.4	109.8
1974	--	51.5	51.5
1975	8.6	344.5	353.1
1976	257.0	525.0	782.0
1977	252.0	490.0	742.0
1978	266.8	525.0	791.8
1979	265.1	525.0	790.1
1980	261.0	525.0	786.0
1981	--	764.0	764.0
1982	--	806.0	806.0
1983	--	785.0	785.0
1984	--	910.0	910.0
1985	--	1,950.0	1,950.0
1986*	--	1,950.0	1,950.0
1987	--	1,200.0	1,200.0
1988	--	1,200.0	1,200.0
<b>Total:</b>	<b>2,136.3</b>	<b>12,992.0</b>	<b>15,128.3</b>

Sources: Compiled from: *The Israeli Economy*, Congressional Research Service, 1986, p. 24; *Israel: U.S. Foreign Aid Facts*, Congressional Research Service, 1986, pp. 11-16; House, *Foreign Assistance and Related Programs Appropriations Bill, 1987*.

\*Includes supplemental aid, and does not include aid to refugee resettlement programs and Israeli universities.

The U.S. Corps of Engineers built the most sophisticated air bases ever, costing about \$1.1 billion. After the completion of the project, Israel received excess supplies, building materials, and construction equipment valued, according to the GAO, at \$172 million, free of charge.<sup>145</sup>

Following the conclusion of the U.S.-Israel strategic cooperation agreement in late 1983, President Reagan made a commitment to bolster Israel's faltering economy. Economic aid, as a result, increased from \$910 million in FY 1984 to \$1.2 billion in FY 1985. In addition, a Free Trade Area (FTA) was to be negotiated between the U.S. and Israel. The FTA, which was concluded in 1985, allows all Israeli-made products to enter the U.S. duty free. Yitzhak Shamir, Israel's prime minister, was reported to have told his cabinet that "once operative, the FTA could increase annual Israeli exports to the U.S. by as much as 30 percent."<sup>146</sup>

While Israel was receiving over \$1.2 billion in economic aid and other subsidies worth hundreds of millions of dollars more each year, U.S. aid to the world's poorest countries continued to be insignificant. In fact, as U.S. military and economic aid to Israel increased, aid to most other countries declined. The Reagan administration's emphasis on security rather than development assistance, and the Congress' resistance to allocating more funds to the foreign assistance program while insisting on a higher allocation to Israel, served to deny poorer countries the opportunity to get the assistance they badly needed. Since the foreign assistance program has no constituency in the U.S., and because Israel has demonstrated its ability to get all the aid it asks for, many observers continue to believe that without aid to Israel there would be no foreign aid bill at all.<sup>147</sup>

As table 19 indicates, Israel is the largest and the richest U.S. economic-aid-recipient state in the world; Egypt is the second largest aid recipient as well as one of the poorest. Chad, the poorest country in the world, gets the least U.S. aid in absolute terms.

While Israel received about \$488 per person in U.S. economic aid, Chad received less than \$2 per person. Bangladesh, the second poorest country in the world and one of the most highly populated, received less than \$1 per person in U.S. economic aid. Morocco, the Philippines, and Turkey, three of the U.S.'s closest allies, received \$1.55, \$2.73, and \$2.57 per person respectively. Egypt received about \$23.28 per person, or less than 5 percent of the per capita economic aid given to Israel. Yet despite such massive assistance, in the early 1980s the Israeli economy faced multiple domestic and international problems. A stagnant domestic economy, sustained high-spending levels on social services and military adventures, mounting foreign debt servicing, low productivity, and high inflation combined with a worldwide recession to push the Israeli economy into a serious crisis.<sup>148</sup> The U.S. government was asked to rescue Israel from certain disaster; Congress responded with more money and more grants with no strings attached.

For example, in 1984 the Reagan administration proposed converting all U.S.

**Table 19**  
**Per Capita Economic Aid to Israel as Compared to U.S. Economic Aid Given to Some of the World's Poorest Nations**

Country	GNP Per Capita (1983)	Economic Aid (1986) (in millions)	Population (1983) (in millions)	Aid Per Capita
Chad	\$ 80	\$ 8.79	\$ 4.6	\$ 1.9
Bangladesh	130	75.0	92.9	0.81
Zaire	160	29.62	30.7	0.96
Nepal	170	14.40	15.4	0.94
Somalia	250	36.78	4.5	8.17
India	260	75.00	717.0	0.10
Haiti	320	25.13	5.2	4.83
Kenya	340	35.20	18.1	1.94
Pakistan	390	263.25	87.1	3.02
Sudan	400	87.81	20.2	4.35
Liberia	470	43.38	2.0	21.69
Bolivia	510	23.65	5.9	4.01
Yemen	510	23.00	7.5	3.07
Honduras	670	104.46	4.0	26.12
Egypt	700	1,031.38	44.3	23.28
Morocco	750	31.48	20.3	1.55
Philippines	760	138.51	50.7	2.73
Turkey	1,230	119.63	46.5	2.57
Tunisia	1,230	19.14	6.7	2.86
Israel	5,360	1,950,000	4.0	487.5

*Note:* World Development Record, World Bank, 1984, pp. 218-19.

*Source:* Senate, Foreign Assistance Aid and Related Programs Bill, 1987, pp. 17-19.

aid to Israel into a grant—a proposal the Congress promptly approved. Congress decided in the same year to adopt an amendment proposed by Senator John Glenn to deliver aid to Israel at the beginning of each fiscal year, rather than to disburse it in four equal quarterly installments as is the case with all other aid-recipient countries. This practice, called front-loading, requires the U.S. Treasury to borrow the funds it gives Israel and incur extra tens of millions of dollars in added interest charges, which the American taxpayer ends up paying in higher taxes. Front-loading has enabled Israel to invest the funds it did not immediately spend and enjoy the income they generate.

It must be noted that in 1982 Treasury Secretary Donald Regan denied Israel's request that the U.S. release \$713 million in a lump sum cash transfer so that Israel could place the funds in an interest-bearing account.<sup>149</sup> The Israeli request was approved two years later; evidently, what Israel can not get from the U.S. government on its own, it can get with the help of the U.S. Congress.

As a result, annual economic aid of \$1.2 billion, which has been given to Israel for the last four years, has been delivered on or before October 30 of the previous year. According to congressional estimates, FY 1986 economic aid, which Israel received on October 30, 1985, increased the U.S. Treasury's cost

of borrowing the funds by \$66 million.<sup>150</sup> While Israel enjoyed having \$1.2 billion at its disposal at the beginning of the fiscal year to spend or to invest, the U.S. had to borrow the same funds at rather high interest rates. The \$66 million therefore, represents a hidden cost that is being incurred by the U.S. Treasury year after year and added to the federal debt.

In 1985, the Israeli government requested a huge supplemental aid package to save its treasury from bankruptcy. Israelis argued that without a fresh and substantial dose of financial assistance Israel would not be able to meet its financial obligations. To avert a possible collapse of the Israeli economy, the Reagan administration took two extraordinary measures: granting Israel a \$1.5 billion supplemental aid package and forming a U.S.-Israel joint economic committee to help restructure Israel's economy.

Secretary Shultz, who wholeheartedly supported the Israeli request, asked Congress nonetheless "to wait until Israel had put in place economic reforms before boosting funding. Eager House members, however, began making it up any way. . . . In voting for the emergency aid boost, Congress instructed the Administration to spend it before all of Israel's reforms were in place."<sup>151</sup> In doing so, Congress denied the U.S. government the financial leverage it would have had to effect the necessary economic changes in Israel, and therefore gave Israel no incentive to implement badly needed but unpopular economic reforms.

Jack Kemp, known as one of the most conservative members of Congress, is also known as one of Israel's staunchest supporters in Washington. While he has always supported the administration's plans to reduce government spending and balance the federal budget, he has resisted the administration's efforts to use foreign assistance to induce the Israeli government to balance its own budget. In 1984, Kemp said that he did not believe that the U.S. should link additional aid to Israel's commitment to engage in "stringent budget-balancing."<sup>152</sup>

On December 9, 1986, President Reagan signed a memorandum reducing interest rates on outstanding U.S. military loans to Israel. "American economists predict that Israel will save about \$200 million in interest payments to the United States during the 1987 fiscal year. In the next three fiscal years, they estimate that Israel will save some \$300 million annually."<sup>153</sup>

Because Israel has failed to implement the economic measures deemed necessary to revitalize its economy, U.S. financial aid—regular, supplementary, and interest rate relief, as chapter 10 explains—has been reduced to a stabilization factor rather than a force of growth and development.

Israel's economic and financial problems have been the result of a political strategy aimed at maintaining occupation of Arab land and a socioeconomic strategy intended to sustain an artificially high standard of living to attract more Jewish immigrants. By increasing aid levels without conditions, the U.S. government and the American Congress have, in effect, committed themselves to underwriting the cost of Israel's strategy, thus enabling Israel to continue its military adventures and at the same time live beyond its economic means. The price of this commitment has been high in both economic and political terms;



it has also meant forcing U.S. taxpayers to pay for Israel's mistakes, whims, adventures, and fantasies.

## ROLE OF ECONOMIC AID

U.S. economic assistance has helped Israel in four major ways. It has:

- a. Enabled the Israeli government to meet its foreign financial obligations, notably debt-servicing payments, while placing no additional pressure on Israel's foreign currency reserves or export earnings;
- b. Allowed the Israeli economy to maintain sufficient credit worthiness, and, therefore, borrow from the international financial market the funds needed to finance short-term and balance-of-payment deficits;
- c. Freed an equivalent amount of Israeli money to be used for other economic, political, and military purposes; and
- d. Made it possible for the Israeli government to overcome several financial shocks, while at the same time continue to raise the standard of living of its Jewish population.

Since Israel's balance of payments has consistently shown a deficit, earnings from exports have always fallen short of Israel's foreign currency requirements. Servicing an estimated \$32 billion foreign debt, and financing an ever-rising import bill, have forced the government to rely heavily on foreign aid. In fact, without aid money neither imports nor exports would have been sustained at current levels, because aid money provides the funds needed to subsidize exports and partially finance the imports bill.

Since Israel carries the highest per capita foreign debt in the world, it emerged in the 1980s as one of the world's least credit-worthy countries. Without U.S. aid and the conversion of all economic assistance to a cash transfer, Israel's ability to borrow would have been completely exhausted. Israel's financial standing as a borrower today is determined to a large extent by the amount of U.S. aid, which acts as collateral for Israeli loans from abroad,<sup>154</sup> according to the Israeli economist, Assaf Razin.

Israel's mounting foreign debt and the deterioration of its ability to service that debt necessitated the conversion of U.S. economic aid to cash transfer in the late 1970s. In fact, most of the \$1.2 billion in economic aid, which Israel has been receiving annually, has been used to service previous military debt, which otherwise would have to come from the military budget. In addition, economic aid has enabled the Israeli government to continue its policy of building Jewish settlements in the "occupied territories"; an act considered "illegal" by all previous U.S. administrations and other foreign governments and international bodies. The *Detroit Free Press* reported in 1983 that it "found that the settlements probably would not exist without indirect U.S. subsidies, which involve both public money and tax deductible private money."<sup>155</sup> While no U.S. aid money goes directly to those settlements, U.S. dollars given to Israel year after year

free Israeli money to be used for building more settlements. The cost to Israel of maintaining this policy has been estimated at \$400 million a year.<sup>156</sup>

In the 1970s, and again in the early 1980s, Israel faced serious financial problems. While the October War of 1973 gave rise to substantial income losses and spending increases, the energy shocks of 1973–74 and 1979–80 had a negative impact on Israel's economy and its foreign currency reserves. Between 1980 and 1985, moreover, Israel's exports declined relative to its imports and, as a result, its ability to maintain current production and consumption levels was in serious jeopardy. American aid, which continued to rise year after year during that period, enabled the Israeli economy to survive those shocks. At the same time it enabled Israel to continue to raise its population's standard of living, which rose 70 percent between 1973 and 1983.<sup>157</sup>

These higher standards, however, were attained because Israel was able to save less, import more, and raise enough foreign aid and loans to finance the deficits. Yitzhak Modai, a former Israeli finance minister, said: "The prosperity of the last seven years [the Likud years] was not real. People had a high standard of living at the expense of future generations or someone else outside of Israel, for instance the American people or Jewish people around the world. To live at the expense of someone else is easy; it happens with individuals and it can happen with states."<sup>158</sup>

Israel today is heavily dependent on U.S. financial and technological aid. The Israeli economy is distinguished by both the intensity and the persistence of its dependency on external financial resources. U.S. aid in the form of grants, concessionary finance, technology transfer, commercial borrowing, and preferential treatment of exports now amounts to more than \$2,000 per person per year, the highest in the world, possibly in history, and unsustainable in the long run. "Simply put were U.S. aid to Israel cancelled, Israel would be bankrupt, and its economy would collapse."<sup>159</sup>

# 7

## Private Assistance

Since the early 1970s, the U.S. has become the largest single source of financial assistance to Israel's troubled economy and increasingly militarized society. Such assistance has been provided by the U.S. government and by the many Jewish and non-Jewish American organizations committed to helping Israel. However, American aid, which enabled Israel to maintain a viable economy and a strong army, made the survival of Israel and the continued strength of its military a function of U.S. assistance.

Jewish charitable organizations operating in the U.S. and in Israel have been used as instruments to raise funds and create vehicles to channel them into Israel. The number of tax-exempt Jewish American organizations which operate in the U.S. and play an active role in raising funds for Israel exceeded two hundred in 1986. In addition, Israeli organizations that qualify for tax exemption in Israel automatically qualify for tax exemption in the U.S.; many of them have been active participants in raising American funds for Israel.

Israeli and American Jewish charitable organizations emerged in the 1970s as the second largest source of financial aid to Israel after the government of the United States. Funds they have raised have been used to finance development projects, support Israeli universities and hospitals, underwrite the cost of recruiting and resettling new Jewish immigrants in Israel, and support religious and social institutions. The Jewish National Fund (JNF), for example, has been used exclusively for purchasing land in Palestine from its Arab owners and, therefore, has played a pivotal role in facilitating the expansion and legitimization of the Jewish state. Funds raised by the sale of Israel bonds, on the other hand, have been used to finance the building of roads and the construction of other infrastructure projects.

Being large in volume, private funds have given the Israeli government added

flexibility, allowing the direction of a significant portion of its financial resources to the huge military budget and related activities. In addition, such funds have been a steady and reliable source of hard currencies, thus helping Israel to service its foreign debt and maintain adequate credit worthiness. By assuming the responsibilities for financing major developmental, educational, and social activities, private contributions raised in the U.S. also “free funds for major items in Israel’s regular budget, including military expenditures, while preserving the technically correct claim that American Jewish contributions to Israel are solely for humanitarian and developmental purposes.”<sup>160</sup> In fact, some of the funds raised by U.S. charitable organizations have been used to finance activities considered illegal under the charter of tax-exempt organizations.

“Charles Fischbein, long-time Washington Executive Director of the Jewish National Fund, was shocked when Israelis proudly told him that tractors bought with tax-exempt funds he had raised in the U.S. had been diverted from Israeli farmers by the IDF [Israeli Defense Forces] to bulldoze through bombed Lebanese villages and open the way for invading Israeli tanks.”<sup>161</sup> Many of the settlements built using private funds, moreover, have been designated as military and paramilitary outposts to strengthen Israel’s army and justify the confiscation of Arab land. The Jewish National Fund operations were, in fact, expanded in 1967 to include East Jerusalem, the West Bank, the Gaza Strip, and the Golan Heights. Rabbi William Berkowitz, president of the JNF, proclaimed in 1981 that “the JNF is also creating historic conditions, establishing strategic realities and forming geopolitical security certainties.”<sup>162</sup>

The use of Jewish American contributions for military purposes, however, goes back to the 1940s before the Jewish state was created. After the partition of Palestine by the United Nations in 1947, Golda Meir, who later became an Israeli prime minister, was dispatched to the U.S. for the purpose of raising funds for the Jewish groups fighting the Palestinians and the British at the time. During her tour of the U.S., she told potential donors that money was needed to fight the Arabs. Golda Meir wrote in her autobiography, “By the time I came back to Palestine in March [1948], I had raised \$50 million, which was turned over at once for the Haganah’s secret purchases of arms in Europe.”<sup>163</sup>

Jewish Americans contribute to Israel about \$2 billion a year for a variety of programs and in support of certain economic and military policies.<sup>164</sup> During the invasion of Lebanon in the summer of 1982, for example, Yoram Aridor, Israel’s finance minister, met with Jewish leaders in charge of selling Israeli bonds in the U.S. and asked them to raise \$100 million from the Jews abroad. He claimed that the money was needed to defray some of the economic cost of Israel’s war in Lebanon. In July 1982, during a special luncheon in New York for Menachem Begin, Israel’s prime minister, \$35 million was raised to meet some of Israel’s urgent military needs emanating from that invasion.<sup>165</sup> Other tax-deductible contributions have been a steady source of income for Israel and have helped support Israel’s war efforts, development programs, and political as well as demographic policies.

Private American assistance to Israel is obtained through three major channels:

- a. Private individuals;
- b. Private institutions; and
- c. The sale of the State of Israel bonds.

## PRIVATE INDIVIDUALS

Affinity with Israel motivates Jewish Americans to help the state in many ways. Private individuals play a crucial role in Israel's achievement of its economic, financial, and political objectives in Israel as well as in the U.S. Jewish Americans occupying sensitive positions in the U.S. administration, primarily in the Defense Department, the State Department, the CIA, and the National Security Council, facilitate Israel's access to U.S. military technology, intelligence, and other sensitive information. Morris Amitay, former advisor to Senator Abraham Ribicoff and director of AIPAC, said that "there are now a lot of guys at the working level up here who happen to be Jewish, who are willing to make a little bit of extra effort and to look at certain issues in terms of their Jewishness."<sup>166</sup> In 1979, the CIA stated in a report entitled "Israel: Foreign Intelligence and Security Services" that "the Israeli intelligence service depends heavily on the various Jewish communities and organizations abroad for recruiting agents."<sup>167</sup>

Jonathan Jay Pollard was one of those American Jews who tried "to make a little bit of extra effort and look at certain issues in terms of his Jewishness." In 1984, Pollard was recruited by Israeli intelligence officers to spy on the U.S. The extra effort he was asked to make, however, turned out to be treasonable. On March 4, 1987, Pollard was found guilty of espionage and was sentenced to a life term in prison. His wife, Anne Henderson Pollard, who had helped him carry out his espionage activities, received two concurrent five-year terms.<sup>168</sup>

The Pollard espionage case was so extensive it involved delivering to Israel more than one thousand documents of top U.S. military secrets. Secretary of Defense Weinberger described that case as causing "very serious damage to U.S. interests."<sup>169</sup> Documents Pollard delivered to Israel involved information related to American military technology, strength of U.S. forces in most parts of the world, and methods used by the U.S. to spy on the Soviet Union. Since Israel has no use for most of this information, questions were raised concerning Israel's real intentions. Some analysts held the view that Israel might be tempted to trade such sensitive information with the "real" enemies of the U.S. such as the Soviet Union.

The Pollard spying case raised anew the question of double loyalty. Apologists among Israel's supporters in the U.S., who see Israel as the state that can do no wrong, tried to justify the Pollard activities. They claimed that the Pollards were spying "in the U.S." and not "on the U.S.," and therefore their activities caused no real damage to U.S. interests. Other American Jews, fearing a backlash of anti-Semitism, refuted the apologists' reasoning and rejected the notion of double loyalty.

Zionists have always tried to implant “double loyalty” in the hearts and minds of Jews living outside Israel. Nahum Goldman, a former president of the World Zionist Organization, declared in Jerusalem on February 3, 1975, that Jews “should fight for the recognition of double loyalties.” He also added that “Jews should support Israel against the views of the states in which we live” when conflict between the views of those states and Israel arises.<sup>170</sup> As a result, Zionists were able to mobilize an important segment of the American Jewish community to use its substantial resources, political and otherwise, to bend U.S. foreign policy to Israel’s desire. The Iran-contra affair, which caused great damage to the credibility of the U.S. abroad and the American presidency at home, was instigated by Israel and its agents in the U.S. The Tower Commission, which investigated the affair, reported that Israel promoted U.S. arms sales to Iran, in pursuance of “its own interests, some in direct conflict with those of the United States.”

To many Jews in America, especially those who passionately support Israel and suppress criticism of its actions, the U.S. is a vehicle to serve a cause; Israel is the only cause they care and struggle to serve. In 1984, for example, the Zionists of America, led by AIPAC, mobilized their forces from coast to coast to defeat Senator Charles Percy who served at the time as chairman of the powerful Senate Foreign Relations Committee. Michael Goland, a Jewish businessman from California, spent an estimated \$1.2–1.6 million of his own money to ensure the defeat of Charles Percy’s bid for reelection to the U.S. Senate.<sup>171</sup> In 1986, Michael Goland was invited to Congress to be introduced to those senators and congressmen whose support for Israeli policies was in question. Senator Rudy Boschwitz, one of Israel’s staunchest supporters in the Senate, introduced Goland to those senators and congressmen who were running for reelection, a reminder of the role Goland had played in 1984 to ensure the defeat of Charles Percy.

Other prominent Jewish Americans in the media spare no effort in defending Israel’s policies and justifying its requests for more aid and closer U.S.-Israeli strategic cooperation. They work tirelessly to promote Israel and propagate its point of view. They tend, at the same time, to deny the opposing point of view exposure, thus denying the American people an opportunity to learn facts that have a significant impact on their economic, as well as political, future. Money, political influence, media connections, and intimidation have been among the methods used by Jewish Americans to influence the political process in the U.S. in a manner conducive to achieving Israel’s objectives.

Since the creation of Israel in 1948, about 50,000 Jewish Americans have emigrated to Israel, and more than 350,000 Israelis have emigrated to the U.S. Remittances and family support sent by Israelis living in the U.S. to Israel is probably between \$300–350 million a year. A similar number of Jordanians living in the Arab Gulf states send about \$2.5 billion a year back to Jordan in remittances. In addition, more than 400,000 American adults, primarily Jewish, visit Israel alone or with their children, and, in the process, transfer to Israel

hundreds of millions of dollars each year. American tourists, who play a vital role in promoting Israel and helping build its confidence, also contribute to reducing its chronic balance-of-payments deficit.

The financial contributions of private Jewish Americans are multifaceted and very large in volume. While some businessmen have invested significant amounts of money in Israel's industry, others have committed time and effort to promoting Israeli products in the U.S. Others have deposited billions of dollars in Israeli-owned banks in the U.S. and Israel, thus giving the Israeli government access to such deposits.

In 1968, for example, an investment conference was held in Jerusalem and some five hundred Jewish businessmen attended. The conferees reviewed Israel's economic situation and made important recommendations and commitments to help the Jewish state solve its economic and financial problems. Participants pledged, among other things:<sup>172</sup>

- a. To help develop a market for Israeli products in their respective countries;
- b. To facilitate subcontracts abroad for Israeli manufacturers;
- c. To help Israel export engineering, scientific, and technological services; and
- d. To recruit able managerial, merchandising, and technological staff for Israeli enterprises.

In 1965, the U.S. and Israel concluded a treaty to eliminate double taxation and to grant American investment in Israel tax relief. American corporations and individuals began, as a result, to invest in Israel's economy. While American direct investment in the Israeli economy has been rather modest in terms of Israel's needs, it represents about 55 percent of the total foreign investment in Israel. In addition, it plays an important role in the development of Israel's military and electronics industries and export-oriented products and services.

Between 1948 and 1977, private individuals have given Israel or invested directly in its economy about \$3.3 billion,<sup>173</sup> an average of \$114 million a year. Over the last ten years (1977–87), however, due to Israel's growing financial needs and to the larger number of Israelis living in the U.S., money transfers by private individuals to Israel have increased substantially. Individual donations, remittances, and family support are today about \$350–400 million a year. Contributions extended to Israel between 1947 and 1987 by private Jewish Americans are estimated at \$6.5–7 billion. When American tourism is added to this figure, it would certainly exceed \$12 billion.

## PRIVATE INSTITUTIONS

Jewish and non-Jewish American organizations that contribute financially to Israel are numerous; while some are large and support a variety of programs, others are small and confine their activities to supporting one project. Organi-

zations that pursue different objectives are usually linked to a few Israeli institutions and coordinate their activities with the Israeli government. Organizations that pursue a single objective are usually linked to one Israeli institution and conduct their business without much coordination with the Israeli authorities.

While financial contributions made by the one-purpose organizations are relatively small, such contributions are valuable in terms of the support they provide to the many universities, hospitals, and other charitable, social, and educational organizations in Israel. Israel's seven universities, for example, have "American friends" groups that raise money for budgetary support and endowments. "The American Friends of the Hebrew University alone has sent more than \$25 million to the school in Jerusalem. The Jewish women's group, Hadassah, spends \$20 million on aid for a group of hospitals in Israel, and another \$12 million goes to plant trees and reclaim land in projects sponsored by the Jewish National Fund."<sup>174</sup>

Large organizations that operate in the U.S. and raise funds from Jewish and non-Jewish Americans for Israel are few. Nonetheless, they provide Israel with more than \$400 million a year in tax-deductible contributions. The major organizations raising funds for Israel in the U.S. include the following:<sup>175</sup>

### **United Jewish Appeal (UJA)**

The UJA was established in 1939 and, since its inception, has been the principal American Jewish fund-raising organization. The UJA is registered with the Internal Revenue Service (IRS) as a not-for-profit organization, and therefore contributions to the UJA are tax deductible. In 1980, the UJA-Federation Central Campaign raised \$508 million; in 1982, it raised \$567 million, and its goal for 1983 was to raise \$800 million. The UJA allotment of the funds raised by the UJA Central Campaign has been about two-thirds, most of which ends up in Israel. In fact, out of the \$508 million raised in 1980, Israel received \$261 million, or about 51 percent.<sup>176</sup>

During the period of 1967–78, the central campaign raised more than \$4.7 billion, of which the UJA's allocation was about \$3.2 billion, approximately 67 percent of the total.<sup>177</sup> Since the campaign's average income increased to more than \$600 million a year in the 1980s, the total raised by such campaigns between 1948 and 1987 is estimated at about \$17 billion: \$6 billion in 1948–67; \$4.7 billion in 1967–78; and \$6 billion in 1978–87. Of this total, some \$9 billion has been given to Israel.

Funds raised by the UJA usually reach Israel through the Jewish Agency for Israel and its affiliates and are used to support all Israeli institutions that, according to the agency's charter, "recognize and support the State of Israel as the existing national homeland of the Jewish people."<sup>178</sup> Yet many of the aid-recipient Israeli institutions are located in the new Jewish settlements which were illegally built on the Arab land that Israel occupied in 1967. As a result, tax-deductible contributions raised by the UJA in the U.S. end up being used to



support illegal activities and thus contribute to reducing the chances for real peace in the Middle East.

Raanan Weitz, retired chairman of the Jewish Agency Settlement Department, said in an interview with the Israeli *Moment Magazine* that “U.S. law prohibits the use of American Jewish money in the territories. But American Jews tolerated the establishment of a separate World Zionist Organization Settlement Department that could devote Israeli funds to the West Bank—funds that would not be available were it not for American UJA money making up the shortfall, a legal fiction, in other words. It encouraged Begin and Sharon to divert money we could not afford. And the American government was just as inconsistent. They oppose the occupation, but instead of enforcing this view by applying pressure, as they have a right to do, they keep granting massive aid.” Professor Raanan goes on to say: “Building these colonies is merely an episode, a false turn and a tragic mistake, but an episode nonetheless. And one day it will all vanish. . . . The Likud-sponsored settlement projects are totally unplanned, unviable, and not only do not enhance our self-determination, they are done at the expense of the self-determination of others.”<sup>179</sup>

### United Israel Appeal (UIA)

The UIA acts as a link between the American Jewish community and the Jewish Agency for Israel, which supervises the flow and expenditure of funds for the purpose of Jewish emigration and resettlement in Israel. While the UIA receives most of its funds from the United Jewish Appeal, it has, since 1971, been receiving support from the U.S. government. Between 1971 and 1987, U.S. official funds received by the UIA exceeded \$300 million, almost all of which has been appropriated for the resettlement of Soviet Jews in Israel.

The Jewish agency has so much power in Israel that it acts as a state within a state. While it acts as the international arm of the Israeli government abroad, especially in the area of recruiting new Jewish immigrants, it acts within Israel as the official arm of the World Zionist Organization. The agency’s 1954 covenant, which regulates its relationship with the Israeli government, calls for “taxing the Diaspora,” a task the United Jewish Appeal has been performing in the U.S. for almost fifty years with remarkable success. The Jewish Agency for Israel, therefore, receives a good share of its revenues from the UJA and uses it in areas other than charity, such as immigration, agriculture, and finance, including the construction and maintenance of exclusively Jewish settlements in the occupied territories of the West Bank, the Gaza Strip, and the Golan Heights.

On June 16, 1987, the agency’s settlement department announced “that it had spent some \$600 million in the development of 152 settlements beyond the Green Line in the past 20 years.” Some \$400 million was spent in the Jordan rift, Gaza, and the Golan Heights, and the balance was spent in the West Bank.<sup>180</sup>

According to the *Economist Magazine*, the Jewish Agency for Israel spent, between 1967 and 1974, a total of \$2.1 billion for the absorption of an estimated

205,000 people in Israel,<sup>181</sup> for an average of 263 million a year. The agency's annual budget is about \$500 million, almost all of which comes as tax-deductible contributions from world Jewry. In addition, it has been recruiting highly skilled Jewish Americans to help develop Israel's struggling economy.

Other not-for-profit organizations, which operate in the U.S. and channel American tax-deductible contributions to Israel, include the American Jewish Joint Distribution Committee, the Jewish National Fund, the Israel Endowment Fund, and the New Israel Fund. The combined budget of these organizations is approximately \$75 million a year, about 20 percent of which comes from the U.S. government.

When funds raised by the approximately two hundred private Jewish organizations operating in the U.S. are totaled, contributions received by Israel since 1948 are about \$11 billion, of which more than three quarters has been contributed by the United Jewish Appeal.

### STATE OF ISRAEL BONDS ORGANIZATION (IBO)

The IBO was established in 1951 to raise large-scale investment funds for Israeli's economic development. The IBO operates in the U.S. through the American Financial Development Corporation for Israel, which is not a tax-exempt organization. Through the sale of Israel bonds in the U.S., Canada, Western Europe, and other parts of the world, IBO raises more than \$450 million a year. In 1981, sales totaled \$432 million.<sup>182</sup> The *Washington Post* reported in 1986 that, since its inception, the Israel Bonds Organization has raised "more than \$8 billion . . . about 80 percent of which is in the U.S."<sup>183</sup> In 1985, Americans invested about \$400 million in Israel bonds. On June 11, 1986, for example, about two hundred real estate developers and agents from the metropolitan Washington area pledged, during an Israel bonds luncheon, to buy \$2.4 million in bonds.<sup>184</sup>

Based on the figures above, it can be estimated that the total funds raised by the sale of Israel bonds worldwide between 1951 and 1987 approximates \$9 billion, of which some \$7 billion has been raised in the U.S.

American aid that reaches Israel through the numerous private channels is huge in volume and extremely important in terms of the task it performs. Between 1948 and 1987, private individuals contributed an estimated \$6.5 billion, private institutions \$11 billion, and the sale of Israel bonds another \$7 billion, for a total of \$24.5 billion.

In addition to the above sources, Israel managed to develop a new source of financial assistance that does not require much effort and involves little economic risk. Deposits placed with Israeli banks in Israel by U.S. citizens and by branches and subsidiaries of Israel-domiciled banks, mainly in New York State, have been providing Israel with foreign loans on easy terms. Such deposits have been increasing steadily, especially over the last few years. In 1984, the U.S. AID

Near East Bureau reported that Israel's private debt, including Israel's overseas bank liabilities, increased from \$5.8 billion in 1980 to \$8.5 billion in 1983.<sup>185</sup> Since most of the banks' overseas liabilities are foreign deposits in Israeli banks, this private source of assistance might have provided Israel with at least \$8 billion in easy loans over the past four decades.

When all funds obtained from the above-mentioned private sources are totaled, U.S. private aid to Israel since 1948 would be about \$32.5 billion. This total includes American deposits in Israeli banks, but excludes Israel's income from American tourists. On an annual basis, American private assistance to Israel today is about \$2 billion a year.

In 1983, Thomas Stauffer estimated the total flow of non-governmental U.S.-origin financial resources into Israel at about \$1.4 billion per year, of which some \$500 million represent tax losses to the U.S. Treasury because of the tax-deductible status of the charitable contributions.<sup>186</sup>

American private assistance is the second largest source of subsidy to Israel and the Israeli economy. The estimated \$32.5 billion in private contributions since 1948 comes at a minimum cost and with no strings attached. Since a good portion of these contributions is tax exempt, it comes out of the American taxpayer's pocket. While Israel is of special interest to most American Jews, who feel a duty to help assure its survival, American money sent to Israel is nonetheless money American consumers and investors lose forever. In addition, it is also possible that it is money that America's poor would have received had it not been transferred to Israel. Americans who help Israel export its products to the U.S. contribute, moreover, to unemployment, industrial decline, and increasing the U.S. trade and budget deficits.

In late 1985, for example, industrialist Max Fisher announced an ambitious project called Operation Independence, which would help Israel increase its exports and lessen its dependence on U.S. government aid.<sup>187</sup> The primary target of Israeli exports, however, has been the U.S. market, which continues to suffer from government-subsidized exports from many other countries as well as from Israel. This type of subsidized export has been a major cause of the unprecedented trade deficits in the U.S., which increased from \$69 billion in 1984 to \$148 billion in 1985 and to \$170 billion in 1986. The Operation Independence project will simply add more to these unhealthy deficits.

It must be remembered that the task of soliciting private funds for Israel and opening U.S. markets for Israeli products has been eased by the actions of the U.S. government. While the government approved the not-for-profit status of most Jewish and Zionist organizations, Congress enacted the legislation that enabled Israeli goods to penetrate American markets. In 1985, for example, President Reagan signed the Free Trade Area agreement with Israel, while Congress was moving quickly to exempt Israel bonds from the 1984 Deficit Reduction Act, which calls for taxing low-interest-bearing loans and bonds at the going federal rate of interest. Israel, as a result, became the first country to have a free

trade agreement with the U.S., and Israel bonds are the only bonds exempt from the Interest Equalization Tax which is being applied to all other foreign securities. Taxes on the actual interest received by bond holders are still applicable.

American aid to Israel, private and governmental, has been instrumental in helping the state maintain a functioning, though shaky, economy. At the same time, it has provided Israel with the funds, the technology, and the equipment to build and sustain a strong military power. But the massive amount of aid received from the U.S. has made Israel utterly dependent on continued foreign help. The World Bank has stated that the achievements of the Israeli economy would have been impossible without the large and continuous flow of foreign capital, both private and public.<sup>188</sup> Israel has been unique among the economies of the world in its consistent dependence for its very survival on a continuous inflow of foreign aid, primarily American.

The transfer of American funds to Israel, which amounts today to some \$6 billion a year, has been possible because of the role played by U.S. Jews in American life. The strong attachment of most American Jews to Israel, and the U.S. tolerance and sometimes encouragement of that attachment, has facilitated the flow of some \$2 billion a year of American private money to Israel. The pressure applied and the tactics employed by organized Jews in America have helped create the right combination of circumstances for the continued flow of more than \$3 billion a year of public money to Israel. Another \$1 billion represents concessionary and commercial loans extended by the U.S. and American banks to the Jewish state.

To many Jews in America, the welfare of Israel is a major priority; to most Jewish organizations in America, harnessing support for Israel is the only item on their agenda. Harry Hall, the American representative in Jerusalem of the Anti-Defamation League of B'Nai B'rith, said, "Israel is the religion for a lot of American Jews; Israel is the home team, and the members of the American Jewish community are the fans."<sup>189</sup>

Israel's loyal fans in America have been so strong in their commitment to Israel's real and perceived causes that they have not minded sidestepping the rules and, at times, breaking the law in order to support their favorite team and give it a glorious image. Yet it is an image that could not be maintained without constantly evading reality, distorting facts, and asking more of the fans. Jewish American support for Israel, in fact, has transformed the Jewish state into a vulnerable client-state that has little chance of surviving on its own.

## 8

# Other Grants and Subsidies

U.S. support for Israel extends beyond direct governmental and private transfer of financial resources, estimated at about \$6 billion a year. Other forms of assistance, though not as well publicized, are important. They play a crucial role in helping Israel develop its industrial and agricultural capacities, and in meeting its foreign currency needs. Measures which have been adopted by Congress and successive U.S. administrations continue to provide Israel with services, subsidies, and other grants worth billions of dollars a year. Such measures include:

1. Granting Israel an exception to the Arms Export Act to allow the Jewish state to use U.S. Foreign Military Sales grants for purchases from Israel's defense industries, and for supporting research and development of Israeli weapons, both in Israel and in the U.S.;
2. Granting Israelis free access to top U.S. military technology and intelligence;
3. Allowing Israeli contractors and manufacturers to compete with American firms, especially in NATO and Third World countries;
4. Purchasing Israeli-made military equipment for use by the U.S. Armed Forces;
5. Facilitating Israeli exports of military equipment to third parties;
6. FMS Offsets: American contractors selling military equipment to Israel were asked to offset some of the costs by buying components or other materials from Israel;
7. Including Israel in the Strategic Defense Initiative (SDI) research program;
8. Granting Israel a "major non-Nato" ally status;
9. Providing financial aid to enable Israel to launch its own foreign aid program in the Third World, and fund joint research projects between Israeli scientists and scientists from those countries;

10. Instructing most U.S. embassies, especially in Africa, to provide Israel with the help it needs to expand its political and economic influence, oftentimes at the expense of U.S. business interests;
11. Providing financial assistance to help Israel recruit and resettle new Jewish immigrants in Israel;
12. Direct investment by the U.S. government and many American corporations in Israel's economy;
13. Credit financing by the U.S. Export-Import Bank;
14. Commercial loans by U.S. banks; and
15. The establishment of a Free Trade Area agreement between the U.S. and Israel in 1985.

On December 22, 1970, a Master Defense Development Data Exchange Agreement was concluded between the U.S. and Israel. The agreement permits and facilitates the exchange of information important to the development of a full range of military systems including tanks, surveillance equipment, electronics warfare, air-to-air and air-to-surface weapons, and engineering. As of July 1982, nineteen separate data exchange annexes, which cover individual projects under the agreement, had been concluded.<sup>190</sup> While this agreement helped Israel develop its military industry, it made Israel's electronics and other related exports very much dependent on the U.S. and on its willingness to continue to provide the know-how needed to sustain the industry.

According to a GAO report, during 1981 and 1982 most of Israel's exports "contained an import component of about 36%. In Israel's fastest growing industry, the electronics field, about 35% of the knowledge is acquired from the United States in licensed production or technology transfer." The report maintains that "almost every Israeli arms production effort includes a U.S. input."<sup>191</sup> A State Department official added that "the U.S. has permitted Israel to co-produce U.S. defense equipment through licensed production at a higher level of technology than it has permitted any other FMS recipient."<sup>192</sup>

Between 1979 and 1987 several agreements and commitments were made in order to further develop Israel's military industry, enhance its technological base, facilitate Israeli exports of military equipment, and maintain closer military cooperation between Israel and the United States. A March 19, 1979, Memorandum of Agreement permits Israeli firms to bid on certain U.S. defense contracts, without Buy American Act restrictions, and facilitates cooperation in research and development between Israel and the U.S. Department of Defense. In April 1981, a commitment made by former Secretary of State Alexander Haig provided for the purchases of up to \$200 million a year of Israeli-made military equipment by the U.S. Department of Defense "to stimulate Israel's defense industry."<sup>193</sup> Later in the year, this commitment was made an integral part of the Memorandum of Understanding of Strategic Cooperation (MOU) which was signed on November 30, 1981. The MOU represents a major U.S. commitment

to enhancing Israel's military capabilities. It calls for expanding cooperation in research and development, promotion of reciprocal military procurement, expanding the 1970 data exchange program, the establishment of a Scientist and Engineer Exchange Program, logistical support of selected military equipment, and further enlarging Israel's access to bidding on Department of Defense requirements without the application of Buy American Act restrictions.

Following the announcement of Secretary Haig's commitment, an interagency Defense Trade Task Force was established to find ways and means to help Israel's military industry and strengthen its competitiveness. Some of the initiatives identified by the task force included:

- a. Authorizing Israel to use FMS credits for the procurement of Israeli-produced military equipment and systems for use by Israel's armed forces;
- b. Authorizing Israel to use FMS credits for the procurement of Israeli-produced industrial equipment to modernize Israeli plants, especially military related plants and facilities;
- c. Authorizing other aid-recipient countries to use FMS credits for the procurement of Israeli-made military equipment and systems;
- d. Facilitating the transfer of technical data from the U.S. to Israel;
- e. Developing more liberal technology transfer guidelines for Israel; and
- f. Helping Israel create a defense marketing organization.

FMS credits are normally used for purchases in the United States by those countries receiving U.S. military aid. Israel, however, was allowed to use FMS credits to purchase its own goods. The Senate Foreign Relations Committee set aside \$250 million of the total \$1.8 billion FMS grant for defense procurement from Israel in the FY 1986 foreign aid bill.<sup>194</sup> Other U.S. aid recipients were also allowed to use their FMS credits to purchase Israeli-made military equipment. The GAO reported in 1983 that "Israel has requested that the United States permit third countries to use U.S.-furnished FMS funds to purchase weapons and equipment from Israel." Opponents of this proposal, the report added, "say the third country sales would hurt U.S. arms industries competing with Israeli industries and that the United States would lose control over the kinds of weapons provided, the use of the weapons, and the transfer of weapons to other countries."<sup>195</sup>

In 1977, Israel obtained from the Carter administration permission to use \$107 million of that year's \$1 billion FMS funds to produce an Israeli-made tank, the Merkava. That request was considered a one-time exception at the time, but Israel later requested another \$50 million to expand its production capacity from 80 to 100 tanks a year.<sup>196</sup> Exceptions often become precedents: Ariel Sharon, Israel's defense minister in 1982, requested \$250 million per annum of Israel's FMS credits to be used for the production of the Merkava tank and the development of the Lavi aircraft and other military equipment in Israel. In 1983, Sharon's request was granted, and Congress added an amendment to the FY

**Table 20**  
**U.S. Funds Appropriated for the Lavi (dollars in millions)**

Year	To be Spent in Israel	To be Spent in U.S.	Total
1984	\$250	\$300	\$550
1985	250	150	400
1986	300	150	450
1987	<u>300</u>	<u>150</u>	<u>450</u>
TOTAL	1,100	750	1,850

*Source:* Compiled from Foreign Assistance Bills passed by Congress between 1985 and 1987.

1984 Continuing Appropriations (P.L. 98-151) that allowed Israel to spend \$250 million of the FMS funds in Israel and another \$300 million in the U.S. to develop its arms industry and to build the Lavi aircraft.

### THE LAVI AIRCRAFT

In April 1983, Moshe Arens, Israel's defense minister at the time, asked Representative Charles Wilson (D-Tex), who was visiting Israel, to sponsor legislation that would permit U.S. aid money to be spent in Israel on the Lavi. A few months later, Wilson asked the American Israel Public Affairs Committee to draft the language for the amendment. The amendment earmarked \$550 million of that year's \$1.7 billion military aid package for the development of the Lavi. Of that, \$300 million was to be spent in the U.S. and \$250 million in Israel.<sup>197</sup> The \$550 million, however, was \$150 million more than what Israel had originally requested. "Nevertheless, a Congress whose members appeared eager to respond positively to Israel's aid request approved the appropriation with virtually no questions. The only controversy was over who would get credit for it when it passed in November."<sup>198</sup> Congressman Wilson said that, "It was like a reverse paternity suit; everyone wanted to be the father of that amendment."<sup>199</sup> Between 1983 and 1987, Congress earmarked a total of \$1.85 billion for the development of the Lavi and other military equipment and systems. Of that total, \$1.1 billion, or 60 percent, was to be spent in Israel and \$750 million, or 40 percent, in the United States (see table 20).

Due to the high cost of producing the Lavi, many Israeli and American officials began to question the feasibility and rationality of producing such a high-cost aircraft in Israel. "If the Japanese can't do it and countries like Belgium and the Netherlands with much stronger economies can't do it," an Israeli aerospace analyst asked skeptically, "why would one suppose a country of four million people can produce a fighter economically?"<sup>200</sup>

According to a study prepared by the Congressional Research Service, "Israel



originally estimated the plane would cost \$7 million per copy; it has since revised that figure to \$15 million. The Pentagon, in a 300-page secret study, has concluded that the price will be \$22 million each."<sup>201</sup> The high cost of producing the plane has provoked much public debate in Washington and in Israel and encouraged many American and Israeli officials to question the project's feasibility. Even Israeli Defense Minister Yitzhak Rabin opposed the Lavi project on the grounds that it was too costly. However, he later changed his mind and supported the project when he learned that the U.S. would provide 99 percent of the projected cost over a ten-year period. On November 30, 1984, he said, "It is now clear to the U.S. Administration as well that it will actually have to bear 99 percent of the development and production costs for more than ten years."<sup>202</sup>

The *Jerusalem Post*, which estimated the total cost of the Lavi project at \$6.5 billion in 1982, reported in 1984 that the estimate had risen to \$9 billion. The CRS study reported that *Aviation Week* (February 10, 1986) estimated that the cost might be as high as \$16 billion.<sup>203</sup> Dor Zakheim, deputy U.S. undersecretary of defense, estimated the cost at \$12 billion. At a press conference held in Tel Aviv on January 7, 1987, Zakheim said that the Pentagon had estimated that the Lavi would cost 45 percent more than \$15.2 million per plane that Israel had projected.<sup>204</sup> The Pentagon study, which remains classified at Israel's request, "shows that the 'fly away' cost of the Lavi would be \$22 million rather than the \$15 million projected by Israel."<sup>205</sup>

Hirsh Goodman, defense correspondent for the *Jerusalem Post*, estimated the cost of producing 300 Lavis at a minimum of \$22 million each, and possibly as high as \$45 million, if only 150 of the aircraft are built. This, Goodman says, "is approximately four times the cost of America's super-sophisticated F-16C," which had been offered to Israel as an alternative.<sup>206</sup> As a result, opposition to the continuation of the Lavi project began to gain more strength in all branches of the army, including the air force. Chief of Staff Dan Shomron, for example, attacked the project as "too ambitious and too expensive for a country with Israel's resources."<sup>207</sup> On June 25, 1987, Michael Bruno, Bank of Israel governor, said that "on the basis of economic analysis, there is no justification whatsoever for continuing the [Lavi] project."<sup>208</sup> The state controller added that approval of the project was based on data that was "without basis, inadequate, tendentious and lacking proper cost estimates."<sup>209</sup>

Yet, the U.S. Congress continued to support the Lavi project with massive funds, rejecting all proposals to examine its feasibility. In fact, there was no real congressional debate until May 1984, when Representative Nick Joe Rahall introduced an amendment prohibiting the expenditures of FMS funds overseas. Rahall argued that this amendment "does not stop development of the Lavi jet fighter, it only stipulates that these funds be spent in the United States." Rahall also urged his colleagues "to stand up for the American worker" by not fostering overseas competition.<sup>210</sup> Representative Robert E. Badham, who was the only member to take the floor in support of Rahall, asked, "Are we going to subsidize

a new aerospace industry in a foreign country through FMS credits that are supposed to be used to buy American weapon systems made in America?’<sup>211</sup> Supporters of the amendment, who grounded their proposal on economic rather than political terms, could only garner 40 members out of 435; the Rahall amendment was resoundingly rejected.

In 1985, Representative Badham submitted an amendment requesting a study by the administration of the economic and security implications of the Lavi program. In introducing his amendment, Badham said, ‘‘there have been various opinions expressed in floor debate with respect to the financial, employment, trade and security implications of the Lavi program both as concerns the United States and as concerns Israel. But in two years, no House or Senate committee has ever held any in-depth hearings to address these issues, even though we are now to commit at least another \$800 million in U.S. funds to this program. The question must be raised, what this program is going to do, not to America, but for America, and not for Israel, but to Israel.’’<sup>212</sup> Representative Badham cited a Congressional Research Study that concluded that as many as twelve thousand jobs could be created in the United States if the entire FY 1986 and 1987 proposed authorization for the Lavi were spent in the U.S. He further said that ‘‘it is ironic that a Congress which two weeks ago added language to the fiscal year 1986 Department of Defense authorization bill to require American industry and the U.S. DOD to come up with facts, figures and statistics, on the efficiency and the efficacy of our own defense industry, should nevertheless insist on the expenditure of \$1.7 billion for a program on which there have been no hearings, and no definitive explanation as to how capable a plane the Lavi will be.’’<sup>213</sup> Representative Nick Joe Rahall was the only congressman to argue in favor of the Badham amendment. ‘‘I find it hard to vote to send U.S. tax dollars to any foreign country to build up their aerospace industry when this would come into direct competition with our own aerospace industry. Many American companies would be affected by the continuation of this practice and I feel that it is time the President undertook a study into the exact effects of this new policy concerning our foreign military sales program. Even though we are dealing with foreign aid legislation, the issue at stake here is American jobs, and I want to stress that to the fullest extent; it is a question of whether we as a nation can afford to export jobs while so many Americans . . . are out of work. . . . I feel strongly that the practice of allowing our FMS credits to be spent outside the United States only further serves to put more Americans out of work.’’<sup>214</sup> Lack of support and opposition to the amendment, led by Representative Levine, forced Badham to withdraw his proposal.

While the U.S. Congress has failed to examine the impact of the Lavi program, U.S. officials who dared to question its feasibility were silenced. Dor Zakheim, though a practicing rabbi, found the Israeli pressure so overwhelming he had to leave the Pentagon in early 1987. The *Wall Street Journal* said, in a report entitled ‘‘How a Rabbi Stirred Up a Political Dogfight Around an Israeli Jet

Fighter,” that “any opposition to Israel by U.S. officials can be as hazardous as flying combat missions, given Israel’s muscle in Congress.”<sup>215</sup>

In view of the high cost of producing the Lavi, and the strong opposition to the continuation of its development by the Israeli military, the finance minister, and Israeli economists, the U.S. government began in 1987 to pressure the Israelis to terminate the project. A senior U.S. official said that “Americans will be furious if Israel opts to continue on the Lavi.”<sup>216</sup> The U.S. government told Israel that producing the Lavi would cost the U.S. \$2 billion more than providing Israel with the more advanced F-16. In addition, the U.S. assured Israel that the annual \$1.8 billion in military aid, which Israel has been receiving since FY 1986, would continue and the previous arrangements allowing Israel to spend \$300 million of its FMS in Israel would not be changed.

After many weeks of intense maneuvering and heated debate, the Israeli government decided on August 30, 1987, to terminate the Lavi project. As a result, the Lavi became history after having wasted more than \$2 billion. Continuing the previous arrangements and FMS aid levels, however, must be viewed as an act to pay for Israel’s past mistakes and probably future blunders as well.

## OTHER MILITARY SUBSIDIES

While use of FMS credits to develop certain Israeli equipment has helped Israel enhance its military and industrial base, it has also enabled Israel to expand its military exports. The U.S. General Accounting Office predicts that the continuation of such practices will have an adverse effect on the U.S. economy. “In the long run,” it argues, “the question becomes what is the impact of such trends on the U.S. industrial base and U.S. employment.”<sup>217</sup>

In addition, the Israeli Defense Mission in New York has a policy of requesting U.S. suppliers to offset, or “buy back” from Israel, goods and services equal to 25 percent of Israeli purchases of \$1 million or more. American suppliers, as a result, made arrangements with Israel to purchase many related and sometimes unrelated goods and were obliged to negotiate agreements for coproduction and subcontract production with Israel’s arms and electronics manufacturers. While offsets are ordinarily made by countries using their own funds to purchase American arms, without U.S. FMS assistance, offset arrangements for purchases with U.S. FMS credits were called “unusual” by the GAO.

In addition, Israel was the first beneficiary of the cash-flow method of financing. This method allows the country purchasing U.S. equipment to set aside only the amount of money needed to meet the current year’s cash requirement for multiyear production contracts, rather than the full amount. Israel, as a result, has been allowed to stretch buying power and place more orders than the available grants authorized in a given year. The GAO maintains that this implies a commitment by the Congress to approve large grants in future years to ensure that signed contracts are honored. This method helped Israel obtain more grants than

any other aid-recipient country, secure concessionary long-term loans, and order military equipment before full funding was authorized by the U.S. Congress.

On February 17, 1985, *Haaretz*, Israel's best-known newspaper, reported that the U.S. and Israel signed an agreement which guaranteed Israel \$1.8 billion in FMS grants for the next three years. According to *Haaretz*, a clause in the agreement would also allow Israel to ask for more grants if the need arose. In fact, Israel received \$1.8 billion in FMS grants for each of FY 1986, 1987, and FY 1988. Again, Israel has been provided with more FMS grants than any other country since the inception of the foreign assistance program, and has been allowed to obtain military equipment that is more advanced technologically. The GAO maintains that such transfers "could adversely impact on the U.S. economy and can affect the U.S. ability to control the proliferation of these technologies."<sup>218</sup>

In November 1983, the U.S. and Israel signed a strategic cooperation agreement giving Israel's arms industry unrestricted access to U.S. technology. This agreement involved the supply of weapons technology, intelligence, joint military planning and exercises, the stationing of American military and medical equipment in Israel, financing the development of Israel's Lavi plane, and the formation of a Joint Political-Military Committee to supervise implementation.<sup>219</sup> The same agreement also called for helping Israel's arms exports to penetrate foreign markets. While Israel's military exports were estimated by GAO to have reached \$1.2 billion in 1981, it was anticipated that they would exceed \$2 billion in 1986. Today, exports to South Africa and China alone are thought to be in excess of \$1 billion a year.

Since the U.S. market is the largest in the world, Israel's arms industry has embarked on a major campaign to penetrate the American market. Some of the many approaches employed include:<sup>220</sup>

- a. Direct marketing in the U.S., including opening U.S. subsidiaries;
- b. Partnership arrangements with U.S. firms, either for joint development of systems or in order to use American firms to market Israeli products in the United States;
- c. Raising additional capital by going public and trading in U.S. stock markets; and
- d. Seeking the help of U.S. firms in marketing to the Third World.

Tadiran, a big Israeli electronics conglomerate, for example, had sales in the U.S. of \$30 million in 1984, \$60 million in 1985, and had a target of \$130 million in 1986, of which some \$80 million would be military and about \$50 million civilian.<sup>221</sup> High-tech exports to the U.S., manufactured in Israel using American technology and capital, are competing with U.S.-made goods. This comes at a time when the U.S. electronics industry had experienced a \$13.1 billion deficit in 1986, after having had a \$7.4 billion surplus in 1980, as the *Washington Post* reported November 18, 1987.

In 1986, Israel was invited to participate in the Strategic Defense Initiative

research program. As part of Israel's participation in the SDI program, Israel's Ministry of Defense and the Pentagon "signed an accord granting Israel some \$6 million to research anti-missile defense."<sup>222</sup> In June 1988 a new agreement was signed giving Israel another \$160 million for the same purpose. Although financial rewards might be small, know-how acquired from such participation would have a great impact on Israel's military and industrial base. Furthermore, Israel was granted in 1987 a "major non-NATO" ally status, thus making Israel eligible for more aid and extensive military cooperation. The new status is also expected to give Israel's arms and military service industries easier access to U.S. and other NATO markets.

## **ECONOMIC AND POLITICAL SUBSIDIES**

In its continuing efforts to stabilize Israel's shaky economy, the Senate Foreign Relations Committee adopted in 1984 a number of measures specifically designed to provide Israel with the kind of help it badly needed. Those measures included: a move to provide ESF assistance at the beginning of the fiscal year, rather than spaced out over the entire year; a decision to permit Israeli firms to bid on Agency for International Development contracts in others aid-recipient countries; and a vote to establish the principle that the annual ESF allocation will not be less than the annual debt repayment to the U.S.

Israel's failed efforts to gain the influence it hoped for in most Third World countries motivated the U.S. to lend its prestige and resources to facilitate Israel's penetration of many African, Asian, and Latin American countries. While U.S. embassies in many African countries were instructed to help Israeli businessmen, other Third World countries were pressured to establish political as well as economic links with Israel. The U.S., recognizing the value of the foreign aid program as an effective instrument of foreign policy, provided Israel with the special funds it needed to start its own foreign aid program. The 1986 foreign aid package, for example, included a \$5 million grant to support Israel's foreign assistance program. In April 1985, the U.S. and Israel signed a grant of \$550,000 to assist agricultural development in the Dominican Republic, Jamaica, and Antigua. On December 13, 1985, AID announced that the U.S. and Israel had signed another agreement giving Israel a \$850,000 grant to improve agriculture in Honduras, El Salvador, and Costa Rica. A total of \$1.4 million of AID money, therefore, was given in 1985 to Israel for technical assistance in agriculture development in the Caribbean and Central America.<sup>223</sup> While such funds have not been substantial, the opportunities they helped open were very substantial.

U.S. actions to help Israel establish a strong foothold in many Third World countries have also influenced the attitudes of other Western European countries. France has been pressuring French-speaking African countries to reestablish diplomatic relations with Israel; West Germany has been granting Israel funds needed to expand its foreign assistance programs.

Israel's established policy for attracting more Jewish immigrants is also sup-

ported by the United States government. The FY 1987 foreign aid bill allocated \$25 million for Soviet and other Eastern European Jews emigrating to Israel, or a 100 percent increase over the FY 1986 level of \$12.5 million. This program continues despite the fact that only a very small fraction of Jews leaving the Soviet Union actually go to Israel. The number of Jews allowed to leave the Soviet Union has also declined considerably. While the number reached a high of fifty-one thousand in 1979, it declined to less than one thousand in 1986.<sup>224</sup> Since less than 20 percent of Soviet Jews end up in Israel, the current U.S. contribution to settling those in Israel amounts to more than \$125,000 per family of five, an extremely high number by any standard.

Between 1971 and 1987, the U.S. provided \$329 million for this purpose,<sup>225</sup> a good portion of which has been diverted to support Jewish settlements in the West Bank and Gaza Strip. "Over the years, a few members of Congress have suggested that Israel may be using U.S. assistance to establish Jewish settlements in the occupied territories."<sup>226</sup> But because U.S. aid to Israel is given as a cash transfer for budgetary support without any specific accounting, it is difficult to tell how Israel uses U.S. aid and how much is being diverted to support the Jewish settlements policy. Nevertheless, the fact remains that the budget of those settlements, which have been called by the U.S. government "an obstacle to peace," is an integral part of the Israeli budget, which receives more than \$3 billion a year of U.S. government funds.

In addition to the above grants and subsidies, the U.S. government and American corporations have over the years invested billions of dollars in Israel. Between 1966 and 1974, in particular, the U.S. government invested a total of \$481.5 million in fifty-six different projects.<sup>227</sup> U.S. corporate investment in Israel between 1966 and 1977 has been estimated at \$1.6 billion.<sup>228</sup> Due to lower profitability, high inflation, increasing labor costs, Arab boycott regulations, and Israel's inherent political, social, and economic difficulties, American corporate investment in Israel declined after 1977.

Other annual aid programs such as Export-Import Bank loans, Housing Guarantee loans, American Schools and Hospitals Abroad grants, and Commodity Credit Corporation loans provide substantial assistance to Israeli institutions. Such loans, which are usually extended at concessionary rates of interest and payable over thirty to forty years, have reached approximately \$2 billion; Export-Import Bank loans extended to Israel between 1948 and 1986 exceeded \$1.2 billion; Housing Guarantee loans, \$200 million; and Commodity Credit Corporation loans, \$18 million.<sup>229</sup> Grants given to Israeli institutions reached about \$100 million, of which some \$80 million went to Israeli schools and hospitals.<sup>230</sup>

As table 21 demonstrates, American schools and hospitals in Israel received between 1970 and 1986 about \$76 million, or some 20 percent of the total granted to all American schools and hospitals in Africa, Asia, Europe, and Latin America. American schools and hospitals in Israel, however, are not necessarily American, though they are so in name. It is no secret that almost all of them

**Table 21**  
**U.S. Aid to American Schools and Hospitals Abroad (dollars in thousands)**

FY	Total	Africa	%	Asia	%	Latin America	%	Israel	%
1970	27,592	500	1.8	0	0	700	2.5	12,500	44.7
1971	13,270	200	1.5	0	0	1,200	9.1	2,500	19.0
1972	19,845	200	1.0	1,025	5.2	3,245	16.4	5,620	28.3
1973	25,687	50	0.1	1,525	5.9	3,860	15.0	4,425	17.2
1974	18,775	25	0.1	450	2.4	4,300	22.9	3,275	17.0
1975	17,285	150	0.8	1,135	6.6	2,725	15.8	2,475	14.1
1976	22,255	340	1.6	3,010	13.6	3,405	15.4	4,825	21.7
1977	18,220	160	0.7	2,500	12.6	3,280	16.7	4,600	23.2
1978	23,584	200	0.8	5,210	22.1	5,324	22.6	5,425	23.0
1979	24,000	3,095	12.9	3,183	13.3	4,769	19.8	3,750	15.6
1980	25,000	2,695	10.8	4,875	19.5	5,600	22.4	4,145	16.6
1981	20,000	2,830	14.2	2,325	11.6	4,890	24.5	2,000	10.0
1982	20,000	400	2.0	4,550	22.8	5,100	25.5	2,950	14.7
1983	20,000	2,625	13.1	3,300	16.5	4,230	21.2	3,100	15.0
1984	30,000	3,390	11.3	4,450	14.8	7,600	25.3	4,100	13.6
1985	30,000	3,240	10.8	4,510	15.0	4,525	15.1	4,650	15.5
1986	33,495	2,900	8.7	3,350	10.0	6,528	19.5	5,450	16.3
TOTALS	389,368	23,000	5.9	45,398	11.7	71,281	18.3	75,790	19.5

Note: Aid to Asia and Africa does not include aid to countries of the Middle East (Egypt, Israel, Lebanon, Turkey, and the West Bank).

Sources: House, *Foreign Assistance Legislation for Fiscal Years, 1986-87, Part 3, p. 123*;  
 Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987, pp. 69-76*.

are Israeli institutions incorporated in the U.S., so they may qualify for U.S. grants and subsidies.

Commercial loans by U.S. banks are another source of significant assistance to Israel. And despite the fact that Israel is considered one of the riskiest debtor states in the world, American banks continue to provide Israel with loans that otherwise would not be readily available. Such loans, of which deposits placed with Israeli banks represent a significant portion, are estimated at about \$2 billion per year.

## THE FREE TRADE AREA

In 1984, Israel was given \$2.63 billion in economic and military assistance, up from \$2.5 billion in 1983. The grant portion of the 1984 aid package was also increased from \$1.55 billion to \$1.78 billion. Yet "from Israel's point of view, the most significant of the economic measures considered in that year was the Free Trade Area."<sup>231</sup> The FTA agreement, which was completed in 1985, calls for the elimination of duties and nontariff barriers on all trade, including

services, between Israel and the U.S. by 1995. However, the agreement embodies certain provisions that would permit Israel to extend some restrictions and tariffs on certain American products. The FTA, as a result, would enable Israel's highly subsidized products to gain unrestricted access to the U.S. market, the world's largest, while at the same time restricting the access of American products to Israel's market. "The plan notionally offers reciprocal trading privileges to both parties, eliminating tariffs on each others' goods and reducing non-tariff barriers as well. In actuality, Israel is granted unrestricted access to the \$2,000 billion market, while the U.S. gains very conditional entry to the 100-fold smaller \$20 billion Israeli market."<sup>232</sup> The agreement, moreover, guarantees Israeli arms companies—almost all of which are government-owned and government-subsidized—equal status with U.S. firms for sales of military equipment to the U.S. Department of Defense.

Article 11 of the FTA permits Israel to retain or raise duties on imports if it feels "threatened by, or suffers from a serious balance of payments deficit." It must be noted, however, that Israel has had a chronic balance-of-payments deficit since its inception in 1948. In fact, the deficit is so serious Israel stands no realistic chance of being able to close it in the foreseeable future.

Because of its apparent disadvantages, the FTA was opposed by American manufacturers, farmers, and labor unions. Even the AFL-CIO, which historically has been the strongest Israeli supporter within the American labor movement, testified against the FTA bill. The representative of the AFL-CIO argued that the agreement "placed an extra burden on the American worker and contradicted the spirit of the American position at the Tokyo trade negotiations."<sup>233</sup> Stanley Nehmer, a spokesman for the American Fiber, Textile and Apparel Coalition called the agreement "an absolute disaster"<sup>234</sup> for the industries he represents.

Before the FTA went into effect on August 19, 1985, Israel enjoyed the benefits derived from the Generalized System of Preference for smaller nations. According to that system, about 95 percent of all Israeli exports to the U.S. were able to enter the U.S. duty free. New economic benefits, which Israel would gain from the FTA, appeared to be very much limited. Opposition to the agreement was almost unanimous as U.S. domestic industry, labor, and farm groups testified against it. Because of this, intensive lobbying for the agreement became a source of major concern, forcing a few senators and observers to raise interesting questions concerning Israel's real intentions. Senator Ernest Hollings, for example, expressed his concern in Congress by saying: "We do not want our friend Israel to be used as a funnel for the cheap textiles manufactured in the Middle East, Africa and other places. . . . We know that Israel has a free trade zone agreement with the EC [European Community] on citrus. Somehow, more oranges arrived in the EC than you could possibly produce in Israel."<sup>235</sup>

In fact, it has long been suspected that Israel wanted the FTA agreement so it could facilitate the sale of South Africa's goods in the U.S. and in many other Western countries under Israeli labels, and thereby strengthen its relations with the South African apartheid regime. The *Washington Post* reported that "Israel



has long been regarded by trade analysts here as a potentially important go-between for circumventing U.N. sanctions against South Africa by transshipping relabeled goods to countries adhering to the punitive measures against South Africa.’’<sup>236</sup> In July 1986, a senior economic team from Israel’s Finance Ministry visited South Africa to renew commercial trade agreements and a pact that allowed South African Jews to export millions of dollars to Israel.<sup>237</sup> A month later, according to the *Washington Post*, another high-level Israeli delegation traveled to South Africa ‘‘amid reports that Pretoria was seeking an economic lifeline to Israel to sidestep sanctions.’’<sup>238</sup>

Yitzhak Shamir, Israel’s prime minister, confirmed his government’s strong ties with South Africa during a visit to Washington in February 1987. Shamir said that the Israeli government has no intention of altering its policy toward South Africa. In other words, Israel was not willing to comply with the U.S. Anti-Apartheid Act of 1986. The legislation requires President Reagan to identify by April 1, 1987, in a report to Congress, those countries still providing South Africa with weapons, ‘‘with a view of terminating United States military assistance.’’ However, when Shamir was asked about his reaction to the U.S. intent to implement the law, he said, ‘‘We keep our commitments,’’ and added that ‘‘Israel has not asked the U.S. to make an exception to the Anti-Apartheid Act, because Israel did not expect the U.S. to cut off military aid to Israel over that issue.’’<sup>239</sup> On April 1, 1987, the president reported to Congress that ‘‘Israel appears to have sold military systems and subsystems [to South Africa] and provided technical assistance on a regular basis.’’

In anticipation of the report, and in an attempt to pacify Congress, the Israeli government announced March 19, 1987, that it would make no new arms-sale agreements with South Africa’s white minority government. Senior Israeli officials, nonetheless, ‘‘frankly admitted that the Israeli sanctions announced March 19, were timed to preempt Congressional action on the report.’’<sup>240</sup> It was also reported that Yitzhak Rabin, Israel’s defense minister, made a secret visit to South Africa a month earlier, during which new arms-sale agreements were signed and old ones were extended beyond the end of this century.<sup>241</sup> In the past, Israel has denied selling arms to South Africa and thus violating the 1977 UN mandatory embargo on arms sales to the apartheid regime.

Matti Peled, a member of Israel’s Knesset, or parliament, termed Israel’s March statement ‘‘eyewash.’’ He said ‘‘there had been no curtailment’’ in Israel’s arms sales to South Africa since it pledged to end such sales in 1977 and added that he does not ‘‘expect any curtailment.’’<sup>242</sup> Congressman Mervyn Dymally, the head of the U.S. Congressional Black Caucus, described Israel’s statement as ‘‘a very weak statement, a very compromising statement.’’ He said the Israelis ‘‘have lied on this particular issue in the past, and I suspect they will continue to do so. . . . I really don’t believe the Israelis.’’<sup>243</sup>

The *Washington Post* reported March 20, 1987, that ‘‘every Israeli Defense Minister in recent years, including Sharon, Arens, Weizman and Rabin, have made secret visits to South Africa to discuss arms sales and promote Israeli arms

products.’’<sup>244</sup> Rowland Evans and Robert Novak reported that ‘‘Israel’s profit from its Pretoria arms trade is estimated at around \$400 million a year.’’<sup>245</sup> *Al-Bayader Assiyasi*, a weekly magazine published in Jerusalem, reported in February 1987 that Israel sold South Africa in 1986 about \$1 billion worth of military equipment, the equivalent of 50 percent of Israel’s annual arms exports.<sup>246</sup> American newspapers, citing what they called an unconfirmed report in Israel, estimated the annual sales at \$600–\$800 million a year.<sup>247</sup> Abba Eban, the chairman of the Foreign Relations and Security Committee in the Knesset, confirmed Israel’s arms sales to South Africa and other Latin American dictatorships. On September 7, 1987, he wrote in *Yediot Ahronot* that ‘‘increasing and justified world opposition to the sales of arms to an apartheid state mandates Israeli restraint in this area, and it is doubtful that unlimited satisfaction should be gleaned from Israel’s increasing arms transfers to Latin American states whose regimes have problematic human rights records.’’

While Israel’s announcement concerning arms-sale agreements with South Africa has satisfied an apologetic Congress, the new agreements signed with Pretoria seem to have strengthened an expanded Israel-South Africa cooperation. The failure of the U.S. Congress to apply the law to Israel has, furthermore, facilitated the expansion of Israel-South Africa trade. Meanwhile, applying the law to other countries has opened the door for Israeli companies to exploit opportunities created by the departure of other law-abiding American and non-American companies from South Africa. As a result, the U.S. Anti-Apartheid Act of 1986 has been weakened and Israel’s ability to circumvent American laws has been strengthened.

The FTA between the U.S. and Israel, therefore, would both provide Israeli products with a great advantage in competition with American products and limit the competitive ability of U.S.-made products. Israeli products, furthermore, would be able to use the U.S. as a springboard to reach other markets that might otherwise be closed or restricted such as Saudi and Kuwaiti markets. In the process, Israel might be tempted to circumvent U.S. laws and violate American regulations by facilitating the illegal entry of boycotted products into the U.S. The FTA thus has the potential to cause the American economy substantial damage, weaken the U.S.’s ability to enforce its own laws, and undermine American credibility with allies and foes alike.

The U.S. Congress approved other legislation aimed at helping Israel, without mentioning its name explicitly. In 1979, Congress added two sections to the Export Administration Act which benefited Israel, although Israel was not mentioned by name. Section 8 prohibits American companies and individuals from cooperating with trade boycotts against nations friendly to the U.S. The legislation was aimed at the Arab League boycott of Israel. Section 7(d)(3) authorized the president to sell American-produced oil to nations with which the U.S. had signed bilateral oil supply agreements prior to June 25, 1979. Israel is the only country that has signed a bilateral oil supply agreement with the U.S.<sup>248</sup> Under this agreement the U.S. would provide Israel with American-produced oil in the

event that Israel's oil supplies were cut off. The economic costs of sacrificing additional oil under such conditions was estimated by Thomas R. Stauffer at \$10–18 billion annually.<sup>249</sup>

American aid to Israel provided through the above mentioned channels is very difficult to quantify, especially in matters involving the transfer of American technology to Israel, the elimination of tariffs on Israeli exports, contracts with Israeli firms, and facilitation of Israeli military and nonmilitary exports to the U.S. and Third World countries. The annual value of these grants and subsidies, however, is estimated at \$1.2–1.5 billion a year.



## 9

# The Cost of Supporting Israel

In 1986, Israel received from the U.S. \$1.8 billion in military grants, \$1.2 billion in economic grants, and \$750 million as a supplemental aid package. Because of early transfer of funds to Israel, the U.S. pays more in interest for the money it borrows to make lump sum payments. In fact, all the funds given to Israel have to be borrowed due to the budget deficit of the U.S. government, and thus cost hundreds of millions of dollars to service each year. In addition, the U.S. government pays Israel interest on aid funds invested in U.S. Treasury notes.<sup>250</sup> Other funds the U.S. government gives Israel annually in grants, concessionary loans, and direct investment in Israel's economy total about \$250 million a year. As a result, the cost to the U.S. Treasury of supporting Israel was about \$4.3 billion in 1986; in 1987 it was about \$3.5 billion.

American aid to Israel, as explained in the last five chapters, is not limited to funds earmarked for Israel by Congress. Private contributions given to Israel by private individuals and organizations, in addition to the sale of Israel bonds, are estimated at \$1.5 billion a year; commercial and noncommercial loans and deposits in Israeli banks add another \$2 billion a year. Other grants, subsidies, and privileges granted to Israel are valued at \$1.2–1.5 billion a year. Private and public aid put together would be about \$8.2–8.5 billion annually.

However, the real cost to the American taxpayer is still higher, involving financial, economic, and military, as well as political, losses. If all of the “forms of support are lumped together,” wrote Joseph C. Harsch in 1983, “Israel draws somewhere around \$10 billion a year from the U.S. and its citizens.” Another meaning of this, he added, “is that the American taxpayer is paying for Israel's living standards, for its conquests, and for those settlements which are going up throughout the occupied Arab territories in violation of the agreement which

former President Carter thought he had with Prime Minister Menachem Begin.<sup>251</sup>

The measures taken by both the Reagan administration and Congress since Mr. Harsch's estimate have increased that cost substantially: in 1985, the annual cost of supporting Israel was estimated at \$12–14 billion a year.<sup>252</sup>

New measures that the Reagan administration has adopted since 1983, and which were instrumental in raising the figure, include the following:

- Increasing official aid levels from \$2.5 billion in 1983 to \$3.75 billion in 1986;
- Raising the grant component from 60 percent in 1983 to 100 percent in 1985;
- Concluding a free trade agreement with Israel in 1985;
- Permitting Israel to spend not less than \$300 million a year from the funds available under FMS for the procurement of defense articles and services in Israel;
- Increasing aid to Egypt by more than 25 percent and raising the grant component from about 50 percent in 1983 to 100 percent in 1985 (see next section for details);
- Purchasing Israeli-manufactured weapons which American firms can easily produce in order to help Israel's military industry;
- Giving Israel free access to U.S. military technology and providing the funds needed to build the Lavi aircraft;
- Approving early transfers of funds appropriated;
- Helping finance Israel's foreign aid program in the Third World;
- Negotiating a strategic cooperation agreement which provides for shared intelligence reports, joint military exercises, and the stockpiling of American weapons, spare parts, and medical supplies in Israel—equipment and supplies Israel can use if the need arises.

Since these measures were taken to provide Israel with more aid, American assistance to Israel—official, private, hidden subsidies, and aid to Egypt—would certainly exceed \$10 billion per year.

## AMERICAN AID TO EGYPT

American aid to Egypt, which has been intimately linked to Egypt's political and military posture *via-à-vis* Israel, should be considered as another form of indirect aid to the Jewish state. Following the signing of the Camp David treaty between Egypt and Israel, Egypt was promised American aid in amounts equivalent to those given Israel. In 1979 alone, Israel and Egypt were given \$4.8 billion as a peace package; \$3 billion for Israel and \$1.8 billion for Egypt.

The Special International Security Assistance Act of 1979 authorized the \$4.8 billion in support of the peace treaty. Egypt's package consisted of \$300 million in economic aid and \$1.5 billion in foreign military sales credits. Israel's package consisted of \$800 million in foreign military sales grants and \$2.2 billion in FMS credits.<sup>253</sup> For FY 1981 an additional \$200 million was authorized for

financing redeployment costs claimed by Israel, thus raising the cost of the Camp David Accords to \$5 billion, of which Israel received \$3.2 billion. Israel's total aid package in 1979, however, exceeded \$4.9 billion, of which some \$1.7 billion was a grant. Egypt's aid package reached a high of \$2.7 billion.

The Egypt-Israel peace treaty, which emerged from the Camp David Accords, has proved to be very costly to the American taxpayer. In addition to providing Egypt with more than \$24 billion in military and economic aid since 1978, the U.S. has been committed to continuing its participation in the peacekeeping mission in the Sinai as well as assuring Israel's security. A government-to-government agreement promises to protect Israel from treaty violations "deemed to threaten the security of Israel." If the treaty is violated, the U.S. will "consider intervention through such measures as the strengthening of U.S. presence in the area, providing emergency supplies to Israel and the exercise of maritime rights in order to put an end to the violation."<sup>254</sup>

Aid to Egypt is meant to encourage Egypt to remain at peace with its neighbor, and to maintain neutrality in the Arab-Israeli conflict—a neutrality that was firmly established by the signing of the Egypt-Israel treaty at Camp David in 1979. American aid is also supposed to compensate Egypt for the loss of Arab aid, which was cut off after Egypt had signed the Camp David Accords. In actuality, U.S. aid to Egypt is another American expenditure intended to help maintain Israel's security through the isolation of Egypt from the Arab world and, consequently, to weaken Arab resolve to liberate those territories occupied by Israel in 1967. In effect, it is the American taxpayer who has been asked to subsidize both Israel and Egypt, and in the process has been forced to help Arab oil-exporting countries save tens of billions of dollars which otherwise would have been paid to help Egypt.

In providing aid to Egypt, the U.S. Congress made it clear to the Egyptian government that Egypt's continued commitment to Camp David was a precondition of U.S. continued assistance. "For Congress," says Ellen Laipson, Congressional Research Service (CRS) political analyst, "the peace process is the pre-eminent focus of U.S. interests in Egypt."<sup>255</sup> In fact, Foreign Aid Bill P.L. 99-83, which was signed into law on August 8, 1986, included a sense of the Congress' statement that said, "all U.S. aid was provided in the expectation that Egypt will continue its efforts to bring peace to the region and support the Camp David Accords and peace treaty."<sup>256</sup>

Between 1946 and 1988, U.S. aid to Egypt has exceeded \$27 billion, of which more than 90 percent was extended after 1978. In fact, aid given to Egypt in 1979 alone exceeded the total which had been given to Egypt from 1946 to 1978. While Egypt received \$90 million in economic aid and no military aid in 1977, it received a total of \$2.7 billion in economic and military assistance in 1979. In today's dollars, U.S. aid to Egypt since 1978 would be about \$35 billion.

Douglas Bloomfield, legislative director of AIPAC, wrote in 1983 that "Israel has generated more aid for the Arabs than they could themselves. Peace with

Egypt,” he added, “has brought a massive American aid program for that nation. In 1982, war in Lebanon put Lebanon back in the Western Camp and generated growing amounts of economic and military assistance.”<sup>257</sup>

Bloomfield is correct in claiming that Israel has generated massive amounts of American aid to Egypt; concerning Lebanon, however, his claims are false and lack perception. Israel’s 1982 invasion of Lebanon transformed that country into one of the places most inhospitable to Americans, rather than put it “back in the Western camp.” The situation in Lebanon today and the threat it poses to American interests in the Middle East are examples of the damage which Israel and its supporters are causing in the name of “securing U.S. interests.”

The war in Lebanon, nonetheless, was instrumental in increasing U.S. aid to Israel, in part to compensate the Jewish state for its losses. A GAO study entitled “U.S. Assistance to the State of Israel” reported that Israel had, in 1982, asked the U.S. to pay the cost of invading Lebanon. Rowland Evans and Robert Novak wrote in the *Washington Post*: “Israel has asked the U.S. for compensation for its losses during the Lebanon campaign. . . . This, after Israel camouflaged efforts to obtain U.S. financing for the Lebanon invasion.” They described the GAO study as telling “a mournful tale of the U.S. being deceived by Israel. Pleas for one-time only concession becomes a pattern for the future, at high cost to American taxpayers.”<sup>258</sup>

Regardless of all claims to the contrary, the U.S. did pay the cost of Israel’s invasion of Lebanon in 1982. While Israel received \$2.2 billion in U.S. aid in 1982, it received \$2.5 billion in 1983. Meanwhile, the grant portion of the aid package increased from \$1.37 billion in 1982 to \$1.55 billion in 1983. By 1985, U.S. aid to Israel reached approximately \$3.4 billion, all of which was given as an outright grant. In fact, after Israel had invaded Lebanon, destroyed many of its cities, including the capital, killed an estimated twenty thousand people, turned about one-third of Lebanon’s population into homeless refugees, and supervised the Sabra and Chatila massacres, in 1983 the U.S. Congress handed Israel the biggest subsidy of military and economic aid in its previous history.

## PEACEKEEPING

In accordance with the Camp David Accords, Israeli troops withdrew from the Sinai in April 1982 after fifteen years of continued occupation. The Israelis, however, are still in control of Taba, a small beach resort on the Gulf of Aqaba, and continue to resist turning it over to Egypt. Recently they agreed to submit the “Taba issue” to international arbitration.

The U.S., in addition to paying a total of almost \$5 billion to Israel and Egypt as a reward for signing the Camp David Accords in 1979, also made a commitment to ensure Israel’s security. As part of that commitment the U.S. government agreed to continue its participation in the peacekeeping mission in the Sinai, which was seen by both Israel and Egypt as necessary to the implementation and maintenance of peace.



When Israel completed its withdrawal from the Sinai, the Sinai Field Mission, which helped assure peace from 1976 to 1982, was terminated. The Multinational Force and Observers (MFO) was consequently established as a peacekeeping mission with responsibilities for implementing certain treaty provisions. U.S. involvement in the peacekeeping activities, as a result, rose from a 162-person civilian operation in 1981 to a 1260-person military and civilian one in 1982. The 2740-member MFO is currently comprised of contingents from ten countries. The United States supplies the largest number of personnel and, as part of the treaty, pays for one-third of MFO's operating costs. In addition, the U.S. agreed to pay 60 percent of the MFO start-up costs, which amounted to \$135 million for the first two years. Since then, the U.S. share of the annual MFO budget has been some \$35 million per year.<sup>259</sup> Between 1981 and 1987, U.S. contribution to the MFO's operations and maintenance reached approximately \$300 million.

The U.S. forces and civilians serving in the Sinai MFO rotate on different schedules. The infantry troops and logistics personnel, for example, are assigned to the Sinai for six-month periods. During one of the regular rotations, a chartered plane that was carrying a contingent back home for Christmas crashed in Newfoundland on December 12, 1985, killing 256 persons.

In addition to the MFO, the U.S. contributes to other UN peacekeeping operations in the Middle East. The UNTSO, United Nations Truce Supervision Organization, which was established in 1948, is the oldest of such organizations. The UNTSO was actually formed to supervise the armistice among Israel, Egypt, Jordan, Lebanon, and Syria after the first Arab-Israel War. The UNIFIL, UN Interim Force in Lebanon, is another peacekeeping organization with responsibilities for protecting Israel's borders. The UNIFIL was established in 1978 to supervise the withdrawal of Israeli forces from Lebanon and to police the Lebanon-Israeli border. American contributions to these and other peacekeeping missions in the Middle East have been exacting some \$100 million a year from the American taxpayer. In 1986, for example, the Reagan administration requested \$42.9 million for UNIFIL in the FY 1987 foreign aid budget. Richard Murphy, assistant secretary of state, said, "We have supported UNIFIL since it was established in 1978—to confirm the Israeli withdrawal from Lebanon."<sup>260</sup>

In 1981 and 1982, largely through the efforts of the U.S., two non-UN, multinational peacekeeping organizations were created to serve in the Middle East and to facilitate Israeli withdrawal from Arab land. The first was the MFO which was established in the Sinai in 1981; the other was an American-French-Italian-British mission established in Beirut in 1982. While the MFO mission succeeded in maintaining peace in the Sinai, the mission in Lebanon failed to create the peaceful conditions necessary for the restoration of normal life, which Israel had severely interrupted in 1982. In early 1984, the mission was terminated.<sup>261</sup>

Since there is limited written material on the peacekeeping organizations in the Middle East, it is difficult to obtain accurate information concerning budgets and expenditures. Nevertheless, recent contributions to the MFO and UNIFIL

suggest that the U.S. may have already spent \$1.1–\$1.2 billion on peacekeeping efforts in Lebanon and the Sinai since 1975; since 1949, the total may have already reached \$2 billion.

American participation in the peacekeeping mission to Lebanon in 1982 was in the form of a contingent of U.S. Marines. Since the U.S. provided Israel with most of the military equipment used to invade Lebanon, the marines' presence was perceived by most Lebanese as a hostile act. In 1983, two U.S. embassy buildings in West and East Beirut were destroyed, and the marines' headquarters were demolished. In the process almost three hundred Americans were killed, and U.S. prestige and credibility were very much undermined.

In the wake of Israel's invasion of Lebanon in 1982, and the departure of U.S. Marines from Beirut in 1984, anti-Israeli and anti-American movements in Lebanon multiplied and became more active than ever before. Consequently, security had to be tightened not only in and around U.S. embassies in the Middle East, but in Europe and most other countries of the world as well. The targeting of American travelers and American commercial airlines dictated the installation of elaborate security systems in all international airports and by almost all commercial carriers regardless of their nationality. The Port Authority of New York and New Jersey signed a contract with an Israeli firm to assess the authority's plans to prevent terrorist incidents—a contract the authority had to cancel a few days before it went into effect. The contract with Atwell Security of Tel Aviv was terminated after the authority learned “that the Israeli firm was headed by an Israeli secret service chief forced to resign last year [1986] following disclosures that he had ordered the murder of two Palestinian bus hijackers.”<sup>262</sup>

Security arrangements, which were initiated after 1982 in the U.S. and by American embassies and commercial airlines, cost the American people an estimated \$2 billion a year. After the bombing of the U.S. Marines' headquarters in Beirut in October 1983, for example, Congress included in the 1985 Continuous Resolution \$110.2 million to increase security at U.S. embassies abroad.

New regulations and measures taken to protect airports, government buildings, and other public places made most Americans feel less free than ever before. International acts of terrorism inflicted enormous losses on the American business community. U.S. restrictions on travel and doing business in certain countries, and Americans' fear of becoming easy targets for terrorists seeking revenge, have undermined American interests and prestige in many Middle Eastern countries. American departures from Iran, Libya, and Lebanon, caused by the U.S. tendency to take sides with Israel, are expected to further damage U.S. security and business interests in the long run. In addition to the loss of U.S. access to the rich oil resources of Iran and Libya, as well as to the markets of those countries and a few others, growing anti-Americanism in most Arab and Islamic countries poses a serious threat to U.S. interests in the region as a whole.

## **BUSINESS LOSSES IN ARAB COUNTRIES**

There have also been losses of industrial, agricultural, and service sales to Arab countries, due primarily to U.S. laws that prohibit American firms from

complying with Arab boycott requirements. U.S. antiboycott laws were enacted during the Carter administration in retaliation for Arab boycott of Israeli products. Arab boycott laws, however, were designed to deny Israeli, not American, products access to Arab markets because of the state of war that characterizes Arab-Israeli relations.

The U.S., it must be noted, has been a leader in using economic boycott and economic sanctions as political instruments against its enemies, such as Cuba, Nicaragua, and the Soviet Union. In fact, the U.S. continues to impose restrictions on trade with most communist countries and to boycott Libyan oil and prevent Americans from visiting Libya or doing business with its government. Yet the U.S. Congress made compliance with Arab boycott regulations illegal, causing numerous American firms to lose substantial business opportunities. Thomas Stauffer estimates the consequent loss in U.S. sales to Arab countries at about \$1 billion annually.<sup>263</sup>

Enacting laws to prohibit compliance with Arab boycott regulations, rather than being a courageous act based on firm principles, appears to be no more than a political move aimed at helping Israel and appeasing its Washington lobby. Whenever Israelis have been found in a position precluding retaliation against their adversaries, or unable to pay the price of their misguided policies, the U.S. has been asked to bail them out. The loss of markets and influence abroad and increasing unemployment and business difficulties at home are another small portion of the price American taxpayers have had to pay for unquestioned pro-Israel policies.

American exports to Arab countries, which reached a high of \$19 billion in 1981, have declined steadily ever since. In 1983, they reached \$16.1 billion, and by 1985 they hit a low of less than \$11 billion, for a 42.5 percent decline in four years.<sup>264</sup> Over the same period, however, Arab imports in general declined by only about 19 percent.

While declining oil revenues have been the primary cause of declining Arab imports in general, U.S. antiboycott laws and rising anti-American sentiment in the Arab countries have been the primary reason for declining Arab imports from the U.S. In fact, the share of U.S. exports as a percentage of Arab imports declined from 14 percent in 1981 to less than 10 percent in 1985. Had the U.S. been able to maintain its market share of the Arab imports, American exports to Arab countries in 1985 would have been about \$15.5 billion rather than 11 billion. Therefore, American loss of exports to the Arab world, due to the U.S.'s one-sided policy toward the Arab-Israeli conflict, is probably in the neighborhood of \$4.5 billion annually.

Furthermore, the U.S. Congress has repeatedly refused to sell American weapons and related services to Arab countries friendly to the U.S., such as Saudi Arabia, Jordan, and Kuwait. In 1984, for example, Congress' opposition to a proposed sale of Stinger missiles to Jordan resulted in the administration's withdrawal of the proposed sale. In 1985, Congress refused again to allow the president to sell Hawk missiles, Stinger missiles, Bradley vehicles, and forty fighter aircraft to Jordan. In opposing this proposed sale, sixty-two senators

sponsored a resolution that called for adopting a position not to sell advanced fighter aircraft, mobile antiaircraft missiles, or any other advanced arms to Jordan. The resolution also said that the “United States should ensure that Israel retains its qualitative edge over any combination of Mideast confrontation states.”<sup>265</sup>

The FY 1986 foreign aid bill included a Sense of Congress Statement requiring a presidential certification that “Jordan is publicly committed to the recognition of Israel and to negotiate promptly and directly with Israel under the basic tenets of United Nations Security Council Resolutions 242 and 338, prior to the use of any Foreign Military Sales financing for Jordan.”<sup>266</sup> The U.S., however, never asked Israel to negotiate with the Palestinians, recognize their right to self-determination, or withdraw from Arab-occupied territories in compliance with UN resolutions.

Another amendment attached to the same bill stipulated that funding for the International Atomic Energy Agency is provided “only if the Secretary of State determines that Israel is not being denied its right to participate in activities of that Agency.”<sup>267</sup> Israel, however, has long refused to sign the Nuclear Non-Proliferation Treaty of 1968 and does not permit the agency to inspect Israeli nuclear facilities. Such activities by Congress have put Israel above international law and outside the realm of accepted international behavior, thus encouraging the state to continue to ignore international treaties and UN resolutions.

In October 1985, the president asked Congress to approve an arms sale to Saudi Arabia worth approximately \$4 billion after having promised the Saudis that the deal would go through. The Congress nevertheless surrendered to pro-Israel pressure groups opposing the deal, and rejected the sale. The Saudis, feeling betrayed, turned to Britain and bought \$7 billion worth of Tornado fighters. The British suppliers who replaced the intended American suppliers are expected to eventually receive some \$20 billion in equipment, training, construction, and maintenance contracts. Mr. Richard Murphy, assistant secretary of state, said that “the American economy has already lost \$12 billion to \$20 billion by allowing, for political reasons, the Saudi contract for a new fighter aircraft to go to Britain.”<sup>268</sup>

British Aerospace Corporation Chairman Austin Pearce called the sale “an extremely important export opportunity”<sup>269</sup> that would create more jobs for Britain’s faltering economy. One British aerospace industry analyst predicted that the Saudi sale would sustain the competitiveness of the European aircraft manufacturing industry with the U.S. for the next three decades.<sup>270</sup>

According to U.S. Department of Commerce estimates, each \$1 billion in exports supports about 25,000 jobs. Rejecting the Saudi sale and banning sales of advanced arms to Jordan may have resulted in a loss of 200,000–250,000 jobs. “As the British sit back and contemplate the blessings of the Saudi arms package for their economy—and we suspect, quietly discuss what can be done to develop new sales to Jordan,” says former foreign service officer John Hal-dane, “we in the United States need to reflect on what has been lost to the

American economy.’’<sup>271</sup> On July 8, 1988, it was announced that Saudi Arabia and Britain concluded a new agreement worth \$30 billion. The spokesperson for the State Department said that losing the Saudi deal “does hurt the U.S. interest.’’

Rather than run the risk of rejection and harassment by Congress, other Arab and Muslim countries have gone to France, Italy, Brazil, Spain, and even China and the Soviet Union to purchase the arms they deemed necessary for their defense. While opposing arms sales to Arab countries over the last three years (1985–87) may have cost the U.S. some \$10 billion, annual losses due to rejecting Arab requests to buy American arms and other related services may exceed \$4 billion annually. In fact, Saudi imports of military equipment alone averaged about \$3.1 billion a year between 1981 and 1983, according to Israeli experts.<sup>272</sup> The *Washington Post* reported on July 8, 1988, that the Saudis’ military purchases from the United States alone during the last decade (1978 to 1987) were worth \$31 billion. They also informed the U.S. government that they no longer wish to buy U.S.-made military equipment because of stiff congressional opposition.

### ADDED MILITARY COST

Losses incurred by the U.S., due to the antiboycott laws and congressional opposition to arms sales to Arab countries, represent, as we have seen, only a portion of the cost to the U.S. because of its unquestioning support for Israel. The increased number of U.S. Navy ships in the Mediterranean, the military alerts in 1967 and again in 1973, the dispatch of U.S. Marines to Lebanon between 1982 and 1984, the attacks on Syrian positions and Druze villages in Lebanon in 1983, and the raid against Libya in 1986 are other harsh and costly penalties the U.S. incurs in supporting Israel.

During the Arab-Israeli War of June 1967, the U.S. had to put American forces on alert and increase military presence in the Middle East. In addition, the navy lost many brave men when the Israeli air force attacked the USS *Liberty*, killing 34 of its crew and wounding 171 others. In 1973, the U.S. had to put its forces again on alert and launch an unprecedented arms lift to Israel to save it from defeat. The *Economist* reported that “the entire transportation fleet of the American Air Force worked for 13 days delivering equipment to Israel.’’<sup>273</sup> In 1982, because of Israel’s invasion of Lebanon, American marines were sent to Beirut and U.S. Navy ships and aircraft had to take part in attacking Syrian positions and peaceful Lebanese villages.

In fact, every time Israel has gone to war against its Arab neighbors since 1967, the U.S. has been equally at war, fighting Israel’s battles, or using American force to help Israel and to intimidate Israel’s Arab adversaries. The number of Americans killed in Lebanon and the Sinai since 1982, or as a consequence of their service there, is almost as large as the number of Israelis killed in the same places during the same period. American financial and equipment losses, however, may have exceeded those of the Israelis.

While losses of U.S. military and nonmilitary sales in the Arab world are estimated at about \$8.5 billion a year, estimates of extra military expenditures incurred in providing Israel with U.S. protection are hard to come by. Nevertheless, knowledgeable former army and State Department officials estimate the cost at about \$1.5 billion a year, or .5 percent of the \$300 billion defense budget.

Israel, furthermore, cannot escape responsibility for the 1973–74 oil embargo and its adverse effect on the economies of the oil-importing countries. Estimates of GNP losses due to the embargo range between \$500 billion to \$1000 billion in the Organization of Economic Cooperation and Development (OECD) member states, of which the U.S. share was probably about 40–50 percent. In fact, the oil embargo and the unprecedented 400 percent rise in oil prices which followed precipitated the 1975 economic recession in the U.S. and the much higher inflation rates that dominated the 1970s.

## THE PALESTINIAN REFUGEES

Between 1948 and 1949, at the time when Israel was created, nearly 800,000 Palestinians lost their homes and were driven out of their homeland. After being denied the right to return to the towns and cities they had been forced to abandon, the Palestinians had to live in refugee camps under intolerable conditions.

“Zionism’s victory was a disaster for Palestinians who became a nation in diaspora,” says Cheryl A. Rubenberg. “Approximately 770,000 indigenous people, nearly half the total population, were transformed from a secure existence on land they had inhabited for countless generations into stateless refugees, the majority crowded into squalid camps in surrounding countries, the others dispersed to the corners of the globe. Those remaining became third-class ‘citizens’ in the new Jewish state.”<sup>274</sup>

“Zionists forced the Arabs to leave the cities and villages which they did not want to leave of their own free will,” wrote Nathan Chofshi describing the actions of his fellow Zionists in Palestine.<sup>275</sup> Yigal Alon, a former deputy prime minister in Israel, said in his memoirs that he used psychological warfare to “cause the tens of thousands of Arabs who remained in Galilee to flee.”<sup>276</sup>

An Israeli soldier’s confession, published by the Israeli newspaper *Davar*, gave an account of what soldiers and commanders did to drive Palestinians out of their homeland. “At the Palestinian village of Duwayma,” the soldier said, “Israeli troops killed some 80 to 100 Arab women and children. The children were killed by smashing their skulls with clubs. . . . In the village there remained Arab men and women who were put in the houses without food. Then the sappers came to blow up the houses. . . . Cultured and well-mannered commanders who are considered good fellows . . . have turned into murderers, and this happened not in the storm of the battle and blind passion, but because of a system of expulsion and annihilation. The less Arabs remain, the better.”<sup>277</sup> Meir Cohen, a member of Israel’s Knesset, defended the crimes committed by his fellow Zionists and blamed them for not doing more. He said recently, “We had the

means in 1967 to make sure that two or three hundred thousand [Palestinians] would move to the other side as was done at Lod, Ramlah and Galilee in 1948, but," he added, "we made a calamitous mistake. Things would have been simpler today: no Palestinian problems, no stones, no demonstrations."<sup>278</sup>

Simha Flapan, the founding editor of the Israeli magazine *New Outlook*, wrote, "In one of the gravest episodes of this tragic story, as many as fifty thousand Arabs were driven out of their homes in Lydda and Ramlah on 12–13 July, 1948."<sup>279</sup> In a 1979 article dealing with the forced evacuation of Lydda and Ramlah, *New York Times* reporter David Shipler cites Red Cross and British documents to the effect that the attackers "lined men, women and children up against walls and shot them." "News of the expulsions, of brutal treatment, of looting, and of the terrible suffering of Arabs forced to leave their homes and properties [in Palestine] were reported by witnesses, among them religious dignitaries, doctors and nurses, church-school teachers, journalists, Quakers, members of the staff of U.N. Mediator Count Bernadotte, and people from the International Red Cross."<sup>280</sup>

The United Nations adopted in 1947 a resolution to divide Palestine between its Arab and Jewish populations; however, it failed to implement its plan. Moreover, the Truman Administration made no effort to facilitate the establishment of a Palestinian state in the Arab part of Palestine as was called for in the 1947 resolution. Although the U.S. was a major force in leading a great number of the world's then-independent nations to adopt the partition plan, it joined with Israel in ignoring this and other UN resolutions, particularly UN Resolution 194 which called for the repatriation of the Palestinians and compensation for those who chose not to return.

Following the expulsion of the estimated 800,000 Palestinians from their homeland, and as a result of Israel's refusal to allow them to return to their homes, the United Nations had to establish a special agency to address their urgent needs. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established and funded by UN member states. The U.S. contributed \$67 million in 1986 to the UNRWA budget. U.S. contributions since UNRWA began operations in 1949–50 have exceeded \$1 billion.<sup>281</sup>

Helping Palestinians after 1948 was an American attempt to alleviate the sufferings of Israel's victims. The U.S. government recognized the victims and extended some assistance to them, but failed to identify the perpetrators. In fact, the U.S. has been much more generous with the perpetrators than with the victims, extending more than \$43 billion to Israel and honoring some of its most notorious terrorists such as Shamir, Sharon, and Begin.

## FINANCIAL COST OF SUPPORTING ISRAEL

Financial transfers to Israel are estimated at about \$6 billion a year, of which some \$4 billion represents official and private grants and donations. The other

**Table 22**  
**Financial Cost of Supporting Israel (estimated dollars in billions)**

	<u>Dollars</u>	<u>Dollars (1987)</u>
Official Aid (1948-88)	\$43	\$68
Private Assistance (1948-87)	32.5	60.5
Other Grants and Subsidies	25	40
Aid to Egypt (1978-88)	24	35
Extra Military Expenditures and Losses Since 1967	30	45
Contribution to UNRWA	1	2.2
Contribution to Peacekeeping Missions Since 1949	<u>2</u>	<u>3.3</u>
<b>TOTAL</b>	<b>157.5</b>	<b>254</b>

\$2 billion consists of the sale of Israel bonds, American deposits in Israeli banks, and other concessionary and commercial loans. Direct and indirect subsidies provided by the U.S. and its citizens are valued at \$1.5 billion a year. Total aid to Israel, therefore, is about \$7.5 billion a year.

Aid given to Egypt to keep the peace with Israel is about \$2.3 billion a year. In addition, U.S. annual contributions to the UNRWA and peacekeeping missions and funds for improving security around U.S. embassies in the Middle East amount to \$200 million. Indirect aid intended to pacify the Palestinians, Israel's victims, and improve the state's security by keeping Egypt out of the conflict therefore adds another \$2.5 billion to the cost of its support. Extra military expenditures the U.S. has been paying, due to its commitment to Israel's security, cost another \$1.5 billion a year. The cost of borrowing the funds appropriated for both Israel and Egypt would add another \$500-600 million a year. Security expenditures and aid to Egypt, therefore, add another \$4.5 billion (see table 22).

When all the above expenditures, grants, and subsidies are totaled, the annual cost of supporting Israel comes to more than \$12 billion a year.

The cost of supporting Israel should also include the loss of military and commercial sales to Arab countries, estimated at about \$8.5 billion a year. Thus, the total financial cost of supporting Israel amounts to a stupendous \$20.5 billion each year.

To America's poor and taxpayers, these figures have another meaning and raise many puzzling questions. On September 23, 1984, the *Washington Post* said that "Reagan proposes to spend six times more on aid to Israel in the coming year than on energy conservation in the U.S.; twice as much as on domestic



consumer and occupational health and safety programs; and about the same amount as the combined worldwide spending of the State Department and the Peace Corps, plus all the contributions to the U.N. and its agencies.’’<sup>282</sup>

Since the creation of Israel in 1948, the U.S. Congress has never cut a foreign aid request for Israel. The White House, equally sensitive, has never requested a cut. In fact, both Congress and the White House seem to have been competing to raise aid levels and appease Israel’s lobby. During fiscal year 1983, when the Reagan administration was cutting the child nutrition program, mass transit, and the food stamp program, the administration proposed a substantial increase in aid for Israel. Congress, however, wanted more aid for Israel than the administration had requested; as a result, Israel received \$300 million more than the 1982 figure. That increase alone could have restored the \$280 million cut from the child nutrition program. The \$1.7 billion in military aid given to Israel for that year could, moreover, have covered the costs of the food stamp program and the mass transit projects cut by the administration.<sup>283</sup>

In addition, giving Israel an estimated \$3.5 billion a year in grants and concessionary loans increases the U.S. budget deficit; allowing the Israeli government to spend a substantial portion of that aid in Israel increases the size of the U.S. balance-of-payments deficit. Both measures, moreover, contribute to stimulating higher interest rates in the United States. Allowing Israeli products unlimited access to American markets further increases the pressure on American industries, particularly those suffering from foreign competition. Higher interest rates, larger budget and balance-of-payments deficits, and increased foreign competition are usually the right recipe for depressed domestic investment, slower economic growth, and higher unemployment.

While the financial and economic price the U.S. must pay for supporting Israel is tremendous, the human, cultural, and political costs are immense and incalculable. The policy of the pro-Israel lobby, which is based on the quick reward of friends and quicker punishment of perceived enemies, has served to humiliate many senators, congressmen, and administration officials, including the president himself.

Lord Christopher Mayhew said on June 5, 1986: ‘‘Israel’s demands for financial, economic, diplomatic and military support increasingly isolate the U.S. at the United Nations and strain its relations not only with the Arab world but with its European NATO allies and the non-Arab Third World. And if the Arab governments were not so disunited, the U.S. unconditional and unprincipled support for Israel would open an easy highway into the Middle East for Soviet power.’’<sup>284</sup> It must be noted, moreover, that Soviet entry into the Middle East came with the Russian arms Egypt had to purchase after the U.S. refused to sell Nasser the arms he requested back in the mid-1950s.

Hostage-taking by Iranian and Lebanese radicals and the death of U.S. citizens in American embassies in many Middle Eastern and European countries and on U.S. commercial ships and planes represent some of the human cost of America’s blind support for Israel and obstinate refusal to recognize the legitimate rights

of the Palestinian people. Terrorist acts, which targeted American interests in the 1970s, are today aimed at eliminating the U.S. presence and Western interests and influence in the Middle East altogether.

Arab grievances against the U.S., as the last few years have unequivocally proved, tend to increase as U.S. aid to Israel increases, and acts of terrorism escalate as Israeli policies of aggression gain the American seal of approval. Jim Hoagland wrote recently in the *Washington Post*: "A decade ago, Palestinian groups usually aimed their outrages at forcing changes in Western policies toward the region—specifically, American support for Israel. . . . But today, the far radical Arab forces . . . want to drive out any significant Western presence in the Muslim world and to destroy moderate Arabs and others who are still open to contact and cooperation with the West."<sup>285</sup>

Mark A. Bruzonsky, a former Washington associate of the World Jewish Congress, said that "the price America is paying for its excessive one-sidedness in the Middle East is growing alienation throughout the region, a sharp decline in American credibility, and the nurturing of anti-American sentiments."<sup>286</sup>

American aid to Israel is so extensive and multifaceted that no researcher can really untangle all its components or successfully navigate its political intricacies. However, annual economic and military aid was estimated earlier at more than \$12 billion per year. Another \$8.5 billion represents lost commercial and military sales to Arab and Muslim countries. The \$20.5 billion-per-year increase in income and budget savings, which would be realized through cessation of American support of Israel, could create more than 1.5 million new jobs in America and thus reduce unemployment by about one-fourth, helping alleviate the sufferings of millions of America's poor. Increasing employment in the U.S. and additional exports to Arab and Muslim countries would more likely reduce the federal budget and trade deficits. Reducing Israeli competition with American industries should also increase demand for American products. All in all, treating Israel like any other Middle Eastern country in terms of aid and adopting an evenhanded policy toward the states of the Middle Eastern region would put the U.S. economy on a healthier path, protect U.S. interests, and maintain American influence in the region for decades to come.

**III**  
**FOREIGN AID AND**  
**THE FUTURE OF**  
**ISRAEL**



## 10

# Foreign Aid and the Israeli Economy

The first twenty-five years of Israel's history (1948–73) were characterized by healthy economic growth, low unemployment, and a rising standard of living. While the growth of the Israeli economy averaged about 9 percent per year, GNP per capita grew by 4.9 percent per year. Such accomplishments were achieved despite heavy military spending, unfavorable balance of trade, and a doubling of population through immigration. In view of Israel's limited natural resources and the launching of two major wars against its Arab neighbors, in 1956 and 1967, Israel's economic accomplishments appear to have been remarkable indeed.

Between 1974 and 1982, Jewish immigration to Israel declined substantially, and Israel fought no major wars against its Arab neighbors. Economic growth, nonetheless, experienced a tremendous decline, and problems related to unemployment, higher inflation, and a widening trade deficit began to appear and persist. While Israel's GNP grew at a relatively modest rate of 3.1 percent per year, the average growth of GNP per capita was less than 1 percent per year.

During the last six years, Israel's economy has stagnated and its average GNP annual growth rate has declined to less than 1 percent.<sup>287</sup> GNP per capita, as a result, experienced a real negative growth and Israel's standard of living declined by more than 10 percent. In 1986, for example, GNP per capita was about \$6,000, the same as that in 1980.<sup>288</sup> At the same time, unemployment climbed to its highest level ever, domestic investment declined to dangerously low rates, and the rate of inflation skyrocketed to unprecedented heights. Meanwhile, Israel's trade deficit widened, the government's budget deficit persisted, and the foreign debt exceeded the \$29 billion mark.<sup>289</sup>

Israel today suffers from the highest per capita foreign debt in the world, the highest per capita trade deficit, and the highest per capita budget deficit. In

addition, Israel's dependence on exports and imports as a percentage of GNP is the highest in the world. Equally important is Israel's dependence on foreign aid, which is the highest in the world in absolute terms, as well as relative to GNP and per capita. The Israeli budget of the last few years has exceeded Israel's GNP by about ten percent, and foreign debt has reached 125 percent of the GNP. In fact, Israel today is the only state in the world, possibly in history, whose budget has exceeded its GNP for several consecutive years.

The higher economic growth rates which Israel experienced during the first twenty-five years of its history, therefore, could not have reflected the real state of the Israeli economy nor the state of war and instability that existed during that period and which continues to prevail in the Middle East. Political circumstances and nonpolitical forces which contributed to Israel's apparent economic success during the 1948–73 period included: the confiscation of Arab land and property in 1948–49 and again in 1967; an infusion of some \$700 million per year in foreign capital from West Germany as war reparations, restitution, and military assistance; an estimated \$1 billion a year from world Jewry in the form of donations, gifts, and direct investment; and a generous United States, which provided Israel with some \$3.5 billion in grants, loans and other subsidies.

## FOUNDATIONS OF THE ISRAELI ECONOMY

When Israel was created in 1948, about 800,000 Palestinians, representing some 50 percent of the Arab population of Palestine, were terrorized into fleeing their homes. Land, personal property, shops, towns, and cities, which they were forced to abandon, were confiscated or taken over by the newly created Jewish state. Arab assets and the income they generated were claimed by Israel as an addition to its GNP. As a result, Israel's GNP reflected a 29.7 percent growth in 1951, the first year GNP figures were compiled.

Don Peretz, a well-known Israeli writer and professor, observed: "Abandoned property was one of the greatest contributions toward making Israel a viable state . . . of the 370 new Jewish settlements established between 1948 and the beginning of 1953, 350 were on absentee property. In 1954, more than one-third of Israel's Jewish population lived on absentee property and nearly one-third of the new immigrants settled in urban areas abandoned by Arabs. They left whole cities like Jaffa, Acre, Lydda, Ramleh, Beisan, Migdal-Gad: 388 towns and villages and large parts of 94 other cities and towns, containing nearly a quarter of all buildings in Israel. Ten thousand shops, businesses and stores were left in Jewish hands. . . . In 1951–52, Arab [citrus] groves produced one-and-a-quarter million boxes of fruit, of which 400,000 were exported. Arab fruit sent abroad provided nearly ten percent of the country's foreign currency earnings from exports in 1951. In 1949, the olive produce from abandoned Arab groves was Israel's third largest export, ranking after citrus and diamonds."<sup>290</sup>

A more detailed account of exactly how "abandoned" Arab property assisted in the absorption of the new Jewish immigrants and in establishing the real

foundation of the Israeli economy was prepared by Joseph Schechtman, who helped create the myth of the “voluntary” exodus of the Arabs of Palestine.

It is difficult to overestimate the tremendous role this lot of abandoned Arab property has played in the settlement of hundreds of thousands of Jewish immigrants. . . . Forty-seven new rural settlements established on the sites of abandoned Arab villages had by October 1949 already absorbed 25,255 new immigrants. By the Spring of 1950 over a million dunams had been leased by the custodian to Jewish settlements and individual farmers for the raising of grain crops. . . .

Large tracts of land belonging to Arab absentees have also been leased to Jewish settlers, old and new, for the raising of vegetables. In the South alone, 15,000 dunams of vineyards and fruit trees have been leased to cooperative settlements; a similar area has been rented by the Yemenites Association, the Farmers Association, and the Soldiers Settlement and Rehabilitation Board. This has saved the Jewish Agency and the government millions of dollars. While the average cost of establishing an immigrant family in a new settlement was from \$7,500 to \$9,000, the cost in abandoned Arab villages did not exceed \$1,500.

Abandoned Arab dwellings in towns have also not remained empty. By the end of July 1948, 170,000 people, notably new immigrants and ex-soldiers, in addition to about 40,000 former tenants . . . had been housed in premises under the custodian’s control; and 7,000 shops, workshops and stores were sublet to new arrivals. The existence of these Arab houses—vacant and ready for occupation—has, to a large extent, solved the greatest immediate problem which faced the Israeli authorities in the absorption of immigrants. It also considerably relieved the financial burden of absorption.<sup>291</sup>

Israeli journalist Tom Segev adds his own account of what had happened in 1948 in a book called, in *New Outlook* magazine, “thought-provoking, revealing and disturbing.” Segev wrote: “Of the thousands of [Jewish] immigrants in transit vans, hundreds came with their meager possessions to Jaffa day-by-day, searching for homes in abandoned property in the newly-captured town. Few found anything, for nearly every inhabitable home had already been taken over. As for the Arabs who stayed in Israel, they felt defeated, humiliated and scared. They had good reason to be frightened because the Israeli soldiers often had few compunctions about looting, even when houses were still occupied. . . . Robbing and looting of Arab property was rampant during and immediately after the 1948 war and Ben Gurion was bitterly surprised by the mass looting, in which all sections of the Jewish population participated.”<sup>292</sup>

Yitzhak Zvi, a leader of Israel’s Labor party and Israel’s second president, called upon his fellow Zionists in 1948 to confiscate Arab property and physically occupy it without delay. Zvi wrote: “Jewish community and fund-raising leaders abroad would not understand if 400,000 places were taken from the Arabs and only 70,000 were used for housing immigrants. . . . Abandoned property must be exploited at once.”<sup>293</sup>

When Israel was created in 1948, the Jewish population of Palestine represented about 31 percent of the total population and owned less than six percent of the land. Palestinian Arabs represented about 69 percent of the population

and owned between 88 and 91 percent of the land.<sup>294</sup> Zionists, nevertheless, occupied some 80 percent of Palestine and caused the forced evacuation of 90 percent of the population of the land they occupied; it was the land upon which Israel was established. By 1983, the Israeli government was still holding title to some 93 percent of the land in Israel, testimony that the land had actually been Arab property which Israel confiscated in 1948–49.

Arabs who remained in Israel were forced to live under the control of military governors acting on behalf of the minister of defense. The military administration's authority was grounded in the British Mandatory Emergency Regulations, which were introduced in 1945 to control the Jewish terrorist attacks aimed at the British administration. On their introduction, they were described as "Nazi" by Chaim Shapira, who later became Israel's minister of justice. Simha Flapan described the Israeli emergency regulations as follows:

"The emergency laws authorized the army and its military governors to exercise complete control over the life, property, work, and freedom of movement of civilians under their jurisdiction. The presiding officials could detain or imprison local inhabitants without charges or trial for an indefinite period, expel them from their country, confiscate or destroy their property, and prohibit them from working or pursuing any other kind of activity. They were also empowered to close off entire areas for indefinite periods. All of this was done in the name of security, and no proof was required to justify any action in any court of law. In fact, by order of the Ministry of Defense, the military administration was immune from any interference by legislative or judicial authorities."<sup>295</sup>

Arabs, who were Israeli citizens, continued to live under this military administration until 1965, when it was abolished by the Knesset. However, since 1967, the occupied territories of the West Bank, the Gaza Strip, and the Golan Heights have been under a similar military administration.

After the absorption of Arab land and property had been completed in 1951, the Israeli economy began to exhibit signs of weakness (see table 23). In 1952, the GNP rate of growth dropped to 4.7 percent, down from 29.7 percent a year earlier, and GNP per capita was a negative 2.7 percent after an increase of 10 percent. In 1953, the GNP growth rate was a negative 1.9 percent, and GNP per capita a negative 4.4 percent. Foreign aid, which began in earnest in 1953, helped the Israeli economy pull itself out of the 1953 recession. Yet it reinforced Israel's inherent economic weakness as the Israeli economy began to depend heavily on foreign sources of capital.

As the figures in table 23 reflect, the growth rates of the Israeli economy were extremely high at times, and, at other times, they were extremely low. In addition, they exhibited very unusual behavior as they fluctuated widely from one year to another. Such uncharacteristic fluctuations could not have been caused by normal economic changes, and thus can not be explained by employing accepted tools of economic analysis. Israel's economic experience, in fact, has been unique; it warrants, therefore, new examination.

In 1952, Israeli Prime Minister David Ben-Gurion concluded a war reparations



**Table 23**  
**Percentage Change in Israel's GNP, Per Capita, Private Consumption, and Government Expenditures**

<u>Year</u>	<u>GNP</u>	<u>Per Capita</u>	<u>Private Consumption</u>	<u>Government Expenditures</u>
1951	29.7	10	4.0	20.2
1952	4.7	-2.7	0.0	-3.9
1953	-1.9	-4.4	0.7	5.1
1954	19.9	17	12.4	17.0
1955	13.9	9.9	4.3	15.9
1956	9.2	4.5	4.6	43.7
1957	8.6	2.8	1.4	-15.8
1958	7.1	3.4	6.3	3.1
1959	12.7	9.4	6.5	4.0
1960	6.6	3.8	4.2	6.7
1961	10.2	6.5	7.3	17.1
1962	10.1	5.4	5.7	10.5
1963	11.4	7.1	5.7	11.2
1964	9.8	5.4	6.4	2.8
1965	9.1	5.4	5.4	10.4
1966	0.8	-1.8	-0.7	11.0
1967	2.2	-1.0	-0.9	38.3
1968	15.5	11.7	9.7	9.1
1969	12.7	9.6	7.2	16.6
1970	7.9	4.6	-0.2	26.3
1971	11.1	7.7	2.5	1.3
1972	12.6	8.9	6.5	-1.5
1973	4.1	0.8	4.8	45.3
1974	5.5	2.4	4.5	2.8
1975	3.5	1.2	-2.0	10.2
1976	1.8	-.3	2.5	-9.7
1977	2.2	-.1	2.5	-13.4
1978	3.4	1.2	5.8	8.4
1979	4.4	1.8	5.3	-8.7
1980	2.7	0.3	-5.0	9.1
1981	4.6	2.8	9.0	6.3
1982	-0.2	-2.0	5.5	-6.6
1983	0.9	N/A	N/A	N/A
1984*	0.5	N/A	N/A	N/A
1985*				

Sources: *Statistical Abstract of Israel*, Central Bureau of Statistics, State of Israel, 1983, p. 61; Clyde Mark, *The Israeli Economy*, Congressional Research Service, 1986, p. 18; U.S. Department of Commerce, International Trade Administration, Office of the Near East, September 1985.

agreement with the West German government. According to that agreement, which was signed in September 1952, Israel was accorded \$1.1 billion spread over twelve years. The U.S., moreover, gave Israel an \$86.4 million grant, and over the following two years Israel received another \$148.3 million in U.S. grants.<sup>296</sup> In 1953, Israel received the first installment of the German war-reparations payment, and by 1954 the sale of Israel bonds began to generate hundreds of millions of dollars annually. In 1959, West Germans and German

institutions began to buy State of Israel Bonds and to invest directly in the Israeli economy. A year later, the West German government agreed to extend to Israel a new \$500 million, ten-year loan at a concessionary rate of interest.

The injection of American and German funds between 1953 and 1954 and the subsequent infusion of foreign capital lifted the Israeli economy out of its 1953 recession and put it on a high growth path that lasted for more than a decade. While Israel's GNP had contracted by about 2 percent in 1953, it expanded by an incredible 20 percent in 1954. German reparations payments and loans, American grants and loans, world Jewry's donations, and the sale of Israel bonds were instrumental in keeping the Israeli economy growing and thus helping improve Israel's standard of living.<sup>297</sup>

Although German payments to Jewish individuals continue to this day, payments to the Israeli government came to an end in 1965. U.S. aid to Israel also declined around the mid-1960s from a high of \$93.4 million in 1962 to a low of \$37 million in 1964. Meanwhile, Israel's military build-up continued in preparation for the war it was to launch in 1967. Consequently, the Israeli economy began to slow down and the GNP growth rate dropped from 11.4 percent in 1963 to 9.1 percent in 1965 and to less than 1 percent in 1966. The dramatic decline in the rate of economic growth between 1965 and 1966 demonstrated again the inherent weaknesses of the Israeli economy and its heavy dependence on foreign financial resources.

In 1967, Israel fought and won the most decisive war in its history, occupying the West Bank and Gaza Strip—the two remaining Arab-controlled territories of Palestine—and the Sinai and Golan Heights. Unlike Egypt, Syria, and Jordan, the Israeli economy showed unusual strength as the rate of economic growth increased from 2.2 percent in 1967 to 15.5 percent in 1968, another remarkable turnaround in one year. The confiscation of Arab property in the West Bank and Gaza and the exploitation of the Egyptian oil fields in the Sinai presented Israel with another windfall of new assets and sources of income. In addition, the occupied territories were turned into a captive market for Israeli industrial and agricultural products as well as a source of cheap labor.<sup>298</sup>

## ECONOMIC BENEFITS OF OCCUPATION

Property owned by those who fled their homes under Israeli fire in 1967 and by those who lived at the time of the war outside the occupied territories was confiscated by the Israeli government. According to a study published in March 1985 by the West Bank Data Base Project, 52 percent of the land area of the West Bank has been either confiscated by the Israeli government or brought under Israeli military control.<sup>299</sup> In the Gaza Strip, Israelis have confiscated about one-third of its land area, even though Gaza is one of the most densely populated parts of the world. In addition, Israel was able to control and utilize the oil resources of the Sinai from 1967 to 1975, during which more than one-third of Israel's oil needs were derived from Sinai. Israel's limited water resources,

moreover, made it heavily dependent for water on the West Bank. Now about one-third of Israel's total water consumption comes from ground water derived from the West Bank.<sup>300</sup>

The Israeli dominance of the economy of the occupied territories, as Israeli economist Simcha Bahiri says, 'is part of the classic colonial relationship, especially if one takes Israeli settlement activity into consideration . . . with the occupation began an Israeli-dominated economic integration. This took the typical colonial form of treating the territories as a supplementary market for Israeli goods and services on the one hand and as a source of factors of production for the Israeli economy on the other. Colonialization efforts also included expropriation of land and water and extensive Jewish settlements.'<sup>301</sup>

Trade between Israel and the occupied territories underlines this colonial relationship and reveals the extent of Israeli exploitation of the Palestinian economy. In 1986, for example, Israeli exports to the West Bank (excluding East Jerusalem) and the Gaza Strip were valued at \$780 million and represented 90 percent of the territories' imports. On the other hand, the territories' exports to Israel reached \$289 million and represented 73 percent of their total exports,<sup>302</sup> thus making the territories very much dependent on the Israeli market for their survival.

Israel's exports of \$780 million represented about 11 percent of Israeli goods exported and 22 percent of industrial exports, if diamonds and military goods are excluded.<sup>303</sup> Only exports to the United States ranked higher, making the occupied territories "the second most important market for Israeli exports."<sup>304</sup> Israeli imports from the territories represented only 3 percent of Israel's total imports. Even this low figure does not reflect the actual size of the territories exports to Israel, since "most Israeli imports center on labor-intensive textile, clothing, and leather goods, which are profitably sub-contracted and returned in partial or finished form with most of the benefits accruing to Israel."<sup>305</sup> In fact, "exports from the occupied territories to Israel are totally prohibited, except by special permission which very rarely is granted," says Israeli professor and human rights activist Israel Shahak. "And just to make sure there is no possibility of competition with Israeli exports, two other prohibitions are inflicted on the Palestinians of the occupied territories. First, they may not export any of their produce to any country to which Israel already exports the same product. Second, Israel prohibits the establishment of any kind of industry in the occupied territories which might compete with Israeli exports."<sup>306</sup> Defense Minister Yitzhak Rabin said in 1985 that "there will be no development [in the occupied territories] initiated by the Israeli government, and no permits will be given for expanding agriculture or industry which may compete with the state of Israel."<sup>307</sup>

While the population of the occupied territories is more than 30 percent that of Israel, "the national product in the territories is seven percent of the Israeli national product."<sup>308</sup> As a result, GNP per capita in the territories was about \$750 in 1985 as compared to \$5,100 in Israel. Public consumption in the occupied territories, which is all civilian, is estimated at \$130 million per annum, and per

capita public consumption at \$100.<sup>309</sup> In comparison, public consumption in Israel (excluding military and foreign debt expenditures) is about \$12 billion per annum, and per capita public consumption is about \$3,000 per year. In addition, “investment in machinery and equipment in the territories is only 1.5 percent of investment within Israel—and in Israel, too little, much too little, is invested.”<sup>310</sup>

According to Simcha Bahiri, “there has been little or no per capita GNP growth in Israel and the territories since 1980.”<sup>311</sup> Meanwhile, “agricultural production in the territories has declined at a real annual rate of 4.5 percent.”<sup>312</sup> “As a result of both the continuing stagnation of Israel’s economy and erosion in the reserves of domestic productive capital, Israel has choked the territories’ economies,”<sup>313</sup> wrote Sever Plucker, editor-in-chief of the Israeli daily *Al Hamishmar*.

The trade balance between Israel and the occupied territories has been in Israel’s favor since 1967. While it was \$58 million in 1969 and \$406 million in 1985, it reached \$491 million in 1986. Since Israeli statistics exclude East Jerusalem, the actual trade balance with the occupied territories would be about \$600 million. In addition, Israel’s economy benefits from West Bank tourism, estimated at \$500 million a year.<sup>314</sup> Trade with the occupied territories and income derived from West Bank tourism bring to Israel about \$1.1 billion annually.

In 1987, the number of Jewish settlers who were living on Arab land confiscated by the Israelis reached 60,000. “Israeli settlements benefit from virtually unlimited use of water, while Arab water usage for agriculture is limited to the amount utilized prior to 1967.”<sup>315</sup> When benefits derived from the settlement and exploitation of Arab land and the utilization of the territories’ water resources are accounted for, the contribution of the occupied territories to the Israeli economy could easily exceed \$2 billion annually.

In addition, an estimated 100,000 Palestinian workers from the West Bank and the Gaza Strip travel daily to work in Israel, mostly in construction and menial jobs that Israelis shun. In 1986, labor from the occupied territories accounted for 6.5 percent of the employment in Israel. In construction, it was 64 percent, in agriculture, 30 percent, and in industry, 14 percent.<sup>316</sup>

Total employment of labor from the occupied territories of the West Bank and Gaza reached 261,200 in 1986, of which 167,000 came from the West Bank and 94,200 from the Gaza Strip. Of the West Bank workers, 115,700, or 69.3 percent, were employed locally, while another 51,300 were employed in Israel. Of the Gaza Strip workers, 50,800, or 53.9 percent, were employed locally, and another 43,400 were employed in Israel. Thus more than 36 percent of the entire labor force from the occupied territories was employed in Israel. Another 25 percent work in the territories as subcontractors and produce for Israeli use.<sup>317</sup> Therefore, more than 61 percent of all those employed work for Israel and depend on it for their livelihood.

Palestinian workers who work in and for Israel benefit the Israeli economy in many ways.

1. They help Israeli industry and agriculture maintain their competitiveness because they are paid much less than Israeli workers would be paid for the same job;
2. They mostly hold menial jobs which Israelis tend to shun, thus freeing Israel's human resources to seek employment in the economy's advanced sectors;
3. Since they pay taxes and receive no benefits in return, they contribute substantially to narrowing the budget deficit, increasing available funds for investment, and consequently to lowering interest rates; and
4. They help expand export markets for Israeli goods and services.

On their way to and from work in Israel, Palestinians are subjected to humiliation and abuse. While Palestinian workers are grossly underpaid, they hold no permanent jobs and are denied the right to stay overnight in Israel. Though required by law to pay medical insurance and state and social security taxes, Palestinians receive no medical, unemployment, or social security benefits.

C. Robert Zelnick, who served as chief correspondent for ABC News in Tel Aviv for several years, observed: "An Arab resident of the territories finds it impossible, or nearly so, to export foods to markets coveted by the Israelis, sell products inside Israel, start a business that might compete with Israeli enterprises, attend a political meeting, charter a bank, or drill a well for water. . . . More than half the West Bank and about a third of Gaza have already been confiscated by the Israeli government. . . . Fifty percent of the Gaza labor force has been forced by the circumstance into menial jobs inside the green line [Israel]; . . . through economic coercion and discrimination Israel engineered a trade surplus with the occupied territories last year approaching half a billion dollars; . . . the brunt of Israel's pitiful economic performance falls most heavily on its Palestinian subjects. . . . In fact today, as ever since 1967, Israeli democracy stops at the green line. Economic and political justice has yet to penetrate the West Bank or Gaza Strip."<sup>318</sup>

Meron Benvenisti, former deputy mayor of Jerusalem, was more specific in describing Israeli treatment of Palestinian workers. "The institutional treatment of Palestinian laborers is indicative of the underlying communal norms. Legal laborers, supposedly protected by state agencies and trade unions, are institutionally discriminated against and suffer from lack of concern for their basic needs. . . . They are generally not entitled to monthly wages, sick days, vacations, bonuses, severance pay, seniority and other fringe benefits that their Jewish co-workers are. But the major element of discrimination is in social security payments, pension allowances, and medical insurance. Although 20 percent of a worker's gross pay is transferred by the employer to the government for social security, the Palestinian laborer does not benefit from it. The enormous sums deducted since 1967 never reached the National Insurance Institute. They are transferred directly to the Treasury and kept there until the future of the territories is determined. In the meantime, Palestinian laborers have to make do without old-age allowance, child allowance, general disability allowance, unemployment

and wage compensation. The monies deducted from their wages, now huge sums accumulated over two decades, are not used to guarantee their future. They “should instead be regarded as a sort of occupation tax, an added drain on meager Palestinian resources.”<sup>319</sup>

According to Benvenisti’s calculation, during the twenty years of Israeli rule the Palestinians of the West Bank have paid an “occupation tax” to the Israeli authorities of \$800 million.<sup>320</sup> Other taxes Palestinians pay are estimated at \$150 million annually, which the Israeli authorities use to finance local public needs, services, and investment. In 1985, for example, the Israeli authorities collected \$140 million in taxes and in 1986 they spent about \$130 million in the territories.<sup>321</sup> Since the population of the occupied territories was about 1.5 million, per capita civilian public consumption was less than \$100 as compared to \$2,950 in the U.S. and about \$3,000 in Israel. At such a low level, it is impossible to maintain a suitable level of administrative, governmental, educational, health, and other welfare services.

As these facts and figures indicate, the occupied territories suffer from both extreme dependency and forced underdevelopment. The dependency comes from having to rely on Israel for 90 percent of their imports, 73 percent of their exports, and 61 percent of their employment. The forced underdevelopment stems from Israeli confiscation of more than 50 percent of their land, control of all of their water and mineral resources, and prohibitions of virtually all investment in industry and agriculture. In fact, Palestinians are not permitted to plant a tree, dig a well for water, buy a machine, or export any goods without permission, which is rarely granted. Out of 1.5 million people, only 261,000, or 17 percent, are employed.

As for human rights, Israeli Professor Avishai Margalit says that Israel has become a democracy of masters. Writing in the daily *Yediot Ahronot*, he said: “The Jewish masters enjoy all the advantages of democracy, while their servants merely serve. Yet there is another, more despicable and no less fitting name for such an arrangement: Apartheid. . . . The [South African] apartheid regime came into being at the same time as did the state of Israel. The purpose of that regime, as articulated in its laws, is to preserve and maintain the racial identity of the white population of the country, while also preserving and maintaining the identity of the native population, with the option of the latter’s developing into a single, self-administered national unit. Black and white are segregated into demarcated zones. Thus blacks who are employed in white areas are defined as temporary residents without political or social rights. If you substitute “Jew” and “Arab” for “white” and “black,” you get the picture of what is happening in Israel.”<sup>322</sup> In fact, Palestinians, unlike blacks in South Africa, are not permitted to develop into a single, self-administered national unit, and are not permitted to become temporary residents of Israel. And while Palestinians are denied the right to settle in Israel, Israelis are allowed and even encouraged to confiscate Arab properties and build exclusively Jewish settlements on them. As a result,

the lot of the Arabs in the occupied territories has become worse than that of the blacks in South Africa.

Tamar Peleg identified some of the Israeli discriminatory practices in the occupied territories when he wrote in *Al Hamishmar* on May 19, 1987, that the bulk of West Bank land is “controlled by the state in flagrant violation of international law regarding occupied territory. . . . Palestinian inhabitants must have permits and licenses for every step they take . . . they are forbidden to leave the area without a permit . . . they must return by a specific date so as not to forfeit their right to return . . . they need a license to plant a tree or bush or cultivate onions, to accept financial contributions or transfer monies abroad, to practice law, to found a charitable organization, or to send any printed matter out of the area.”<sup>323</sup>

*New Outlook* wrote in an editorial that “if a married Palestinian woman has three children, two born in the occupied territories, the third born while she happened to be abroad, the last child may not receive a residence permit. Kafka could not have imagined such a situation.” The editorial then went on to question the moral integrity of the “Jew who dares ask how we can campaign for free Soviet Jewish emigration and family reunification in Israel, and mobilize the entire civilized world in support of that demand, while at the same time depriving thousands of Palestinians of the same right to family reunification.”<sup>324</sup>

The *Washington Post* reported June 3, 1987, that “the statistics of occupation suggest a harsh environment for Palestinian youth: 250,000 Palestinians [about 17 percent of the total population] have been in Israeli prisons during their lifetimes; 1,215 have been deported or expelled; and 1,300 homes have been bulldozed as part of collective punishment. . . . According to U.S. officials, including Ambassador Thomas Pickering, they face increasingly repressive measures from aggressive Israeli settlers and from the Israeli military authorities who administer the territories.”<sup>325</sup> The International Red Cross further reported that during nearly two decades of Israeli rule there have been approximately half a million detentions or arrests on security grounds in the occupied territories.<sup>326</sup> The harsh measures employed by the Israeli army to quell the 1987/88 popular uprising in the territories has substantially increased the number of homes demolished, persons deported, and youth imprisoned.

## IMPACT OF OCTOBER 1973 WAR

The economic benefits derived from the confiscation of Arab land and water resources, the increased Israeli income from trade with the occupied territories and West Bank tourism, the exploitation of Palestinian workers, and the utilization of the Sinai oil fields helped carry the Israel economy along until the 1973 October War. While the rate of economic growth was less than 1 percent in 1966, it averaged more than 10 percent per year between 1967 and 1972. In 1973, the GNP growth rate dropped to 4.1 percent, down from 12.6 percent in

**Table 24**  
**Israeli Defense Expenditures as a Percentage of Israel's GNP**

<u>Period</u>	<u>Percentage</u>
1950-55 (to the Suez Canal War)	7.1
1956-66 (to the Six Day War)	9.7
1967-72 (to the October 1973 War)	21.0
1973-78 (to Camp David)	30.0
1979-1986	21.9

*Source:* Simcha Bahiri, "Military and Colonial Aspects of Israeli Economy Since 1967," *New Outlook*, May-June 1987, p. 31.

1972, and military expenditures were increased substantially in order to rebuild the Israeli armed forces. The U.S. assistance of \$2.65 billion, which was extended to Israel in 1974, helped pay for Israel's war losses and served to stabilize its economy.

In 1975, U.S. assistance to Israel declined to \$803 million, less than one-third of that of 1974, and Israel had to return the Sinai oil fields to Egypt. As a result, the cost of importing oil increased by about 50 percent and Israel's economy began to slow down. The rate of economic growth, which reached 5.5 percent in 1974, was 3.5 percent in 1975, and only 1.8 percent in 1976. Again the heavy dependence of Israel's economy on foreign aid was underlined, and the U.S. had to increase its assistance. Between 1976 and 1980, U.S. aid to Israel averaged \$2.66 billion per year. Yet Israel's GNP grew by 2.9 percent only, and the GNP per capita grew by a meager .5 percent.

The October War was instrumental in shattering another major premise of Israeli policy toward the Arabs: The Israeli failure to defend the new borders and the tremendous material, human, and political losses, which Israel incurred during the war, proved that controlling the occupied territories would not provide Israel with added security. As a result, many Israelis began to lose faith in the Zionist dream, and the Israeli government began to concentrate on strengthening the military in the hope of preventing another October War.

While Israel's military budget consumed about 10 percent of the Israeli GNP between 1960 and 1965, its share increased to 26 percent of GNP in 1970 and reached a high of 32 percent in 1974.<sup>327</sup> The Israeli military budget experienced large increases during and immediately after the 1967 and 1973 wars and declined substantially after the Camp David Accords (see table 24). Loss of faith in Zionism and in the state's ability to protect its people encouraged an increasing number of Israelis to talk openly about the benefits of emigration and the dire consequences of staying on.

In an attempt to prevent a possible mass emigration, Israeli governments, especially that of the Likud, began to expand government-subsidized services



and the availability of imports, at the same time raising military expenditures and aid to the settlement movement in the occupied territories. In addition, the Likud government began to reduce the social cost of both the increased military and civilian expenditures by asking for more foreign aid from Israel's principal backers—the U.S. and world Jewry—and by borrowing more money to finance the ever-increasing budget deficit. As a result, Israeli dependence on foreign aid increased and deepened; its debt, domestic as well as foreign, skyrocketed; and both the budget and inflation went out of control. For example, the size of Israel's budget, which was about 59 percent of GNP in 1970, reached 96 percent of GNP in 1983.<sup>328</sup> By 1985, it exceeded Israel's GNP by some 10 percent. Inflation, which was kept in double digits during the 1970s, exceeded 500 percent in 1984.

Between 1981 and 1984, personal consumption in Israel increased by 25 percent, despite the fact that Israel's GNP had risen 5 percent only and GNP per capita had actually declined.<sup>329</sup> Wolf Blitzer, *Jerusalem Post* correspondent in Washington, wrote in 1984 that "Congressmen and Senators who visit Israel are often struck by what they say is the relative affluence of the Israeli society. This appearance of affluence in Israel . . . is a source of considerable embarrassment to Israeli officials and American political activists who have to lobby the administration and Congress for more aid to Israel. Many U.S. lawmakers leave Israel offended by this conspicuous consumption of luxury goods, although they rarely express themselves on the subject publicly. They see Israel as a country living in large measure on the American dole."<sup>330</sup> Yitzhak Ben-Aharon, former secretary of the Histadrut, said in June 1987, "I do not know how many other countries there are in the world where the situation of the individual is in general quite good while the situation of the treasury is catastrophic."<sup>331</sup>

Israel's unquestioned success in getting the funds needed to finance its programs left the state more dependent on foreign sources of capital than ever before, and served to more than double the cost of debt servicing in less than a decade. While debt servicing was about 14.9 percent of GNP in 1973, it reached 24.6 percent in 1983, and climbed to more than 25 percent in 1985.<sup>332</sup>

In June 1982, the Israeli government under the leadership of the Likud invaded Lebanon, hoping to repeat the 1967 experience and open new frontiers for Jewish settlers, create new political realities in the Middle East, and turn Lebanon into a virtual Israeli colony as it had done in the West Bank and Gaza. Liquidating the military infrastructure of the Palestine Liberation Organization and weakening the national aspirations of Palestinians living under occupation were other goals the Likud had hoped to accomplish. Disaster was the only outcome of Israel's mission in Lebanon.

Politically, it increased chaos and extremism in Lebanon and raised a potential threat to Israel's northern borders. Militarily, it exposed the limits of Israel's power, as Israel failed to install a subservient government in Lebanon or to redraw the political map of the Middle East according to its desire. Economically, the mission consumed more than \$2.5 billion in extra military expenditures and lost GNP production.<sup>333</sup>

By the end of 1983, it became clear to both Israel and its American ally that Israel's military "success" in Lebanon had turned into a political and economic disaster of great proportions. The U.S., Israel's principal backer, was made to pay for the blunder in more aid, in lost credibility in Europe and the Middle East, and in the killing or kidnapping of more than three hundred Americans in Lebanon.

The heavy burden of Israel's invasion of Lebanon combined with its withdrawal from the Sinai to bring Israel's economy to an almost complete halt and Israeli society to a state of bewilderment and loss of direction. Zvi Kesse, director of the Center for Humanistic Zionism in Israel, said in 1984 that "the economic failure is only a single manifestation of the larger pattern of Israel's present sad decline. The Likud has decided that the IDF [Israeli Defense Forces] will be a force to dictate and rule over a foreign nation. The Likud has decided in favor of an Israel which undermines stability . . . the Likud has decided that Israel will live on handouts provided by the sweat of the other."<sup>334</sup> Daniel Doron, director of the Center for Social and Economic Progress in Tel Aviv, said in October 1984: "I believe we are living in the middle of a terrible fiction. . . . There is no real budget. A lot of the process is out of control. With inflation this high, you are navigating without signals."<sup>335</sup>

The last few years have witnessed the grounding of the Israeli economy and the state's near bankruptcy. By the summer of 1984, it had become evident that Israel was facing the most serious economic crisis in its history—a crisis that posed a real threat to its very foundation. A report prepared by the staff of the Senate Committee on Foreign Relations said: "The economic crisis gripping Israel today, if not swiftly and effectively addressed . . . could pose as serious a threat to the security of Israel as any hostile neighbor in the region. . . . American foreign assistance can help Israel cope with its difficulties and can mitigate but cannot by itself arrest Israel's problems of hyper-inflation, labor unrest, low productivity, declining revenues, growing unemployment and sluggish exports."<sup>336</sup>

## NEW ECONOMIC PROGRAM

Saving Israel from certain disaster and possible bankruptcy required taking two extraordinary measures. First, the implementation of an austerity economic program, which included freezing all wages and prices; second, asking the U.S. government for an emergency aid package which included the infusion of \$1.5 billion in cash into the Israeli economy. In defending the harsh economic measures adopted by his government, Shimon Peres, Israel's prime minister at the time, said that the alternative to austerity was "national bankruptcy, mass unemployment, anarchy, and the prospect of fascism."<sup>337</sup>

To avert the collapse, the Reagan administration and the U.S. Congress raised American aid to new unprecedented levels and converted all aid, military as well as economic, to grants that need not be repaid. In addition, Israel was

granted a \$1.5 billion supplemental aid package. A joint U.S.-Israel economic committee was also established to advise the Israeli government on economic and financial issues.

While Israel received \$2.63 billion in 1984, of which \$1.76 billion was a grant, it received \$3.37 billion in 1985, all of which was a grant. In 1986, Israel received more than \$3.75 billion, all as an outright grant. As outlined earlier, a free trade agreement was also concluded in 1985, and in 1986 Israel was invited to participate in the Strategic Defense Initiative program. Other economic and noneconomic measures were adopted by the U.S. administration to help Israel steer safely through the most dangerous economic crisis it had ever faced.

Foreign aid provided to Israel enabled it to meet its financial obligations, and the freezing of all prices and salaries helped ameliorate the economic crisis and treat its most obvious symptoms—inflation and the lack of adequate hard currencies. However, the so-called economic stabilization plan failed to solve any of Israel's structural economic problems, and, therefore, failed to stimulate a real economic recovery. "Stability has not solved a single one of the real problems that still beset the Israeli economy," said the *Wall Street Journal*. "The government's budget is still almost as big as total GNP. The former is not shrinking. . . . GNP is barely growing."<sup>338</sup> "Peres did not change Israeli basic economic reality," wrote Uri Avnery, editor of the Israeli weekly *Haolam Hazeh*. "Like 'peace process,' economic growth became a household phrase; both of them were devoid of much substance."<sup>339</sup> Joel H. Bainerman, editor of the *Israeli Economist*, wrote October 26, 1986: "In a country like Israel where the state budget is equal to the Gross National Product, nearly every economic sphere of activity is under the control of the politicians. The only market that is free of government regulations is the black market in foreign currency. As soon as the pressure from Washington subsides, all talk of lowering income taxes, reforming the capital market, and selling off government-owned enterprises will disappear. It isn't socialism that moves the Israeli political class to retain control over the economy; it is simply self-interest."<sup>340</sup>

Ephraim Rosen, secretary of the Kibbutz Artzi Movement, said in June 1987 that "the economic plan of July 1985 brought inflation to a halt and stabilized the market, but we paid a high price for this. Many enterprises have not yet recovered from the high interest rates and debts. The chances for economic growth, with the high cost of money, are very low."<sup>341</sup> Dov Peleg, chairman of the Department of Social Insurance, described the achievements of the plan as follows: "The government's economic plan broke the hyper-inflation—a big achievement—but in all other areas it has done nothing. There were wage reductions, but nothing was happening in the market. Investments were not increased. There were not any government production plans. The market structure was not changed, and so on. With regard to the economic situation, the crisis continues."<sup>342</sup> Sever Plucker, editor-in-chief of the Israeli daily *Al Hamishmar*, observed: "Under the current economic plan, the security budget is increased, but no capital whatsoever is allocated for investment. Israeli industry works at

full capacity and is unable to produce or export more than it already does. In the last ten years, no new plants have been built. We have arrived at a situation where we do not grow annually, not for lack of demand but because there is no industrial base."<sup>343</sup>

Gad Yaccobi, Israeli's minister for economy and planning, conceded that the stabilization program was in serious trouble. "There are new threats to price stability and to our foreign currency position this year [1986]. . . . We are looking at a \$1.5 billion fall in foreign currency receipts."<sup>344</sup> The U.S. embassy in Tel Aviv, however, predicted that the shortfall in Israel's foreign currency would be about \$3.5 billion.<sup>345</sup>

At the time when the economic austerity plan was being drawn and the request for a U.S. supplemental aid package was being submitted, Israeli Finance Minister Yitzhak Modai said, "I admit that our past failures do not encourage you to believe there will be success this time." Yet, he added, "I give you one argument: This time we do not have any choice."<sup>346</sup> In view of Israel's renewed difficulties and the limited success that the austerity program has had, skeptics seem to have been right in their gloomy predictions. Faith in Israel's ability to solve its profound economic problems has been very much weakened.

## ROOTS OF THE ECONOMIC CRISIS

Because Israel's economic problems are deep and complicated, they can not be solved quickly or dealt with sufficiently in a short period of time. The structural problems which continue to afflict the Israeli economy today are, in fact, an integral part of the political ideology upon which the Jewish state was built. Establishing an exclusively Jewish state in Palestine on land Zionists confiscated from its Arab owners dictated, on the one hand, the need to build and maintain a strong military power capable of defending the state and suppressing the national aspirations of the Palestinian people. A strong immigration policy necessitated, on the other, providing housing, employment, and a high standard of living for the old and new Jewish immigrants. Since available resources could not perform both jobs at the same time, achieving those goals proved to be beyond Israel's ability. In addition, the achievement of each goal would require the adoption of certain programs and the implementation of different, and at times contradictory, economic policies.

Building and maintaining a strong, well-equipped army requires more military spending, higher income taxes, less civilian consumption, and a lower level of government spending on social, medical, and educational services. Providing for a higher standard of living, in contrast, requires lower income taxes, less defense expenditures, more production and consumption, and more government spending on social, medical, and educational programs. Achieving both goals is something no country has ever been able to accomplish; one must be sacrificed, at least partially, for the sake of the other. The U.S. experience during the 1960s is proof that policies with incompatible objectives and identical requirements are

doomed to failure. Paying the heavy cost of the Vietnam war and providing for the elimination of poverty, full employment, and better education was too much of a burden for the strongest economy and the richest nation on earth to bear. As a result, the U.S. government was forced to terminate the war before it achieved its objectives and to reduce spending on social programs before reaching the targeted goals.

In its quest to achieve both goals, the Israeli government, primarily that of the Likud, created more economic, financial, and political problems than anyone could have imagined fifteen or even ten years ago. Today Israel's debt exceeds \$32 billion, of which about \$29 billion is external. Debt servicing consumes about 25 percent of a government budget that exceeds GNP by some 10 percent.<sup>347</sup> Military expenditures consume another 25–30 percent of the budget. Even when U.S. military assistance of \$1.8 billion is discounted, military expenditures still consume about 17 percent of Israel's GNP.<sup>348</sup>

Israel today is considered one of the most heavily armed states in the world. In 1980, for example, the number of Israeli soldiers in uniform was 43.5 per 1,000 of Israel's population. By comparison, the number of Arabs in uniform was 11.5 per 1,000; in the U.S. the number was only 9.1.<sup>349</sup> Nevertheless, Israeli Defense Minister Yitzhak Rabin requested a 10 percent increase in the military budget for 1987. In view of Israel's small population and limited economic capacity, argues Hirsh Goodman, the *Jerusalem Post's* defense correspondent, Israel can not keep up with the arms race in the Middle East,<sup>350</sup> not even with Egypt, whose population outnumbers Israel's Jewish population by more than sixteen to one.

In addition to the extremely high cost of supporting an army that is destined to lose the arms race in the Middle East, the maintenance of so much manpower in the army means a loss of approximately \$1.5 billion a year of GNP production. Nehemia Strassler and other Israeli economists argue, furthermore, that as long as Israel's occupation of Arab land and consequent military build-up continue, Israel's problems will persist and Israel's economy will deteriorate further.<sup>351</sup>

Israel's problems today could be defined as those associated with high consumption, low productivity, limited natural resources, high military expenditures, large budget and trade deficits, extreme dependence on foreign aid, and vulnerability to swings in the world economy. Past economic and political decisions were disastrous, current policy is unrealistic, and hard economic as well as political decisions are left to future generations. Israel today consumes almost twice as much as it produces in civilian goods, imports about 50 percent more than it exports, and its government spends almost three times as much as it collects in taxes.

Moreover, current Israeli exports of \$12 billion a year are about 50 percent of its GNP; imports of \$16 billion are the equivalent of 65 percent of Israel's GNP.<sup>352</sup> In comparison, American exports are less than 5 percent of U.S. GNP, and the size of its imports is about 8 percent that of GNP. Relative to GNP, Japan's exports of 13 percent are less than one-third that of Israel's.<sup>353</sup> The large

volume of Israeli exports as a percentage of GNP makes further expansion of exports less likely and also less desirable because it makes the Israeli economy more dependent on the world economy and more vulnerable to market fluctuations.

Israel's economic problems are structural and deep rooted. Its foreign debt of approximately \$29 billion is the highest in the world in terms of per capita and in relation to GNP. In fact, Israel's per capita foreign debt is about five times that of Mexico and ten times that of Brazil, the two most heavily indebted countries in the Third World. More than 50 percent of the Israeli budget—about \$24 billion in 1986—is devoted to military spending and debt servicing. Israel's military budget absorbs about 27 percent of the total GNP, but hidden costs push the proportion much higher. Israel's defense spending, as a percentage of GNP, is four times that of the NATO powers and up to twice that of the Arab confrontation states.<sup>354</sup> In fact, the U.S. defense budget comprises about 6 percent of GNP, with Britain 5 percent, France 4 percent, Sweden and West Germany 3 percent, and Japan only 1 percent,<sup>355</sup> as compared to Israel's 27 percent.

As already stated, Israel's budget has been for several years as large, or larger than, the country's GNP. The U.S. budget, in comparison, and despite a huge and worrisome deficit, is about 23 percent of GNP. Israel, in fact, has been the only country in the world, possibly in history, to have a budget that has exceeded its GNP for several consecutive years. If Israel is to reduce the magnitude of its economic problems to a level comparable to that of the U.S., it must reduce the budget by about 75 percent or increase the GNP by four times without increasing the budget. Under present conditions, neither of those goals could be achieved within ten, twenty, or even fifty years. Assuming that the Israeli economy could grow at four percent per year—double the current average rate for Western industrialized economies—while budget growth is kept at only 2 percent per year, it would take Israel at least forty years to bring its budget under control. However, argues Israeli economist Peretz Kidron, "Israel's dependence upon international markets makes it unthinkable to default on payments to its foreign creditors; and domestic political pressures make it almost equally unthinkable to apply the axe to a bloated defense budget."<sup>356</sup>

Other Israeli economists maintain that as long as Israel continues its control over the Palestinians it can never solve its economic problems.<sup>357</sup> Austerity programs and good intentions are no substitute for economic restructuring and ideological change. "One of our first economic goals," says Israeli economist Yigal Aviv, "must be to break out of our encirclement. This is a necessary condition for economic independence, and it can come about only through the peace process and the eventual achievement of peace."<sup>358</sup> Simcha Bahiri adds that "due to its heavy defense commitment, Israel finds itself in deep economic crisis."<sup>359</sup>

Ami Doron and Eli Teicher, authors of *No One Will Survive: The Story of Israel's Nuclear Bomb*, a book which was banned from publication by the Israeli military censor, say that Israel has made astronomical investments in building

a nuclear bomb and a strong conventional army; “the maintenance of both . . . is what is closing down schools and hospitals, destroying our farms and spreading poverty, disease, and ignorance.” They added, “the Israeli economy hovers on the brink of the abyss. Teachers are being dismissed, schools closed and the school day shortened; and a generation of illiterates . . . is thus being raised. . . . Israel’s system of public medicine is in a state of collapse; soon proper medical treatment will be a luxury reserved exclusively for the rich and well-connected. Israel’s . . . agriculture is likewise falling apart: the kibbutzim are drowning in a sea of debt while the moshavim fall into the hands of receivers. Israel’s elderly live in penury; the threat to reduce old-age pensions persists, and the ranks of the poor continue to grow. Crime is on the upswing, because of both increasing poverty and cutbacks in the police force. People are becoming fed up with life in Israel, as one can see from the growing emigration and declining immigration rates. . . . [Israel] is marching undaunted toward utter bankruptcy in its efforts to turn the entire country . . . into one giant armory.”<sup>360</sup>

Despite the expected \$1.5–3.5 billion shortfall in Israel’s foreign currency, 1986 was an unusually good year for the Israeli economy. In addition to the \$750 million U.S. supplemental aid package, Israel saved about \$1.4 billion in the cost of oil imports as a result of the collapse of oil prices. A free trade agreement that went into effect in August 1985, moreover, allowed Israel to expand exports to the U.S., while a substantial decline in international interest rates helped reduce Israel’s cost of debt servicing.

Since the coming years do not promise to be as good to Israel’s economy as 1986 and 1987, the shortfall in foreign currency could very well go back to the \$3–4 billion level by 1988 or 1989. Financing that shortfall would have to come from three major sources: U.S. aid, world Jewry contributions, and foreign borrowing. In its 1986 report on Israel’s economy, AID wrote, “In the past Israel’s very large civilian trade deficit had been kept manageable because of private transfers, concessional capital flows, and U.S. government assistance.”<sup>361</sup> However, in view of Israel’s mounting financial problems, past failures, and current scandals, aid from all of the above sources seems to have peaked and could start declining in the very near future.

Massive U.S. aid, which has prevented the collapse of the Israeli economy, would have to increase year after year to prevent a collapse in the future. As stated in the *Wall Street Journal*, “It is well past time to question whether any amount of U.S. grants and discount financing can relieve Israel’s economic ills in the absence of fundamental reforms by the Israelis themselves.”<sup>362</sup>

U.S. aid to Israel, therefore, did help sustain the malaise, but could provide no cure for it. No matter how substantial U.S. aid may be, and no matter how long it continues, it will not be enough to postpone forever the demise of Israel’s current economic structure. The price the American people are repeatedly being asked to pay for keeping a dying economy alive is very high and is expected to grow higher in the future. In fact, the real role U.S. aid to Israel has played so far is one of underwriting Israel’s military adventures, subsidizing its economic

blunders, and helping its population live beyond their means. Eitan Shishinsky, a professor at Hebrew University, said recently: "Our relationship with the U.S. does not end with aid. We conduct extensive trade with the U.S., our banks raise large sums of capital there, and there are large U.S. deposits in Israeli banks. The U.S. today," he added, "is Israeli's main rescuer and we are critically dependent on its aid."<sup>363</sup>

Peter Grose, managing editor of *Foreign Affairs*, wrote: "Israel is an economic ward of a foreign power, the United States. . . . The state of the Israeli economy is no longer a purely internal matter to be left to Israeli politicians. It is, to an increasing degree, the United States Treasury and the American taxpayer that underwrite the economic priorities defined in Jerusalem."<sup>364</sup>

Unconditional American aid offered to Israel has actually allowed successive Israeli governments to avoid making the right, if unpopular, economic choices; instead, Israeli politicians used foreign aid as a tool to manipulate the economy for political gains. "This money, which in the past enabled us to build up our confrontation force," said Israeli economist Zvi Kesse, "today yields disastrous social consequences. This money is corrupting our society."<sup>365</sup>

While foreign aid has helped Israel build and maintain the fourth or fifth strongest military establishment in the world, it has solved none of Israel's basic economic problems. On the contrary, it may have caused such problems to become increasingly grave. In view of Israel's inability to cope with its current problems and the unlikelihood that foreign donors can be convinced to raise aid levels substantially in the future, it is expected that the Israeli economy will stay in a state of crisis for a long time. As a result, social and economic problems will continue to accumulate and become even more aggravated.

Foreign aid is nothing more than a tranquilizer; it is not the cure the Israeli economy badly needs. Being as it is, gravely ill, the economy is in need of a real cure, which would entail painful adjustments and unpleasant changes. Getting out of the occupied territories and recognizing the Palestinian people's national rights are the first steps on the road to political sanity and economic reality. Aviv Yavin, physics professor at Tel Aviv University, said: "With all their magnitude, economic mistakes are not the only cause of the present economic slump; political decisions and errors are perhaps even more important. . . . Most people acknowledge that many wars initiated either for ideological or security considerations have brought economic disaster upon their initiators. Nevertheless, it is amazing how few people, especially in Israel, recognize that at times it should be possible, or even imperative, to find economic solutions outside the domain of economics. . . . Just as political ideology was a decisive factor in the deterioration of Israel's economy, so must a new and courageous political approach serve as a main instrument for pulling the country out from the economic quicksand into which it has sunk."<sup>366</sup>



## Foreign Aid and the Future of Israel

Israel is the largest recipient of foreign aid in history. Since 1946 the state has received from the U.S. twice as much aid as the entire Latin American continent and about 2.5 times as much as the entire African continent. The more than \$43 billion in U.S. official aid that Israel has received represents about 11 percent of the total U.S. foreign assistance since 1946, including monies expended under the Marshall Plan and aid given to both South Vietnam and South Korea. However, U.S. aid given to Israel since 1978, both economic and military, has been about 30 percent of all U.S. foreign aid. In addition, the West German government has paid Israeli citizens who were victims of Nazi persecution or relatives of such victims more than \$30 billion since 1953 according to Bonn's Finance Ministry officials.<sup>367</sup> On January 18, 1988, the ABC evening news reported that German aid had actually reached \$37 billion.

The Israel newspaper *Al-Hamishmar* said in 1985 that "foreign aid which Israel will receive this year is not much less than the net aid which will be received by 280 million people from the poorest Third World countries, including tens of millions on the brink of starvation."<sup>368</sup> According to that newspaper, the expected foreign aid was "estimated to be about one billion dollars in compensation paid by West Germany and an unspecified amount in world Jewry donations, as well as four billion dollars from the U.S. government."<sup>369</sup>

Foreign aid given to Israel as cash transfers in the form of grants, private contributions and gifts, the sale of Israel bonds, and concessionary as well as commercial loans is estimated at a minimum of \$8.5 billion a year, or more than \$2,500 per year for every Jewish man, woman, and child living in Israel. Of that total, about \$5.5 billion, or approximately \$1,600 per person per year, is grants and donations that need not be repaid. The other \$3 billion represents income generated from the sale of Israel bonds, deposits in Israeli-owned banks,

loans from foreign governments and foreign commercial banks, and direct investment in the Israeli economy.

Yet, that economy continues to experience one crisis after the other and exhibits no real signs of imminent recovery. Israeli society continues to look bewildered and polarized and to have lost its sense of direction.

On December 31, 1985, Radio Israel reported that on a per capita basis, Israel's GNP had declined by 2 percent. Gross wages declined to the 1978 level, and for the public sector employees the decline was to the 1968 level. Investment dropped 12 percent and savings rates continued to fall, while unemployment was on the rise.

The *Washington Post* reported recently that polls in Israel "suggest that the average Israeli today sees himself as a beleaguered person in a hostile environment beset not only by Arabs but by inflation, high taxes, and even his fellow Jews."<sup>370</sup> Israeli poet Chaim Guri told Radio Israel in February 1987 that "Israel looks tired, exhausted and preoccupied with itself."<sup>371</sup>

For many reasons, Israel has postponed sorely needed structural economic reforms and profoundly important political decisions. By drawing on the financial bonanza of West German reparations, U.S. aid, world Jewry donations, and Arab resources confiscated by Israeli forces, Israel managed to expand domestic consumption, attain higher standards of living, support an extremely large and expensive military establishment, and build a welfare state beyond its means.

However, foreign aid, which provided Israel with the funds it needed to meet its growing financial obligations, has failed to build a healthy, well-balanced, and self-sustaining economy. Although Israel's ultramodern and powerful army has won all of its wars against its Arab neighbors, it has failed to bring the Israeli people the peace they hoped for. And while the welfare state has provided the Israelis with an easier, less demanding life, it has failed to accomplish the ingathering of world Jewry to Israel. In other words, despite Israel's possession, and at times mastery, of the means necessary to achieve its goals, it has failed to even come close to their achievement.

The Israeli economy today is not only in bad shape, it is getting worse. A peace treaty with Egypt, for which the U.S. has so far paid more than \$50 billion, has failed to bring Israel any economic benefits, only limited security. Without U.S. aid, Egypt would be forced to abandon its peace treaty with Israel and return to its place within the Arab fold as a major confrontation state. Other Arab states continue to reject an Israel that still insists on occupying their land and denying the Palestinian people their national rights. "The absence of war that Israel currently enjoys is not peace, and radicalism . . . is increasing throughout the Middle East. Palestinian nationalism cannot be ignored or, as the 1982 Lebanon war proved, eliminated. . . . Israel cannot have peace without making peace,"<sup>372</sup> wrote Kathleen Christison, a former CIA political analyst.

In an editorial entitled "Lest Now I Learn Nothing Again," the Israel monthly *New Outlook* wrote in its May-June 1987 issue: "It must be said clearly: the war to impose our rule in the territories is not just a dirty war, but one that we

have no chance of winning. Ours is an optional war against their war of no alternatives. Each additional year wears us down morally, socially, politically and militarily. . . . Our children are not crying out. They are voting quietly with their feet. The exodus of youth after every "victory" is the bloodletting that no restraining curfew in [the Palestinian refugee Camp of] Dehaishe, no shootings at [the West Bank University of] Bir Zeit, will stop. We are winning on the battlefields of the Palestinians, but are losing the war in Tel Aviv and the United States."<sup>373</sup>

World Jewry, on the other hand, not only refuses to emigrate to Israel, but has ceased to consider Israel the "promised land" it once was. In fact, the number of Israeli Jews who left Israel over the last few years has exceeded the number of Jews who emigrated to Israel. Rabbi Jacob Neusner, professor of Judaic studies at Brown University, wrote recently that "world Jewry has voted with its feet. When Algerian Jews were driven out of Algeria, the French government offered to provide them with the same settlement aid to go to Haifa or Lyon. Most chose France. When Soviet Jews leave for the free West, some choose the state of Israel. Most do not." Rabbi Neusner added that "if ever there was a promised land . . . Jewish Americans are living in it. Jews feel safe and secure [in America] in ways that they do not and cannot in the state of Israel."<sup>374</sup> Yeshayahu Leibowitz, Israel's leading philosopher, said in August 1986: "Today, Jews are not aliens in the Western World. They are truly integrated not only legally and formally, but in every sense of the word. . . . There is only one spot on earth where Jews exist in a state of permanent danger, and that, ironically, is in Israel."<sup>375</sup>

When Zionists began their drive to establish a Jewish state in Palestine, they sought the financial and moral support of the world Jewry and the full political and, at a later stage, military backing of the U.S. government. On the one hand, invocation of memories of Christian discrimination against Jews in Europe was used to provoke fear and encourage Jewish emigration to Palestine. Jews who chose not to emigrate were made to feel guilty, unworthy of a "full Jewish life," and obligated to defend Israel and support its programs and objectives. On the other hand, constant reminders of the atrocities of the Holocaust were employed to transform Western public sympathy for the Nazi victims into popular support for the establishment of the intended Jewish state. After the creation of Israel in 1948, both measures were put in the service of the many Zionist organizations established to finance the new Jewish venture in Palestine and ensure its survival. Jewish rallying around Israel and Western sympathy for Israeli Jews were also manipulated to secure continued American and Jewish financial and nonfinancial backing.

In an interview, Zeev Zamir, a senior member of the Tehiya Party and a member of its council, said: "Look, I cannot be humane all the way, because at some point . . . we would reach the conclusion that Zionism really is racism, and that the entire history of settling this country over the last hundred years has involved suppression and dispossession. These days there is already a large

portion of the Israeli population that doubts our rights to the land. It's clear that a situation in which young people of eighteen are involved in subduing riots isn't healthy. It's clear, that the occupation corrupts."<sup>376</sup> Hillel Schenker, *New Outlook's* senior editor, wrote that "for twenty years, the Jewish right to national self-determination has been maintained at the expense of the Palestinian right to national self-determination."<sup>377</sup>

It turned out that the moral burden of overtaking another people's homeland was too heavy, and the cost of defending the newly acquired land against its lawful owners too great. So Israeli leaders designed a strategy to mislead Jewish and world public opinion and intimidate international forces opposed to Israeli policies, one which would create new images conducive to achieving Israeli objectives. First, they began to falsify facts regarding Palestinian rights, to the degree of denying the very existence of the Palestinian people. Second, control over world Jewry was tightened with the aim of forcing them to abdicate the right to criticize Israeli actions. Zionist claims that "only in Israel can Jews have a full Jewish life" and "only in Israel can Jews have a future" were meant to get non-Israeli Jews to mortgage their life and future to that of Israel's. Simha Flapan, founding editor of *New Outlook*, documented in his last book, *The Birth of Israel*, seven myths which the Israeli leadership had created to deceive world public opinion. Flapan maintains that those myths have managed to survive through ignorance, indifference, and Israeli intimidation of the media.

In addition, tactics deemed necessary to intimidate the Western media and secure U.S. economic and military support for Israel were employed, regardless of propriety or morality. Israelis promoted themselves as a Western outpost in the Middle East committed to Western democratic values and opposed to Soviet expansionism. In short, Israeli claims and actions, and American and Jewish support and protection, created a strange environment in which Israel had to live and thrive. It was an environment where illusions replaced reality and images replaced facts.

Because of its very nature and objectives, Israel's existence in the Middle East was perceived by those who lived in the region as a threat to their values and culture, and to some, a threat to their very existence. By claiming to be an outpost of Western civilization in the Middle East and by playing the role of an instrument of American foreign policy, Israel presented the picture of an alien state with strong ties to a West whose interests were contrary to those of the region's indigenous populations. Consequent hostility towards Israel was inevitable, the continuation of conflict in the Middle East inescapable, and foreign economic and military aid became indispensable. "In fact the state of Israel is a client state, not Sparta or Athens, either. Having priced itself out of independence in economic terms, and because of recurring wars, the state of Israel depends upon a generous America," said Rabbi Neusner.<sup>378</sup>

The influence that Jewish Americans have maintained over U.S. foreign policymaking, however, has made the interests of Israel the overriding objective of American foreign policy not only toward the Middle East but toward the Soviet Union as well. Jacobo Timmerman, who fled Argentine jails and torture,

said: "People like me do not have a chance in Israel . . . perhaps we in Israel live in a banana republic, but if so it is the only one that imposes the condition that the U.S. must act against its own best interests, against the best interests of the whole world, and in the long run, perhaps, against the best interests of Israel as well."<sup>379</sup> Israelis came to be seen in the Middle East as a source of constant threat, a force of instability, and a symbol of foreign power determined to control the destiny of others.

"Due to their strong belief in the moral superiority of their national aspirations," says Meron Benvenisti, former deputy mayor of Jerusalem, "they were ready to wage a ruthless war. Permanent subjugation of Palestinians had been considered an inevitable byproduct of their victory. They were occupiers with a clear conscience. The colonial situation did not cause them any misgivings. They welcomed it and did their utmost to perpetuate it, to exclude and foreclose any other option except permanent annexation, and of course to prejudge any other right."<sup>380</sup>

Israel's attitudes towards the Palestinians and other Arabs on the one hand and its heavy dependence on foreign military and economic aid on the other reinforced Israel's role as a garrison state in the service of a foreign power. Self-preservation was seen by most Israelis as an end in itself. By the Arabs, it was seen as the perpetuation of aggression and the constant reminder of humiliation. Yet, because of their very nature and objectives, garrison states are internally unstable and externally vulnerable. Their sustaining attempts to control other peoples' destinies make garrison states outcasts, sources of tension, and powers feared but not loved or respected. From Ethiopia under Haile Selassie to Iran under the Shah and from Nicaragua under Somoza to Rhodesia under Ian Smith, garrison states have inflicted heavy damage on their people and on the peoples of the regions they lived in. Internal instability and external vulnerability brought the demise of all of the leaders named above; in the process they exposed the illegitimacy of the role played by the garrison state. The legacy of corruption, mismanagement, and human rights violations they left behind has, moreover, exposed the immorality of their actions and those of the foreign powers they served. As a result, garrison states, though successful in the short run, are doomed to failure in the long run. Interests they tend to serve in the short run are the interests they are most likely to damage in the long run. Somoza's fall in 1979, for example, was followed by a Nicaraguan regime that harbors no love for the U.S., and the fall of the Shah witnessed the emergence of one of the most anti-Western governments in the world.

As for Israel, Yeshayahu Leibowitz said: "The enormous victory in the Six Day War has turned the state of Israel from being the framework for the political and national independence of the Jewish people into being an apparatus for violent domination over another people. . . . As I see it, the political line of the state since the Six Day War has been suicidal."<sup>381</sup> Yehoshafat Harkabi argues that if things go on as they are today, if there is no change in the attitude towards the West Bank and Gaza and towards the Palestinians, the Israelis will be in the process of committing suicide. "However you look at it, Israel as good as

commits suicide if it does not reach a settlement on the territories [the West Bank and Gaza]. . . . “Time,” he adds, “is not working in our favor, but in the Arabs’ favor. We shall either withdraw, and quickly too, from the occupied territories, or cease to exist.”<sup>382</sup>

Palestinians, whose existence Israeli leaders denied in the past and whose human and political rights they continue to deny at the present, with a population of about 1.6 million made up about 70 percent of the population of Palestine in 1948. Today, there are about 5.5 million Palestinians, which is more than 1.5 times the number of Israeli Jews, or the same number as of American Jews, or about half the size of the total world Jewish population. Under Israeli occupation today there are an estimated 2.3 million Palestinians who still live in their homeland but enjoy no human or political rights. “There are people who have the audacity to speak about the state [Israel] as a democracy, yet, the question remains, can a democracy that deprives 2 million people of their civil and political rights truly be a democracy?”<sup>383</sup> asked Professor Leibowitz.

In 1984, the number of infants born in Palestine (Israel and the occupied territories) to Arab parents outnumbered those born to Jewish parents for the first time. While the annual rate of population growth for the Palestinian Arabs today is about 2.9 percent, for Israeli Jews it is only about 1.4 percent. If current demographic trends continue unchecked, the Arab population of Palestine will most likely outnumber its Jewish population within twenty-five years. By the year 2010, Palestinians are expected to reach 11 million, 4 million of them—representing about 50 percent of the Arab and non-Arab population—would be living in Palestine. Israel, if it manages to survive that long, would cease to be a Jewish state.

In fact, contradictions and conflicts that seem to be increasing in Israel could bring on the collapse of Israeli society before other demographic and political forces do the trick. J. Robert Moskin, a member of the American board of the Jerusalem Foundation, recently wrote an article that predicted a gloomy future for the state. “Israel,” he wrote, “has become more clearly a theocracy whether it be religious or secular. And in our Judeo-Christian tradition, theocracies are exclusive, spawning occupations, inquisitions, apartheid and other devices to keep the ‘others’ subdued.”<sup>384</sup> Professor Leibowitz’s evaluation is even gloomier, not only concerning Arab-Jewish relations, but also Jewish-Jewish relations. “There are, in fact, two groups,” he says, “each of them considering the other to be Jews. Yet they cannot eat at the same table, work together, or intermarry because of the religious injunctions of Jewish law. . . . For these two groups, it is impossible to live together.”<sup>385</sup> Peretz Kidron, looking at Israel from the inside, said: “The outlook is bleak. While economic hardship threatens to spark off social unrest and political instability, an upsurge of racism and anti-democratic ideologies could set up the scene for a regime which is authoritarian, if not worse.”<sup>386</sup>

Religious conflict, in fact, has divided Israeli society into two opposing groups

that seem to be concentrating more on issues dividing them than on those uniting them. While conservatives are trying to replace secular laws with religious ones, liberal Jews are alarmed and fighting back. In 1986 and 1987, the conflict broke out into the open and led each group to attack the other and destroy many of the symbols it treasures, including synagogues and holy books. There are those who claim that democracy and freedom constitute a threat to Judaism; they seem to imply that Jews cannot live in a free and open society and be equal to others. Such claims have, furthermore, attempted to legitimize oppression and increased discrimination against non-Jews. As a result, the real face of Zionism has been exposed to all those who wanted to see and faith in Zionism has been shattered, weakening the foundations of the Jewish state. Lord Christopher Mayhew and many other world and intellectual leaders now think that Zionism contains the seeds of its own destruction. "Like Soviet Communism," says Mayhew, "Zionism has a record of military success, but of political, economic and moral failure."<sup>387</sup>

Foreign aid, which Israel has been receiving since its inception in 1948, has caused the creation of a self-image that is, as Benvenisti calls it, "a curious mixture of arrogant confidence and profound vulnerability."<sup>388</sup> On the one hand, Israel's ability to get the funds it needed and to overpower its enemies every time it went to war against them gave Israelis a strong, arrogant sense of confidence. On the other hand, its failure to build a viable, independent economy and impose its own peace on its Arab neighbors forced Israelis to feel profoundly vulnerable. As Patrick Buchanan, former White House communications director, once said, the billions of tax dollars could "only postpone Israel's overdue rendezvous with reality."<sup>389</sup> As a result of both the profound vulnerability and the arrogant confidence, Israel, as Jacobo Timmerman says, "can never have a rational policy in the Middle East or in the world until American Jews come to their senses. Jews in Israel or Jews anywhere else can have no influence so long as American Jews coerce the U.S. government into backing the craziest Israeli policies and the craziest Israeli politicians."<sup>390</sup>

Foreign aid affects the future of Israel in two different but rather complementary ways. The first relates to the impact of aid on the Israeli economy; the second relates to its impact on Israel's willingness and ability to integrate with its natural environment. As the previous chapters have demonstrated, foreign aid has failed both to effect the building of a viable, independent economy and to induce Israel to make peace with its neighbors. Israel today is more dependent on foreign aid than ever before and at the same time remains rejected and isolated in the Middle East.

No matter how strong and sound the political and moral foundations of a state are, it needs a viable economy to survive and protect its values. And no matter how strong the economic foundations of a state are, it needs a sound, ethical political system to exploit its resources for the benefit of its people. A sound political system and a viable economy are, furthermore, needed to maintain a

workable state and a normal society living in harmony with itself and with its environment. In fact, no weak species has ever survived in a hostile environment, and no strong species has ever succeeded in changing a hostile environment to a totally hospitable one. Survival predicates adaptation, and harmony requires sacrifices and acceptance of the fact that less could be more. Israel is no exception.

At the birth of Israel in 1948, its first president, Chaim Weizman, declared, "The world will judge Israel on the way it treats its Arab citizens."<sup>391</sup> Twenty-seven years later, Weizman's apprehensions proved him right. On September 10, 1975, the world community declared through a UN General Assembly resolution that "Zionism is a form of racism and racial discrimination."<sup>392</sup> The U.S. government notwithstanding continued to provide Israel, the embodiment of the Zionist ideology, with the political, economic, and military means to further its discriminatory policies and thus to persist in denying the Palestinian people their legitimate human, economic, and political rights. The American people in the process were made to lose more than \$150 billion in support of an entity that has no chance of ever surviving on its own under current conditions. The moral burden and the historical guilt, which Americans are destined to shoulder when all of Israel's atrocities are fully exposed, will undoubtedly be heavy. In fact, with every Palestinian child born in the squalid refugee camps and with every man, woman, and child killed in the towns and villages of the Holy Land, the burden will grow heavier and the United States' sense of guilt will sink deeper.



## 12

# Concluding Remarks

Since its inception in 1946, the U.S. foreign aid program has focused on one major objective: how to limit Soviet influence outside the Eastern bloc and build alliances to fight communism. The proximity of the Soviet Union to Western Europe, Southeast Asia, and the Middle East made those regions the principal beneficiaries of American foreign aid. In addition, the geopolitical position of the Middle East and the heavy dependence of Western Europe and Japan on its oil supplies made that region of strategic importance to the West in general and to the U.S. in particular.

Building strong defenses against communism meant investing aid money to promote economic development and democratic values. As a result, about 75 percent of all money appropriated for foreign aid during the first two decades of the program's history were spent on economic development projects and activities. The mid-1960s, however, witnessed the decline of communism as a socioeconomic threat to the West and its capitalist system, and the rising threat of the Soviet Union as a global power determined to limit Western influence in the Third World. Meanwhile, an indigenous national movement emerged in most Third World countries with the aim of putting an end to foreign influence in their regions, including that of both the U.S. and the Soviet Union. Foreign aid, consequently, as an instrument of U.S. foreign policy, focused on fighting Soviet expansionism and undermining Third World nationalism.

While the fight against Soviet expansionism dictated building and modernizing the armies of those countries that were most threatened by the Soviets, the undermining of Third World nationalism led U.S. policymakers to create client states and prepare them to assume regional responsibilities. As a result, the foreign aid program began to concentrate on building armies and courting client states rather than building viable economies and promoting democracies.

The Reagan administration, which came to power determined to fight the “evil empire” of the Soviet Union, made security the overriding objective of the foreign aid program. All regimes willing to adopt a position toward the Soviets similar to that of the U.S. were courted, assisted, and tolerated even when they became abusive. In the process, U.S. aid to such regimes transformed most of them into client-states. Unconditional, and at times unlimited, aid to these client-states enabled some of them to live partially on American handouts, and allowed them to play a regional role that, in most cases, undermined the stability of other neighboring states.

Israel, being an alien state in the strategic Middle East region and a foe of both Arab nationalism and Soviet communism, became the principal beneficiary of U.S. assistance and the major American client state. As a result, more than 25 percent of all U.S. foreign assistance spent over the last two decades went to Israel. Israel’s share of U.S. grants given to foreign countries has exceeded 50 percent since 1980. This U.S. assistance, which helped Israel build one of the most powerful armies of modern times and also put it in a position to pose a serious threat to Arab nationalism and to the political independence and territorial integrity of neighboring states, made Israel very much dependent on American aid.

Since Israel’s reality is much different from the image it tries to project, ensuring the continuous flow of U.S. aid dictated manipulation of the American political system and exploitation of the resources of America’s Jews. In the process, Israel and its American supporters managed to co-opt U.S. foreign policy and use it, as “Irangate” has proven, to protect Israel’s own interests, which were often contrary to those of the United States.

Foreign aid today is not “a program to bring the world’s poor into the development process,” as President Reagan has claimed, but a security program to weaken the Soviets and undermine the potential of Third World nationalism. Israel’s spectacular success in getting the money it has requested from a Congress that dared not question the rationality of Israeli behavior or the desirability of its own actions, has transformed the foreign aid program into an instrument of domestic politics, rather than an instrument of foreign policy. Strong minorities, like the Jewish minority, and foreign powers sophisticated enough to build strong lobbies in Washington began to employ the foreign aid instrument to serve their own interests. To weaken the administration’s control of that instrument, lobbyists resorted to manipulation, intimidation, and, at times, blackmail. Thus the foreign aid program not only began to serve foreign powers and special interest groups, but to corrupt and humiliate the U.S.’s elected and appointed officials at the highest levels.

For the aid program to play a constructive role in helping the world’s poor and in protecting legitimate U.S. interests, it must become, first, an exclusively economic development program; second, it should be placed outside the reach of lobbyists. Lobbying in the field of foreign policy should, in fact, be banned. Security considerations should be left entirely to the president, the Defense

Department, and specialized agencies; it should never be established as a separate or permanent program. Security issues must be dealt with as and when they arise, with the view of resolving regional conflicts rather than starting new ones.

If U.S. economic assistance is to become constructive and long lasting, it should concentrate on helping the poor and the needy, not the powerful and the greedy. Military assistance should be used as a tool to restore stability and resolve Third World conflicts, rather than as an instrument to undermine stability and perpetuate conflicts.



# Notes

## INTRODUCTION

1. U.S. Department of State, *International Security and Development Cooperation Program*, Special Report No. 108, April 4, 1983, p. 2.
2. William Schneider, Jr., *Statement Before the Subcommittee on Arms Control, International Security and Science, House Foreign Affairs Committee*, February 28, 1985.

## CHAPTER ONE

3. *Freedom, Regional Security, and Global Peace*, The White House, March 14, 1986.
4. Ibid.
5. Richard W. Murphy, *Statement Before the House Appropriations Subcommittee on Foreign Operations*, April 16, 1986.
6. George P. Schultz, *Statement Before the Foreign Operations Subcommittee, Committee on Appropriations, U.S. Senate*, March 13, 1986.
7. U.S. Department of State, *Congressional Presentation for Security Assistance Programs, Fiscal Year 1987*, vol. 1, p. 31.
8. John Wilhelm and Gerry Feinstein, ed., *U.S. Foreign Assistance, Investment or Folly?* (New York: Praeger, 1984), p. 2.
9. Information revealed during the questioning of National Security Adviser John Poindexter by the Joint Congressional Committee which investigated the Iran-contra Affair, August 3, 1987.
10. Cited in the *New York Times*, December 11, 1986.
11. George P. Schultz, "A Statement Before the Subcommittee on Foreign Operations, U.S. Senate," March 7, 1985.
12. Robert H. Pelletreau, "A Statement Before the House Foreign Affairs Subcommittee on Europe and the Middle East," February 26, 1985.

13. Henry R. Nau, "Securing Energy," *Washington Quarterly*, Summer 1981, pp. 109–11.
14. Rowland Evans and Robert Novak, "Cloak Over Israel," *Washington Post*, July 17, 1987.
15. *Ibid.*
16. *California Tribune*, July 9, 1987.
17. Cited by the *California Tribune*, July 9, 1987.
18. *Ibid.*
19. Cited by Schultz, March 7, 1985.
20. *Ibid.*
21. John W. Sewell, "Future Directions for U.S. Assistance," in *U.S. Foreign Assistance*, p. 229.
22. Aaron S. Klieman, *Israel's Global Reach* (Washington, D.C.: Pergamon Brassey's, 1985), pp. 36–37.

## CHAPTER TWO

23. John K. Wilhelm, "The Context of Assistance," *U.S. Foreign Assistance*, pp. 7–8.
24. S. I. Waxman, "Foreign Aid Packaged for Fiscal 1988," *Washington Post*, July 30, 1987.
25. For more detailed description of the various foreign assistance programs consult: Special Reports Nos. 108 (April 4, 1983) and 116 (April 1984), U.S. Department of State; "Congressional Presentation for Security Assistance Programs, Fiscal Year 1987," Department of State, pp. 59–77; "Foreign Assistance and Related Programs Appropriations Bill, 1987," House of Representatives, pp. 40–88; and *U.S. Foreign Assistance, Investment or Folly?* Wilhelm and Feinstein, eds. (New York: Praeger, 1984).
26. U.S. Department of State, *Congressional Presentation for Security Assistance Program, Fiscal Year 1987*, p. 2.
27. House Committee on Appropriations, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, pp. 80–81.
28. Schneider, *Statement*, February 28, 1985.
29. *Security Assistance Program*, pp. 24–26.
30. Senate, *Foreign Assistance and Related Programs Appropriations Bill, 1987*, p. 153.
31. *Ibid.*, p. 120.
32. *Security Assistance Program, Fiscal Year 1987*, pp. 61, 63, 67, 73.
33. ISDCP, p. 9.
34. AID news release, December 23, 1986.
35. The House Foreign Assistance and Related Programs Appropriations Bill, 1987, p. 127.
36. *Ibid.*, p. 126.
37. *Ibid.*
38. *Ibid.*
39. *Ibid.*, p. 127.
40. *Ibid.*, pp. 124–25.

41. Mohamed Rabie, *International Brain Drain*, Kuwait University Press, 1972 to be consulted for a thorough explanation of this phenomenon (in Arabic).
42. Gary Wasserman, "The Foreign Aid Dilemma," *Washington Quarterly*, Winter 1983, p. 97.
43. See James Bovard, "The Continuing Failure of Foreign Aid," CATO Institute, Policy Analysis, No. 65, January 31, 1986.
44. Wasserman, "Foreign Aid Dilemma," p. 103.
45. *Ibid.*, p. 97.
46. *Ibid.*, p. 104.
47. Alan Rufus Waters, "In Africa's Anguish, Foreign Aid Is a Culprit," Background, The Heritage Foundation, No. 447, August 7, 1985.
48. *Ibid.*

### CHAPTER THREE

49. ISDCP, p. 13.
50. *Ibid.*
51. Bovard, "Continuing Failure," p. 1.
52. *Ibid.*, pp. 3-4.
53. *Ibid.*, p. 4.
54. "Public Law 480: Better than a Bomber," *MERIP Reports*, March-April 1987, p. 25. See also: William J. Burns, *Economic Aid and American Foreign Policy Toward Egypt 1955-81* (Albany: State University of New York Press, 1985), p. 126.
55. Robert Paarlberg, *Food Trade and Foreign Policy* (Ithaca, NY: Cornell University Press, 1985), pp. 110-11.
56. MERIP, "Public Law 480," p. 25.
57. Joe Stork, *Middle East Oil and the Energy Crisis* (New York: Monthly Review Press, 1975), pp. 60-61.
58. Cited in Stork, p. 40.
59. Special message to U.S. Congress concerning foreign aid, March 22, 1961.
60. Cited in Rex B. Wingerter "The 100th Congress: Israel Gains," *Middle East International*, December 5, 1986, p. 18.
61. David K. Shipler, "Israel Reportedly Got Mixed Signals from U.S. on Weapons Sales to Iran," *New York Times*, November 26, 1986.
62. *Washington Post*, November 18, 1986.
63. ISDCP, p. 13.
64. *House Foreign Assistance*, p. 15.
65. *Ibid.*, pp. 13-14.
66. *Ibid.*, pp. 12-13.
67. Joanne Omang, "Foreign Aid Purse Strings Tighten," *Washington Post*, December 16, 1986.
68. AID press release, December 23, 1986, p. 2.
69. Pat Towell, "Plan to Nick Israel Fails," *Congressional Quarterly*, August 1, 1987, p. 1726.
70. *Ibid.*

71. *Report to the AIPAC's 24th Annual Policy Conference*, June 27, 1983, Part III, p. 1.

## CHAPTER FOUR

72. Paul Findley, *They Dare to Speak Out* (Westport, Ct.: Laurence Hill & Co., 1985), p. 117.

73. Cheryl Rubenberg, "The Misguided Alliance," *Link*, October–November 1986, p. 6.

74. Cited in Rubenberg, *Misguided Alliance*, p. 6.

75. Stephen Green, *Taking Sides: America's Relations with a Militant Israel* (New York: Morrow, 1984), pp. 20–21.

76. Cited in Rubenberg, "Misguided Alliance," p. 8.

77. Findley, *They Dare*, p. 121.

78. Rubenberg, "Misguided Alliance," p. 9.

79. Cited in Harvey Sicherman, "A Perilous Partnership: Israel's Role in U.S. Strategy, 1981–82," in *Israel in U.S. Foreign and Security Policies*, Nimrod Novik, ed., Jaffee Center for Strategic Studies, Jerusalem, November 1983, p. 70.

80. *Ibid.*

81. *Washington Post*, May 22, 1975. Also see Edward Tivnan, *The Lobby* (Simon and Schuster: New York, 1987), p. 89.

82. Benjamin Beit-Hallahmi, "Israel's Global Ambitions," *New York Times*, January 6, 1983.

83. *Wall Street Journal*, March 19, 1985.

84. Thomas R. Stauffer, *U.S. Aid to Israel, the Vital Link* (Washington, D.C.: Middle East Institute, 1983), p. 16.

85. Douglas M. Bloomfield, "Israel's Standing in the Congress," in *Israel in U.S.*, Novik, ed., p. 17.

86. Stephen S. Rosenfeld, *Washington Post*, February 18, 1983.

87. Charles R. Bobcock, "U.S. Israel Ties Stronger than Ever," *Washington Post*, August 5, 1986.

88. *Ibid.*

89. AIPAC, letter mailed to members, December 1984.

90. Findley, *They Dare*, pp. 318–19.

91. Philip Stern, "PAC's America," *Washington Post*, November 2, 1986.

92. Wingerter, "The 100th Congress," p. 18.

93. *Ibid.*

94. *Ibid.*

95. Christopher Mayhew, "The Future of Zionism," *Middle East International*, June 27, 1986, p. 14.

96. John J. Fialka, "Political Contribution from Pro-Israel PACs Suggest Coordination," *Wall Street Journal*, June 24, 1987.

97. Mayhew, "The Future of Zionism," p. 14.

98. Cited in "Issues 88," Arab American Institute, August 1987, p. 3.

99. Cited by Mark A. Bruzonsky, "The Cost of Picking Up Israel's Tab," *Middle East International*, October 11, 1985, p. 20.

100. *Ibid.*



101. Thomas Dine, "On Revolutionary Eras," *Near East Report*, April 14, 1986, p. 3.
102. Bobcock, "U.S. Israel Ties."
103. Senate, *Foreign Assistance*, pp. 8–10.
104. P. Sever, "More than the Marshall Plan," *Al Hamishmar*, May 10, 1985; English translation published in *Israel and Palestine*, May–June 1985, p. 14.
105. *Ibid.*

## CHAPTER FIVE

106. Richard W. Murphy, "FY 1986 Assistance Requests for the Middle East and South Asia," Department of State Bulletin, May 1985, p. 75.
107. William Schneider, Jr., "Statement Before the Subcommittee on Foreign Operations, House of Representatives, March 8, 1984.
108. *Ibid.*
109. *Washington Post*, October 7, 1983.
110. *Ibid.*
111. Christopher Dickey, "Reagan Backs Israeli Aid Boost," *Washington Post*, January 31, 1985.
112. *Near East Report*, May 20, 1985.
113. Cited in *Sada Alwatan*, November 6, 1986.
114. *Ibid.*
115. Mark Thompson, "Fine Print Shows 'Loaned' Israeli Planes are Costly," *San Jose Mercury News*, September 14, 1986, p. 8.
116. *Ibid.*
117. *Ibid.*
118. *Ibid.*
119. Cylde Mark, "The Israeli Economy," Congressional Research Service, 1986, p. 17.
120. *Washington Post*, November 2, 1986.
121. Lobby activities, cited in *Washington Report on Middle East Affairs*, May 31, 1982.
122. Elmer Winter, "And Now for the Good News," *Near East Report*, June 20, 1984.
123. Between August 5 and 8, 1986, the *Washington Post* published a series of four articles on U.S.-Israel relations and the influence of the Israeli lobby in Washington. The articles, written by Charles R. Bobcock, are of particular importance to all those who are interested in U.S. policy in the Middle East, American aid to the Jewish state, or the political activities and influence of pro-Israel PACs in the U.S. Also of importance is *The Lobby, Jewish Political Power and American Foreign Policy* by Edward Tivnan (New York: Simon and Schuster, 1987).
124. Findley, *They Dare*, p. 319.
125. *Ibid.*, p. 267.
126. *Ibid.*
127. Rex Wingerter, "Backdoor Contributions: Pro-Israel Senate Honoraria," *Washington Report on Middle East Affairs*, February 1987, p. 6.
128. *Ibid.*
129. *Washington Post*, May 20, 1986.

130. David B. Ottaway, "Shamir Indicates Israel Wants NATO Ally Status," *Washington Post*, February 20, 1987.
131. David B. Ottaway, "Saudis Build Arsenal Against Israeli Might," *Washington Post*, February 16, 1987.
132. *Ibid.*
133. *Washington Report on Middle East Affairs*, May 27, 1985, pp. 3–4.

## CHAPTER SIX

134. Inge Duetschkron, *Bonn and Jerusalem* (Philadelphia: Chilton Book Company, 1970), p. 28.
135. *Ibid.*, p. 34.
136. *Ibid.*, p. 272.
137. *Ibid.*, p. 269.
138. Assaf Razin, "U.S. Foreign Aid to Israel," *Jerusalem Quarterly*, Fall 1983, p. 13.
139. Cited by Thomas L. Friedman, "In West Bank, Israeli Policies to Improve the 'Quality of Life' get Mixed Reviews," *New York Times*, January 5, 1986.
140. *Ibid.*
141. Joseph C. Harsch, "The Rising Cost of Israel," *Christian Science Monitor*, July 5, 1983.
142. Clyde Mark, "Israel: U.S. Foreign Assistance Facts," Congressional Research Service, 1986, pp. 4–5.
143. *General Accounting Office*, "U.S. Assistance to the State of Israel," June 24, 1983, pp. 3–6.
144. Cited by *AAUG Newsletter*, Vol. XVI, No. 5, September–October 1983, p. 11.
145. GAO, "U.S. Assistance," p. 59.
146. Elmer Winter, "And Now for the Good News."
147. Wilhelm, "Context of Assistance," p. 9.
148. Mark, "Israeli Economy," p. 5.
149. GAO, "U.S. Assistance," p. 54.
150. Recommendations of the House Subcommittee on Europe and the Middle East, "Foreign Assistance Legislation for Fiscal 1986–87," 1985, part 3, p. 13.
151. *Congressional Quarterly Almanac*, p. 91.
152. "Jack Kemp: Aid to Israel Vital," M. J. Rosenburg, *Near East Report*, December 31, 1984.
153. John Haldane, "Israel: Economy Going Down, Prospects Going Up," *Washington Report on Middle East Affairs*, April 1987, p. 11.
154. Razin, "Aid to Israel," p. 16.
155. *Detroit Free Press*, March 13, 1983.
156. Harry J. Shaw, "Israel and U.S. Budget: Time to Reassess," *Christian Science Monitor*. Reprinted in *The Washington Report on Middle East Affairs*, January 14, 1985.
157. Razin, "Aid to Israel," p. 16.
158. Thomas A. Friedman, "Israelis Feel the Sting of Austerity," *New York Times*, December 1, 1985.
159. Abbas Alnasrawi, "The Economics of Occupation and Israel's Economic Crisis," *Middle East Monitor*, October 1984, p. 2.

## CHAPTER SEVEN

160. Lee O'Brien, *American Jewish Organizations and Israel* (Washington, D.C.: Institute for Palestine Studies, 1986), p. 109.
161. Richard Curtiss, "The Cost of Supporting Israel," *Washington Report on Middle East Affairs*, November 1986, p. 3.
162. O'Brien, *American Jewish Organizations*, p. 131.
163. Cited in O'Brien, *American Jewish Organizations*, p. 112.
164. Ben Bradlee, Jr., "Israel's Lobby," *Boston Globe Magazine*, April 29, 1984. Charles R. Bobcock reached the same figure in an article published by the *Washington Post*, August 8, 1986, under the title "Israel Has Complex Bond with Jewish Americans."
165. "Israel's Invasion Proves Costly," *Houston Chronicle*, July 4, 1982.
166. Cited in Michael Jansen, "The Divided Loyalties of U.S. Zionists," *Middle East International*, April 3, 1987, p. 17.
167. *Ibid.*, p. 16.
168. For more details, consult the *Washington Post*, *New York Times*, and *Christian Science Monitor*, March 5–15, 1987.
169. Casper Weinberger on NBC, "Meet the Press," March 22, 1987.
170. Jansen, "Divided Loyalties," p. 164.
171. Dennis J. Wamsted, "The 99th Congress: A Reprise," *Washington Report on Middle East Affairs*, November 1986, p. 6.
172. Mohamed El-Khawas and Samir Abed-Rabbo, *American Aid to Israel: Nature and Impact* (Brattleboro, Vermont: Amana Books, 1984), p. 58.
173. *Ibid.*, p. 53.
174. Charles R. Bobcock, "Israel Has Complex Bond with Jewish Americans," *Washington Post*, August 8, 1986.
175. Lee O'Brien's book, *American Jewish Organizations and Israel*, provides a full description of these organizations, the objectives they pursue, the methods they employ to raise funds, and the contributions they make to Israel.
176. O'Brien, *American Jewish Organizations*, pp. 116–17.
177. *Ibid.*, p. 117.
178. Cited in the *Washington Post*, April 4, 1987.
179. "This Settlement Madness Is Doomed," *Moment Magazine*, January–February, 1987, Israel Press Briefs, March–April 1987, pp. 13–14.
180. *Jerusalem Post*, June 17, 1987.
181. *Economist*, May 17, 1975, p. 72.
182. O'Brien, *American Jewish Organizations*, p. 139.
183. Bobcock, "Israel Has Complex Bond with Jewish Americans."
184. *Ibid.*
185. Mark, "Israeli Economy," Table 4.
186. Stauffer, "Vital Link," p. 9.
187. Bobcock, "Israel Has Complex Bonds."
188. Reported by Alnasrawi, "The Economics of Occupation."
189. Cited in Bobcock, "Complex Bond."

## CHAPTER EIGHT

190. GAO, "U.S. Assistance," pp. 37–38.
191. *Ibid.*, p. 38.

192. Ibid.
193. Ibid.
194. Ibid., pp. 40–42.
195. Mark, “Foreign Assistance Facts,” p. 8.
196. Ibid., p. 9.
197. Charles R. Bobcock, “How U.S. Came to Underwrite Israel’s Lavi Fighter Project,” *Washington Post*, August 6, 1986.
198. Ibid.
199. Ibid.
200. David C. Morrison, “Fighting Over Fighters,” *National Journal*, August 9, 1986, p. 1942.
201. Cited in Mark, “Foreign Assistance Facts,” p. 8.
202. Ibid.
203. Ibid.
204. *Washington Post*, January 8, 1987.
205. *Wall Street Journal*, September 29, 1986.
206. Hirsh Goodman, “Setback for Lavi Fighter as Critics Bemoan Cost,” *Jerusalem Post*, January 27, 1986.
207. *Christian Science Monitor*, February 4, 1986.
208. *Jerusalem Post*, June 26, 1987.
209. *Washington Post*, July 8, 1987.
210. Congressional Record, House of Representatives, May 9, 1984, p. H3599.
211. Ibid., p. H3600.
212. Congressional Record, House of Representatives, July 9, 1985, p. H5278.
213. Ibid.
214. Ibid., pp. H5278–9.
215. Robert S. Greenberger, “How a Rabbi in the Pentagon Has Stirred Up a Political Dogfight Around an Israeli Jet Fighter,” *Wall Street Journal*, September 29, 1986.
216. *Washington Post*, July 8, 1987.
217. Op. cit., “U.S. Assistance to the State of Israel,” p. 3.
218. Ibid.
219. *Near East Report*, June 20, 1984 and March 18, 1985.
220. “Israel Tightens the Belt,” *Defense and Foreign Affairs*, February 1986, pp. 10–11.
221. Ibid., p. 11.
222. *Jerusalem Post*, November 6, 1986.
223. AID press release, December 13, 1985.
224. *Washington Post*, March 28, 1987.
225. Clyde Mark, “Israeli-American Relations,” Congressional Research Service, 1985, p. 11.
226. Mark, “Foreign Assistance Facts,” p. 9.
227. Op. cit., “American Aid to Israel,” p. 59.
228. Ibid.
229. Mark, “Israeli-American Relations,” p. 11.
230. Ibid., p. 11.
231. Ellen Laipson, “Congress and Israel,” “Congress and Foreign Policy,” U.S. House of Representatives, 1984, p. 136.

232. Thomas Stauffer, "Giving Away the Ranch," *Middle East International*, April 5, 1985, pp. 7–8.
233. Laipson, "Congress and Israel," p. 136.
234. Cited in John Haldane, "The Price of Free Trade," *Washington Report on Middle East Affairs*, October 7, 1985, p. 7.
235. *Ibid.*, p. 7–8.
236. *Washington Post*, March 21, 1987.
237. *Washington Post*, March 20, 1987.
238. *Washington Post*, October 8, 1986.
239. *Washington Post*, February 20, 1987.
240. Jane Hunter, "Israel Move to Block Congress, Save South African Arms Sales," *Israeli Foreign Affairs*, April 1987, p. 6.
241. Jane Hunter, in a lecture delivered in Washington, April 3, 1987.
242. *Jerusalem Post*, July 30, 1987.
243. *Ibid.*
244. *Washington Post*, March 20, 1987.
245. *Ibid.*
246. *Al-Bayader Assiyasi*, February 7, 1987, pp. 11–12.
247. *Washington Post*, March 28, 1987.
248. *Op. cit.*, "Israel-American Relations," p. 12.
249. Stauffer, "Vital Link," p. 14.

## CHAPTER NINE

250. *Defense Week*, November 4, 1985.
251. Harsch, "The Rising Cost of Israel."
252. "Scrimping for Israel," *Washington Report on Middle East Affairs*, February 4, 1985, p. 2.
253. *Op. cit.*, "U.S. Assistance to the State of Israel," pp. 52–53.
254. *Ibid.*, p. 53.
255. Ellen B. Laipson, "U.S. Assistance to Egypt: Foreign Aid Facts," Congressional Research Service, 1985, pp. 3–4.
256. *Ibid.*, p. 7.
257. Bloomfield, "Israel's Standing in the Congress," p. 17.
258. Rowland Evans and Robert Novak, "The Burden of Bailing Out Israel," *Washington Post*, July 8, 1983.
259. *Op. cit.*, "U.S. Assistance to the State of Israel," pp. 61–62.
260. Richard Murphy, Testimony, the House Foreign Affairs Committee, October 8, 1986.
261. Robert B. Houghton and Frank G. Trinko provide a comprehensive study of the peacekeeping organizations in their book, *Multinational Peacekeeping in the Middle East* (Washington, D.C.: Foreign Service Institute, U.S. Department of State, 1984). Also see Nathan A. Pelvocits, "Peacekeeping on Arab-Israeli Fronts," SAIS Papers, 1984.
262. "Israeli Firm Loses New York Airport Award," *Washington Post*, April 12, 1987.
263. Thomas R. Stauffer, "Economic Implications of Lost Trade: Opportunities in the Middle East," *American Arab Affairs*, No. 16 (Spring 1986), p. 12.

264. *U.S.-Arab Chamber of Commerce Trade Directory*, New York, 1986, pp. 22–23.
265. *Near East Report*, May 27, 1985.
266. “Foreign Assistance and Related Programs Appropriations Bill, 1986,” House of Representatives, p. 84.
267. *Near East Report*, April 15, 1985.
268. *Economist*, May 2, 1986.
269. Cited by John Haldane, “Trade Jobs for Votes,” *Washington Report on Middle East Affairs*, December 2, 1985, p. 6.
270. *Ibid.*
271. *Ibid.*
272. Eliyahu Kanovsky, “Oil and the Arms Race,” *New Outlook*, September–October 1986, p. 13.
273. *Economist*, December 6, 1986, p. 65.
274. Rubenberg, “Misguided Alliance,” p. 6.
275. Cited by David Gilmour, “The 1948 Arab Exodus,” *Middle East International*, November 21, 1986, p. 16.
276. *Ibid.*
277. *Ibid.*, pp. 16–17.
278. *Ibid.*, p. 17.
279. Simha Flapan, “The Palestinian Exodus of 1948,” *Journal of Palestine Studies*, Summer 1987, p. 13.
280. *Ibid.*, p. 19.
281. Obtained by the author from AID officials during a telephone inquiry in December 1986.
282. *Washington Post*, September 23, 1984.
283. “U.S. Aid to Israel,” *AAUG Newsletter*, September–October 1983, p. 12.
284. Mayhew, “Future of Zionism,” p. 15.
285. Jim Hoagland, “The Changing Face of Terrorism,” *Washington Post*, September 12, 1986.
286. Bouzonsky, “Israel’s Tab,” p. 15.

## CHAPTER TEN

287. See *New Outlook*’s extensive coverage of the Israeli economy in the May–June 1985, September–October 1986, and May–June 1987 issues.
288. Simcha Bahiri, “Military and Colonial Aspects of the Israeli Economy Since 1967,” *New Outlook*, May–June 1987, p. 31.
289. *Wall Street Journal*, June 22, 1984.
290. Cited by Sheila Ryan, “Israeli Economic Policy in the Occupied Areas: Foundations of a New Imperialism,” *MERIP Reports*, No. 24, January 1974, p. 4.
291. Joseph Schechtman, “The Arab Refugee Problem,” New York, 1952, pp. 95–96, 100–101.
292. Tom Segev, “1949—The New Israelis,” *New Outlook*, August–September 1984, p. 40.
293. *Ibid.*, p. 41.
294. M. Cherif Basioni, “The Palestinians Right of Self-Determination and National Independence,” *AAUG*, 1978, p. 14.

295. Flapan, "Palestinian Exodus," p. 15.
296. Erel Ginay, "Reducing U.S. Aid," *New Outlook*, May–June, 1985, p. 21.
297. Razin, "Aid to Israel," pp. 13–16.
298. Mnabu Shimizu, "Economics of Israeli Settlements in the Occupied Territories," (Tokyo: Institute of Developing Economics, 1985).
299. See Meron Benvenisti, "West Bank Data Project," *American Enterprise Institute*, 1984, and Proceedings of the "International Symposium on Israeli Settlements in the Arab Occupied Territories," April 22–25, Arab League, 1986.
300. Zuhair S. Sabbagh, "The Prohibitive Cost of Letting Go," *Middle East International*, September 27, 1985, p. 12.
301. Bahiri, "Aspects of Israeli Economy," p. 33.
302. Ibid.
303. Ibid.
304. Israel Shahak, "The Exploited Palestinians," *Middle East International*, April 4, 1986, p. 12.
305. Bahiri, "Aspects of Israeli Economy," p. 33.
306. Shahak, "The Exploited Palestinians," p. 12.
307. *Jerusalem Post*, February 15, 1985.
308. Sever I. Plucker, "The Palestinian State in the Territories: An Economic Report," *New Outlook*, May–June 1987, p. 28.
309. Ibid.
310. Ibid.
311. Bahiri, "Aspects of Israeli Economy," p. 31.
312. Plucker, "Palestinian State," p. 30.
313. Ibid., p. 29.
314. Sabbagh, "Prohibitive Cost," p. 12.
315. Bahiri, "Aspects of Israeli Economy," p. 33.
316. Ibid.
317. Ibid.
318. C. Robert Zelnick, "Israeli Democracy Stops at the Green Line," *Christian Science Monitor*, reprinted in the *Washington Report on Middle East Affairs*, July 14, 1986, p. 17.
319. Meron Benvenisti, *Conflict and Contradictions* (New York: Villard Books, 1986), pp. 147–48.
320. Plucker, "Palestinian State," p. 30.
321. Ibid., pp. 28–30.
322. Avishai Margalit, "Halfway to Hill," *Yedoit Ahronot*, April 7, 1987, *Israel Press Briefs*, May–June 1987, p. 2.
323. Tamar Peleg, "Occupiers' Law," *Al Hamishmar*, May 19, 1987, *Israel Press Briefs*, May–June 1987, p. 16.
324. "Let My People Go," *New Outlook*, April 1987, p. 5.
325. Patrick E. Tyler and Jonathan C. Randal, "Palestinians: The Bitter Survivors," *Washington Post*, June 3, 1987.
326. Michal Sela, "Half a Million Detentions—All in the Territories," *Korteret Rashit*, February 25, 1987, *Israel Press Briefs*, March–April 1987, p. 10.
327. Nehemiah Strassler, "Three Sacred Cows Whose Time Has Come," *New Outlook*, May–June 1985, p. 14.
328. Zvi Timor, "The Economic Crisis," *New Outlook*, January 1984, p. 14.

329. Yigal Hurivitz, "Independence Is Economic Growth," *New Outlook*, May–June 1985, p. 26.
330. Wolf Blitzer, "American Concerns About Israel's Economy," *Washington Jewish Week*, August 16, 1984.
331. "Do We Want to Live by the Sword Forever," *New Outlook*, May–June 1987, p. 20.
332. Hurivitz, "Independence," p. 14.
333. *Houston Chronicle*, July 4, 1982.
334. Zvi Kesse, "The Economy As Witness," *New Outlook*, January 1984, pp. 11–12.
335. Cited by *Wall Street Journal*, October 4, 1984.
336. "The Economic Crisis in Israel," Committee on Foreign Relations, U.S. Senate, 1984, p. 1.
337. Cited by Peretz Kidron, "If This Doesn't Work—Disaster," *Middle East International*, July 2, 1985, p. 7.
338. Haldane, "Economy Going Down," p. 11.
339. Uri Avnery, "Yes and No Prime Minister," *New Outlook*, September–October 1986, p. 11.
340. Joel H. Bainerman, "Letter to the Editor," *Business Week*, October 20, 1986, p. 8.
341. "Plan the Economy," *New Outlook*, May–June 1987, p. 15.
342. "Invest in Production," *New Outlook*, May–June 1987, p. 20.
343. "Investment Not Consumption," *New Outlook*, May–June 1987, p. 24.
344. Cited in Haldane, "Economy Going Down," p. 10.
345. *Ibid.*, p. 11.
346. Cited by the *Wall Street Journal*, October 4, 1984.
347. Kesse, "Economy As Witness," p. 12.
348. Eliyahu Konovsky, "Oil and the Arms Race," *New Outlook*, September–October 1986, p. 16.
349. Zvi Timor, "Israel's Economic Problems, the Government's Failure," *New Outlook*, January 1985, p. 16.
350. *Near East Report*, December 1, 1986, p. 191.
351. Strassler, "Sacred Cows," p. 14.
352. Nehemiah Strassler, "The Economy, Defense and Independence," *Haaretz*, May 3, 1987, *Israel Press Briefs*, May–June 1987, p. 11.
353. Kesse, "Economy As Witness," p. 12.
354. Bahiri, "Aspects of Israeli Economy," p. 31.
355. Cynthia Rosenberg, "War in Lebanon: Impact on Israeli Economy," Congressional Research Service, August 12, 1982, p. 2.
356. Peretz Kidron, "Guns Galore but Little Butter," *Middle East International*, July 26, 1985, p. 13.
357. Strassler, "The Economy, Defense and Independence," p. 14.
358. Aviv Yavin, "Peace and the Economy," *New Outlook*, May/June 1985, p. 32.
359. Simcha Bahiri, "Guns or Milk and Honey," *New Outlook*, September–October 1986, p. 19.
360. Ami Doron and Eli Teicher, "Feeding the Nuclear Idol," *Maariv*, March 22, 1987, *Israel Press Briefs*, March–April 1987, pp. 16–17.
361. AID, "Report on the Israeli Economy," January 1986, p. 1.



362. "Saving Israel," *Wall Street Journal*, August 31, 1984.  
 363. "How to Emerge From the Crisis," *New Outlook*, May–June 1984, p. 13.  
 364. Cited in Ginay, "Reducing U.S. Aid," p. 21.  
 365. Kesse, "Economy As Witness," p. 12.  
 366. Yavin, "Peace and the Economy," pp. 29–32.

## CHAPTER ELEVEN

367. *Washington Post*, March 6, 1986.  
 368. P. Sever, "More than the Marshall Plan," pp. 14–15.  
 369. *Ibid.*, p. 14.  
 370. *Washington Post*, November 9, 1986.  
 371. Cited by *Washington Post*, February 21, 1987.  
 372. Kathleen M. Christison, "Myths about Palestinians," *Foreign Policy*, Spring 1987, p. 122.  
 373. "Lest Now I Learn Nothing Again," *New Outlook*, May–June 1987, p. 7.  
 374. Jacob Neusner, "Is America the Promised Land for Jews?" *Washington Post*, March 8, 1987.  
 375. Chaim Shur and Liora Barash, "Not a Problem of Statehood," *New Outlook*, August 1986, p. 21.  
 376. Eli Ronel, "20 Years Later," *New Outlook*, May–June 1987, p. 12.  
 377. Hillel Schenker, "Waiting for Ben-Gurion," *New Outlook*, May/June 1987, p. 13.  
 378. Neusner, "Promised Land."  
 379. Richard Curtiss, "Personality: Jacobo Timmerman," *Washington Report on Middle East Affairs*, April 8, 1985, p. 7.  
 380. Benvenisti, *Conflict and Contradictions*, p. 157.  
 381. Shur, "Not a Problem."  
 382. Yehoshafat Harkabi, *Fateful Decisions*, reviewed by Yael Paz-Melamed, *Maariv Weekend Magazine*, February 13, 1987. Reprinted by *Middle East International*, February 20, 1987, p. 18.  
 383. Shur, "Not a Problem."  
 384. J. Robert Muskin, "The Fading of a Dream," *New Outlook*, August 1986, p. 24.  
 385. Leibowitz, p. 22.  
 386. Kidron, "If This Doesn't Work—Disaster," p. 8.  
 387. Mayhew, "Future of Zionism," p. 14.  
 388. Benvenisti, *Conflict and Contradictions*, p. 104.  
 389. Cited by Raphael Calis in "Israel's Request for U.S. Aid," *Arab Perspectives*, January–February 1985, p. 7.  
 390. Curtiss, "Personality," p. 7.  
 391. Paul Cossali, "Those Who Stayed Behind," *The Middle East*, July 1988, p. 13.  
 392. Richard P. Stevens and Abdelwahab M. Elmessiri, *Israel and South Africa* (New Brunswick, N.J.: North American, 1977), p. 13.



# Selected Bibliography

## BOOKS

- Avishai, Bernard. *The Tragedy of Zionism*. New York: Farrar Straus Giroux, 1985.
- Basioni, Cherif M. *The Palestinian Right of Self-determination*. Belmont, MA: AAUG Press, 1978.
- Beit-Hallahmi, Benjamin. *The Israeli Connection*. New York: Pantheon Books, 1987.
- Benvenisti, Meron. *West Banks Data Project*. Washington, D.C.: American Enterprise Institute, 1984.
- . *Conflict and Contradictions*. New York: Villard Books, 1986.
- Burns, William J. *Economic Aid and American Foreign Policy Toward Egypt, 1955–1981*. Albany: State University of New York Press, 1985.
- Davis, John H. *The Evasive Peace*. Cleveland: Dillon/Liederbach, 1976.
- Deutschkron, Inge. *Bonn and Jerusalem*. Philadelphia: Chilton Book Company, 1970.
- El-Khawas, Mohamed and Samir Abed-Rabbo. *American Aid to Israel: Nature and Impact*. Brattleboro, Vt.: Amana Books, 1984.
- Feinberg, R. E. *The Imperative Zone, the Third World Challenge to U.S. Foreign Policy*. New York: Norton, 1983.
- Feuerlicht, Roberta Strauss. *The Fate of the Jews*. New York: Times Books, 1983.
- Feuerwerker, M. C. *Congress and Israel, Foreign Aid Decision-Making in the House of Representatives, 1969–1976*. Westport, Ct.: Greenwood, 1979.
- Findley, Paul. *They Dare to Speak Out*. Westport, Ct.: Laurence Hill and Company, 1985.
- Flapan, Simha. *The Birth of Israel*. London: Croom Helm, 1987.
- Ghush, Prodip K. *Foreign Aid and Third World Development*. Westport, Ct.: Greenwood Press, 1986.
- Green, Stephen. *Taking Sides: America's Relations with a Militant Israel*. New York: Morrow, 1984.
- Guess, George M. *The Politics of United States Foreign Aid*. London: Croom Helm, 1987.

- Hayter, Teresa. *Aid Rhetoric and Reality*. London: Pluto, 1985.
- Hirschman, Albert O. and Richard M. Bird. *Foreign Aid—A Critique and Proposal*. Princeton, N.J.: Princeton University, 1968.
- Hough, R. L. *Economic Assistance and Security, Rethinking U.S. Policy*. Washington, D.C.: National Defense University, 1982.
- Houghton, Robert B. and Frank G. Trinkka. *Multinational Peacekeeping in the Middle East*. Washington, D.C.: Foreign Service Institute, 1984.
- Hunter, Jane. *Undercutting Sanction: Israel, the U.S. and South Africa*. Washington, D.C.: Washington Middle East Associates, 1986.
- Jamail, Milton and Margo Gutierrez. *It's No Secret—Israel's Military Involvement in Central America*. Belmont, MA: AAUG, 1986.
- Jiryis, Sabri. *The Arabs in Israel*. New York: Monthly Review Press, 1976.
- Kaplan, J. J. *The Challenge of Foreign Aid: Policies, Problems and Possibilities*. New York: Praeger, 1967.
- Klieman, Aaron S. *Israel's Global Reach*. Washington, D.C.: Pergamon Brassey's, 1985.
- Lappe, F. M., J. Collins, and D. Kinley. *Aid As Obstacle—Twenty Questions About Our Foreign Aid and the Hungry*. San Francisco: Institute for Food and Development Policy, 1980.
- Mason, Edward. *Foreign Aid and Foreign Policy*. New York: Harper and Row Publishers, 1964.
- McNeil, D. *The Contradictions of Foreign Aid*. London: Croom Helm, 1981.
- Morss, E. R. and V. A. *U.S. Foreign Aid—An Assessment of New and Traditional Development Strategies*. Boulder, Co.: Westview Press, 1982.
- Mosley, Paul. *Overseas Aid: Its Defense and Reform*. Brighton, England: Wheatsheaf, 1987.
- Neff, Donald. *Warriors for Jerusalem*. New York: Linden Press, 1984.
- Novik, Nimrod, ed. *Israel in U.S. Foreign and Security Policies*. Tel Aviv: Jaffee Center for Strategic Studies, 1983.
- O'Brien, Lee. *American Jewish Organizations and Israel*. Washington, D.C.: Institute for Palestine Studies, 1986.
- Paarlberg, Robert. *Food Trade and Foreign Policy*. Ithaca, N.Y.: Cornell University Press, 1985.
- Pelcovits, Nathan A. *Peacekeeping on Arab-Israeli Fronts*. Washington, D.C.: SAIS Papers, 1984.
- Quandt, William B. *Camp David, Peacemaking and Politics*. Washington, D.C.: Brookings Institution, 1986.
- Rabie, Mohamed. *International Brain Drain*. Kuwait: Kuwait University Press, 1972.
- Roeder, Edward. *Financing the Elections of the 99th Congress: Pro-Israel PACS*. Washington, D.C.: Sunshine News Service, 1985.
- Roy, Sara. *The Gaza Strip Survey*. Jerusalem: West Bank Data Base Project, 1986.
- Rubenberg, Cheryl A. *Israel and the American National Interest*. Urbana: University of Illinois Press, 1986.
- Saba, Michael. *The Armageddon Network*. Brattleboro, Vt.: Amana Books, 1984.
- Saunders, Harold H. *The Other Walls—the Politics of the Arab-Israeli Peace Process*. Washington, D.C.: American Enterprise Institute, 1985.
- Schechtman, Joseph. *The Arab Refugee Problem*. New York: The Philosophical Library, 1952.
- Segev, Tom. *1949: The New Israelis*. New York: MacMillan, 1986.

- Shipler, David K. *Arab and Jew*. New York: Times Books, 1986.
- Stauffer, Thomas R. *U.S. Aid to Israel: The Vital Link*. Washington, D.C.: Middle East Institute, 1983.
- Stevens, Richard P., and Abdelwahab M. Elmessiri, *Israel and South Africa*. New Brunswick, N.J.: North American, 1977.
- Stork, Joe. *Middle East Oil and the Energy Crisis*. New York: Monthly Review Press, 1975.
- Thompson, W. S., ed. *The Third World—Premises of U.S. Policy*. San Francisco: Institute for Contemporary Studies, 1983.
- Timmerman, Jacobo. *The Longest War—Israel in Lebanon*. New York: Alfred A. Knopf, 1982.
- Tivnan, Edward. *The Lobby: Jewish Political Power and American Foreign Policy*. New York: Simon and Schuster, 1987.
- Wilhelm, John and Gerry Feinstein, eds. *U.S. Foreign Assistance—Investment or Folly?* New York: Praeger, 1984.

## REPORTS

- Bovard, James. "The Continuing Failure of Foreign Aid." CATO Institute, Policy Analysis, No. 65, January 31, 1986.
- Laipson, Ellen B. "U.S. Assistance to Egypt: Foreign Aid Facts." Congressional Research Service, 1985.
- Mark, Clyde. *The Israeli Economy*. Congressional Research Service, 1986.
- . *Israel: U.S. Foreign Assistance Facts*, 1986.
- . *Israeli-American Relations*, 1985.
- Naw, Henry R. "Securing Energy." *Washington Quarterly*, Summer, 1981.
- Nowels, L. Q. *U.S. Foreign Assistance in an Era of Declining Resources*. Congressional Research Service, 1986.
- Rosenberg, Cynthia. "War in Lebanon: Impact on Israeli Economy." Congressional Research Service, 1982.
- Rufus, Alan. *In Africa's Anguish, Foreign Aid Is a Culprit*. Heritage Foundation, No. 447, August 7, 1983.
- Wasserman, Garry. "The Foreign Aid Dilemma." *Washington Quarterly*, Winter 1983.
- U.S. Department of State. *International Security and Development Cooperation Program*. Special Report No. 108, April 4, 1983.
- . *International Security and Development Cooperation Program*. Special Report No. 116, April 1984.
- . *Congressional Presentation for Security Assistance Programs*. Fiscal Year 1987, vol. 1, 2.
- . *Report of the Commission on Security and Economic Assistance (Carlucci Commission)*. 1983.
- The White House. *Freedom, Regional Security and Global Peace*. Washington, D.C., March 14, 1986.
- General Accounting Office. *Unrealistic Use of Loans to Support Foreign Military Sales*, January 19, 1983.
- . *AID Needs to Strengthen Management of Commodity Import Programs*. February 1984.
- . *U.S. Assistance to the State of Israel*. 1983.

- Congressional Budget Office. *Assisting the Developing Countries: Foreign Aid and Trade Policies of the U.S.* Washington, D.C., 1980.
- U.S. Agency for International Development. *Design and Evaluation of AID-Assisted Projects.* 1980.
- . *U.S. Overseas Loans and Grants.* 1984.
- . *Report on the Economy of Israel.* January 1986.
- . *Congressional Presentation, Fiscal Year 1987, Asia and the Near East.* 1986.
- . *Fiscal Year 1988, Summary Tables.* 1987.
- U.S. Congress. House. *Foreign Assistance and Related Programs Appropriations Bill, 1986.* August 7, 1985.
- . *Foreign Assistance and Related Programs Appropriations Bill, 1987.* August 5, 1986.
- . *Foreign Assistance Legislation for Fiscal Year 1986–87.* 1985.
- . *Foreign Assistance Legislation for Fiscal Years 1988 and 1989.* 1987.
- . *Congress and Foreign Policy: 1984.* 1985.
- . *The Search for Peace in the Middle East, Documents and Statements, 1967–1979.* 1979.
- U.S. Congress. Senate. *Foreign Assistance and Related Programs Appropriations Bill, 1987.* September, 1986.
- U.S. Congress. House. Committee on Foreign Affairs. *An Assessment of the West Bank and Gaza Autonomy Talks.* November 1980.
- . *The Middle East and Europe: Energy, Autonomy, and Development.* April 1982.
- . *The West Bank-Gaza Economy: Problems and Facts.* 1980.
- . *Foreign Relations Authorization Act. Fiscal Years 1988 and 1989,* March 27, 1987.
- . *Developments in the Middle East.* August 14, 1986.
- . *Report on a Study Mission to Egypt, Jordan, Syria, and Israel.* 1985.
- U.S. Congress. Senate. Committee on Foreign Relations. *The Economic Crisis in Israel.* November 1984.
- International Center for Peace in the Middle East. *Human Rights in the Occupied Territories, 1979–83.* Tel Aviv, 1985.
- . *The Condition and Status of the Arabs in Israel.* Tel Aviv, June 1985.
- Report to AIPAC's 24th Annual Policy Conference, part 3.* Washington, D.C., June 27, 1983.
- National Lawyers Guild. *Treatment of Palestinians in Israeli-Occupied West Bank and Gaza.* Report of the National Lawyers Guild 1977 Middle East Delegations. New York, 1978.
- U.S. Chamber of Commerce Trade Directory.* New York, 1986.

## MAGAZINES

- AEI Foreign Policy and Defense Review  
 American Arab Affairs  
 Congressional Records  
 Congressional Quarterly  
 Defense and Foreign Affairs  
 Defense Week  
 Department of State Bulletin

Foreign Affairs  
Foreign Policy  
Israeli Foreign Affairs  
Israel Press Briefs  
Journal of Palestine Studies  
Middle East International  
Middle East Monitor  
Middle East Insight  
MERIP Middle East Report  
National Journal  
Near East Report  
New Outlook  
Palestine Perspectives  
The Brookings Review  
The Economist  
The Jerusalem Quarterly  
The Link  
The Middle East Journal  
The Washington Quarterly  
The Washington Report on Middle East Affairs  
Washington Jewish Week  
World Policy Journal

## **NEWSPAPERS**

San Jose Mercury News  
The Boston Globe  
The California Tribune  
The Christian Science Monitor  
The Detroit Free Press  
The Jerusalem Post  
The Los Angeles Times  
The New York Times  
The Wall Street Journal  
The Washington Post





# Index

- Africa, U.S. budget cuts and foreign aid to, 49
- Agency for International Development (AID), 29–30, 39
- Agricultural Trade and Development Assistance Act. *See* Public Law 480
- Agriculture, Public Law 480 and, 30, 36–37
- AIPAC, 50, 60–63, 88, 98
- Alon, Yigal, 120
- American Friends of Hebrew University, 90
- American Israel Public Affairs Committee, 50, 60–63, 88, 98
- American Jewish Joint Distribution Committee, 92
- American Schools and Hospitals Abroad grants, 104
- Amitay, Morris, 87
- Antigua, 103
- Apartheid, 136; Anti-Apartheid Act of (1986), 57, 107
- Arab boycott, 108, 117–119
- Arab League, 108
- Arab States: abandoned Arab property by Israel, 128–135; British Mandatory Emergency Regulations, 130; business loans to, 116–119; exports to, 117; impact of October 1973 War, 137–142; Israeli economy and, 128–146; Palestinian refugees and, 120–121; U.S. military assistance to Israel and, 65–74; U.S. Political Action Committees and, 39–40, 59–62. *See also* Israel; Palestinians
- Arens, 107
- Argentina: agricultural assistance programs and, 37; multilateral assistance programs and, 31
- Aridor, Yoram, 67, 86
- Arms Export Act, Israeli exception, 95
- Atwell Security of Tel Aviv, 116
- Aviv, Yigal, 144
- Avnery, Uri, 141
- Badham, Robert, 99–100
- Bahiri, Simcha, 133–134
- Bainerman, Joel H., 141
- Bangladesh, U.S. economic aid to, 80
- Begin, Menachem, 86, 112
- Beit-Hallahmi, Benjamin, 57
- Ben-Aharon, Yitzhak, 139
- Ben Gurion, David, 129–131
- Benvenisti, Meron, 76, 135–136, 151, 153
- Berkowitz, William (Rabbi), 86
- Bernadotte, Count, 121
- Bilateral assistance programs, 29–30

- Bishara, Abdulla Y., 5–6  
 Blitzer, Wolf, 139  
 Bloomfield, Douglas, 60, 113–114  
 Boland Amendment, 7–8  
 Bond, James D., 50  
 Boschwitz, Rudy, 88  
 Brazil: Middle East arms purchases from, 119; multilateral assistance programs and, 31  
 Breira conference, 72  
 British Aerospace Corporation, 118  
 British Mandatory Emergency Regulations, 130  
 Bruno, Michael, 99  
 Bruzonsky, Mark A., 62, 124  
 Buchanan, Patrick, 153  
 Buy American Act, 96–98
- Cambodia, agricultural assistance programs and, 37  
 Camp David Accords, 67, 112–116, 138–141; peacekeeping efforts following, 114–116  
 Canada, agricultural assistance programs and, 37  
 Caribbean, 103  
 Carter, Jimmy, 67–68, 97–98, 112–113  
 Center for Humanistic Zionism, 140  
 Center for Social and Economic Progress, 140  
 Central America, 103  
 Chad, U.S. economic aid to, 80  
 Charitable organization, support to Israel, 85–94  
 Chatila massacre, 114  
 Chile, Israel aid to, 57  
 Chilean junta, 57  
 China, 102; Middle East arms purchases from, 119  
 Chofshi, Nathan, 120  
 Christison, Kathleen, 148  
 Clifford, Clark, 38  
 Cohen, Meir, 120  
 Commodity Credit Corporation, loans to Israel, 104  
 Congress. *See* U.S. Congress  
 Continuing Resolution for FY 1985 (P. L. 98–453), 70
- Contras, aid to, 7–8  
 Costa Rica, 103  
 Cranston, Alan, 70
- Defense Trade Task Force, establishment of, 97  
 Deficit Reduction Act of (1984), 93–94  
 Development assistance, 29–30. *See also* specific countries  
 Dine, Thomas A., 60, 62  
 Dominican Republic, 103  
 Doron, Ami, 144–145  
 Doron, Daniel, 140  
 Duwayma, 120–121  
 Dymally, Mervyn, 107
- East Jerusalem, 86  
 Economic assistance, 31–33, 75–84; financial need and U.S. aid, 77–83; German aid to Israel, 75–77; role of economic aid, 83–84. *See also* specific countries  
 Economic Support Fund (ESF), 16–17, 42–43  
 Egypt, 112–115; Camp David Accords, 67, 112–113; economy following war with Israel, 132–136; multilateral assistance programs and, 31; Soviet relations and, 9–10; Special International Security Act of (1979), 112–113; U.S. assistance to, 23–26; U.S. budget cuts and foreign aid, 49; U.S. economic aid to, 80. *See also* Arab States; Middle East  
 El Salvador, 103  
 Energy crisis: anti-Arab feeling in U.S. following, 58; foreign aid policy and, 40  
 Espionage, Pollard case, 87  
 Evans, Rowland, 108, 114  
 Export Administration Act, 107–108  
 Export-Import Bank, loans to Israel, 104
- Federal Election Commission, PAC report, 61  
 Findley, Paul, 60, 72  
 Fischbein, Charles, 86  
 Fisher, Max, 93

- Flapan, Simha, 121, 130, 150
- Food for Peace Program, 30, 36–37
- Food shortages, agricultural assistance programs and, 37
- Foreign aid: Agency for International Development (AID), 29–30, 39; bilateral assistance programs, 29–30; budget cuts and, 49–50; business loans to Arab States, 116–119; Carlucci Commission, 42; Carter administration and, 41–42; costs to U.S. of support to Israel, 111–124; development assistance programs, 29–30; economic assistance and, 31–33; economic and financial assistance programs, 26–29; Eisenhower administration and, 37–38, 54–56; grants and subsidies to Israel, 95–109; history and development of U.S. programs, 17–31, 35–50; Jewish lobby and, 58–64, 90–92; Kennedy administration and, 38–40; magnitude and geographical distribution of, 43–50; Marshall Plan, 35–36; Middle East policy and, 40–43; migration and refugee assistance, 30; military assistance, 31–33; multilateral assistance, 30–31; objectives evaluated, 8–10; objectives in Middle East, 3–10; private assistance to Israel, 85–94; program objectives and implications, 11–34; Public Law 480 and, 30, 36–37; Reagan administration and, 41–42; reparations to Israel, 128, 131–132; Soviet Union and, 40–43; to Israel, 57, 75–83, 127–148, 155–157; U.S. economic assistance to Israel, 13–34, 65–74; 77–83, 127–146; U.S. foreign aid programs, 13–34; U.S. military assistance to, 64–74; U.S. official aid to Israel, 53–74; U.S. Political Action Committees and, 39–40, 59–62
- Foreign Aid Bill (P. L. 99–83), 113
- Foreign Assistance Act, 9
- Foreign Military Sales (FMS), 13, 22–23, 49, 97–101; to Jordan, 118
- France: Iran-Iraq War and 5; Middle East arms purchases from, 119
- Free Trade Area agreement, 93–94, 105–109
- FTA. *See* Free Trade Area agreement
- Gaza Strip, 54–55, 66–67, 72, 86, 91, 151–152; Israeli occupation of, 132–134; labor force of, 134–137
- Germany. *See* West Germany
- Ghorbanifar, 7
- Goland, Michael, 88
- Golan Heights, 72, 86, 91
- Goldwater, Barry, 39–40
- Goodman, Hirsh, 99, 143
- Gramm-Rudman-Hollings Act, 44
- Grants, to Israel, 95–109
- Grose, Peter, 146
- Guatemala, U.S. advisors restricted to, 57
- Gulf Cooperation Council, 5–6
- Gulf War, 5–6. *See also* Iran-Iraq War
- Guri, Chaim, 148
- Hadassah, 90
- Haig, Alexander M., 71–72
- Haile Selassie, 151
- Haiti, U.S. advisors restricted to, 57
- Haldane, John, 118–119
- Hall, Harry, 94
- Harkabi, Yehoshafat, 151–152
- Harsch, Joseph C., 111–112
- Hoagland, Jim, 124
- Honduras, 103
- House Appropriations Subcommittee on Foreign Operations, 49
- Housing Guarantee loans, 104
- Howe, Irving, 72
- IBO. *See* State of Israel Bonds Organization
- Immigration: immigration to Israel by American Jews, 88–89; to Israel, 103–104
- Indochina, agricultural assistance programs and, 37
- Indonesia, Soviet relations and, 9–10
- Inouye, Daniel, 68
- International Atomic Energy Agency, 118
- International Military Education and Training (IMET), 13–15, 22–23
- International Monetary Fund, 31
- International Red Cross, 121, 137

- International Security and Development Cooperation Programs, 4
- Iran, 116; arms shipments to, 6–8; hostages and, 123–124; Iran-contra affair, 88; Iran-Iraq War and, 5–6; U.S. and Soviet Middle East policy and, 40–41
- Iran-contra affair, 88
- Iran-Iraq War, 5–6
- Ireland, U.S. budget cuts and foreign aid, 49
- Israel: abandoned Arab property, 128–135; American-Israel Public Affairs Committee (AIPAC), 50, 60–63; Arab states and, 39–40, 59–61, 128–142; arms sales to Iran, 5–8; Arms Export Act exception, 95; balance-of-payments deficit, 68; British Mandatory Emergency Regulations, 130; budget, 144; Buy American Act restrictions and, 96–98; Camp David Accords, 67, 112–116, 138–141; Central America and, 103; Commodity Credit Corporation loans to, 104; costs to U.S. of support, 111–124; creation of, 53–55, 128–130; current economic crisis, 142–146; debts to U.S., 67–70; economic assistance to, 75–84; economic implications of establishment of, 128–130; economy of, 68, 111–113, 132–136, 147–149; Export-Import Bank loans to, 104; exports of, 96–99, 133–134, 143–144; financial need and U.S. aid, 77–83; financial support by United Israel Appeal (UIA), 91–92; financial support by United Jewish Appeal (UJA), 90–91; following war with Arab states, 132–136; foreign aid effects of economy, 127–146; foreign debt, 80–84; foundations of economy, 127–132; Free Trade Area agreement, 93–94, 105–109; future of, 147–154; grants and subsidies to, 95–109; hi-tech imports, 102–103; immigration to, 103–104; immigration to Israel by American Jews, 88–89; impact of October 1973 War, 137–142; institutional financial support, 89–92; Jewish lobby and, 58–64, 90–92; Kfir fighter jets loan offer, 69–71; Lavi aircraft project, 98–101; Lebanon invasion, 59–61, 71–72, 86, 115–116, 139–140; Likud government, 91, 138–140; lobbying in U.S., 58–64, 90–92; Master Defense Development Data Exchange Agreement with U.S., 96; Memorandum of Understanding of Strategic Cooperation with U.S., 71–73; MFO (Multinational Force and Observers) and, 115; military debt, 59–60; military objectives, 7–8; national debt, 143–144; new economic programs of, 140–142; October War of (1973), 56, 58–59, 84, 137–142; Organization of Economic Cooperation and Development (OECD) and, 120; Palestinian refugees and, 120–121; peacekeeping efforts following Camp David Accords, 114–116; political aspects of military assistance, 67–71; political influences of foreign aid, 9–10, 53–74; politics of foreign aid, 54–67; politics of military aid to, 67–74; Pollard case and, 87; private assistance to, 85–94, 111–112; religious conflict in, 152; role of economic aid, 83–84; six-day war, 67–68, 119, 132, 151–152; South Africa and, 106–108; Special International Security Act of (1979), 112–113; State of Israel Bonds Organization (IBO), 92–94; United Nations Interim Force in Lebanon (UNIFIL) and, 115; United Nations Truce Supervision Organization (UNTSO) and, 115; U.S. assistance to, 23–26, 40–44, 53–74, 112–144, 147–157; U.S. budget cuts and foreign aid, 49; U.S. Continuing Resolution for FY 1985 (P. L. 98–453), 70; U.S. Deficit Reduction Act of (1984), 93–94; U.S. economic assistance to, 77–83; U.S. foreign aid, 58–64, 147–154; U.S. foreign aid conclusions, 155–157; U.S. foreign aid disbursements to, 43–44; U.S. foreign aid to, 53–74, 140–142; U.S. funding of Israeli military development, 98–103; U.S.-Israel strategic cooperation, 71–73; U.S. loans to, 103–105; U.S. military assistance, size

- of, 73–74; U.S. military assistance to, 65–74; U.S. Political Action Committees and, 59–62; U.S. political relations, 54–60; U.S. and Soviet Middle East policy and, 40–43; War of 1973 and, 58–59; West German economic assistance to, 75–77; Zionism and, 53–54
- Israel Bonds Organization. *See* State of Israel Bonds Organization
- Israel Endowment Fund, 92
- Italy, Middle East arms purchases from, 119
- Jamaica, 103
- Jewish immigration, to Israel, 127–128, 149
- Jewish lobby, 85–86, 90–92; Breira conference, 72; in U.S. and foreign aid, 58–64
- Jewish National Fund (JNF), 85–86, 92
- Jewry, attitudes toward Israel, 149
- Jews, immigration to Israel by Americans, 88–89
- Jordan: contributions by private individuals, 88–89; economy following war with Israel, 132–136; sales of Stinger missiles to, 117–118; U.S. assistance to, 23–26
- Kasten, Robert, 68–71
- Kemp, Jack, 82
- Kennedy, John F., 38–39, 54
- Kesse, Zvi, 140, 146
- Kfir fighter jets, 69–71
- Kibbutz Artzi Movement, 141
- Kidron, Peretz, 144, 152
- Kissinger, Henry, 56
- Korean War, influences on foreign aid, 41
- Kuwait, 117; Iran-Iraq War and, 6
- Laipson, Ellen, 113
- Latin American, U.S. foreign aid disbursements to, 43–44
- Lavi aircraft, 98–101; costs of, 98–99; development of, 97–98
- Lebanon: bombing of marine headquarters, 116; invasion of 59–61, 139–140; Israel invasion, 115–116; Israel invasion of, 71–72; Israel's invasion of, 86; terrorism, 123–124; United Nations Interim Force in Lebanon (UNIFIL) and, 115; U.S. assistance to, 23–26; U.S. interests in Middle East and, 114
- Lehman, John F., Jr., 69
- Libya, 116
- Liebowitz, Yeshayahu, 151–152
- Likud government, 58, 91, 138–140
- Lugar, Senator (U.S.), 73
- Margalit, Avishai, 136
- Marshall, George C., 53–54
- Marshall Plan, 35–36, 41–42, 63
- Master Defense Development Data Exchange Agreement, 96
- Mayhew, Christopher, 153
- Mayhew, Christopher (Lord), 123
- Mayhew, Lord Christopher, 61
- Meir, Golda, 86
- Memorandum of Understanding of Strategic Cooperation, 71–73
- Merkava tank, development of, 97–98
- Mexico, multilateral assistance programs and, 31
- MFO (Multinational Force and Observers), 115
- Middle East: American-Israel Public Affairs Committee (AIPAC), 50; Camp David Accords, 138–141; foreign aid objectives and, 4–8, 40–44; foreign aid policy of U.S. and Soviet Union, 40–43; foreign aid to Israel, 127–146; history and development of U.S. programs in, 17–31; impact of October 1973 War, 56, 58–59, 84, 137–142; Israel independence, 53–54; peacekeeping efforts following Camp David Accords, 114–116; Soviet Union and, 40–43; United Nations Interim Force in Lebanon (UNIFIL) and, 115; United Nations Truce Supervision Organization (UNTSO) and, 115; U.S. assistance programs, 33, 53–74; U.S. economic assistance to Israel, 77–83; U.S. foreign aid disbursements to, 43–50; U.S. foreign aid to Israel, 155–157; U.S.-Israel strategic cooperation,

- 71–73; U.S. military assistance to Israel, 65–74; U.S. Political Action Committees and, 39–40, 59–62. *See also* Foreign aid: Israel
- Migration and refugee assistance, 30
- Military assistance, 31–33; Arab States and, 117–118; Carter administration and Israel, 97–98; Memorandum of Understanding of Strategic Cooperation with Israel, 71–73; in Middle East, 7–10, 114–122; political aspects of, 67–71; to Israel, 58–62, 65–74, 95–103; U.S.-Israel strategic cooperation, 71–73
- Military Assistance Program (MAP), 13, 17–22
- Modai, Yitzhak, 84
- Morocco, U.S. economic aid to, 80
- Moskin, J. Robert, 152
- Multilateral assistance programs, 30–31
- Multinational Force and Observers (MFO), 115
- Murphy, Richard, 118
- Murphy, Richard W., 3
- Mutual Security Agency, 36
- National Insurance Institute, 135
- Neusner, Jacob, 149–150
- New Israel Fund, 92
- New Zealand, agricultural assistance programs and, 37
- Nicaragua, 57, 151
- Nonprofit organizations, fund raising for Israel, 85–94
- No One Will Survive* (Doron & Teicher), 144–145
- North Korea, 5
- North, Oliver, 7
- Novak, Robert, 108, 114
- Obey, David R., 49–50
- October War of (1973), 56, 58–59, 84, 137–142
- Organization of Economic Cooperation and Development (OECD), 120
- PAC. *See* Political Action Committees
- Packwood, Bob, 62
- Pakistan: U.S. assistance to, 23–26; U.S. budget cuts and foreign aid, 49; U.S. and Soviet Middle East policy and, 40–41
- Palestine, 53–54; abandoned Arab property by Israel, 128–135; creation of Israel and economic implications, 128–129. *See also* Israel
- Palestine Liberation Organization, 56, 71–72, 139–140
- Palestinian refugees, 120–121; United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and, 121
- Palestinians: in Israel, 129–146; Israel's attitudes toward today, 152–153; Jewish National Fund (JNF) and, 85–87; taxes levied on, 136
- Peacekeeping operations, 15–16
- Pearce, Austin, 118
- Peled, Mattiyahu, 72
- Peleg, Dov, 141
- Pelet, Matti, 107
- Pelig, Tamar, 137
- Pelletreau, Robert H., 6
- Percy, Charles, 70, 88
- Peres, Shimon, 140–141
- Peretz, Don, 128
- Philanthropies, support to Israel, 85–94
- Philippines: U.S. budget cuts and foreign aid, 49; U.S. economic aid to, 80
- PLO. *See* Palestine Liberation Organization
- Plucker, Sever, 134, 141
- Poindexter, John, 5
- Political Action Committees, 39–40, 73; Israeli lobby and, 59–62
- Pollard, Anne Henderson, 87
- Pollard, Jonathan Jay, 87
- Port Authority of New York and New Jersey, 116
- Private assistance, 85–94; by American Friends of Hebrew University, 90; by Hadassah, 90; by individuals, 87–89; by institutions, 89–92; by Jewish National Fund (JNF), 85–86; by United Israel Appeal (UIA), 91–92; by United Jewish Appeal (UJA), 90–91; State of Israel Bonds Organization, (IBO), 92–94; to Israel, 111–112; to Jordan, 88–89
- Public Law 30, 36–37, 480

- Rabin, Yitzhak, 68, 99, 107, 133
- Racial discrimination, Zionism and, 149–150
- Rahall, Nick Joe, 99–100
- Razin, Assaf, 76, 82
- Reagan, Ronald, 3, 5, 8–9, 68; view of Soviet Union, 71
- Regan, Donald, 81
- Reparations: to Israel from West Germany, 128, 131–132. *See* West Germany
- Rhodesia, 151
- Rosen, Ephraim, 141
- Rubenberg, Cheryl A., 120
- Sabra massacre, 114
- Saudi Arabia, foreign military sales to, 117
- Schechtman, Joseph, 129
- Schultz, George P., 4, 6–9, 60, 82
- Security Assistance Program, 4–5, 12–15; Economic Support Fund (ESF), 16–17, 42–43; Foreign Military Sales (FMS), 13, 22–23, 49; International Military Education and Training (IMET), 13–15, 22–23; Military Assistance Program (MAP), 13, 17–22; peacekeeping operations, 15–16
- Segev, Tom, 129
- Senate Armed Services Committee, 62
- Senate Foreign Relations Committee, 62, 73
- Shahak, Israel, 133
- Shah of Iran, 57
- Shapira, Chaim, 130
- Sharon, 107
- Shishinsky, Eitan, 146
- Shomron, Dan, 99
- Sinai, 54–55, 66–67; Israeli withdrawal, 115
- Sinai Field Mission, 115
- Six Day War, 67–68, 119, 132, 151–152; military assistance following, 67–68
- Smith, Ian, 151
- Somalia, Soviet relations and, 9–10
- South Africa, 102, 136; Anti-Apartheid Act of (1986) and, 107–108; Free Trade Area agreement with Israel and, 106–108; Israel aid to, 57; U.S. advisors restricted to, 57
- South Vietnam: agricultural assistance programs and, 37; U.S. aid to, 37–40
- Soviet Union: foreign aid ambitions, 40–43; influences on U.S. foreign aid policies, 38–39; Iran-Iraq War and, 5–6; Jewish immigration to Israel, 103–104; Middle East arms purchases from 119; Middle East influences, 9–10; Reagan administration and Israel, 71–73; U.S. military assistance to Israel and, 65–74
- Spain, Middle East arms purchases from, 119
- Special International Security Act of (1979), 112–113
- State of Israel Bonds Organization (IBO), 92–94
- Stauffer, Thomas, 93
- Stauffer, Thomas R., 109
- Strait of Hormuz, Iran-Iraq War and, 6
- Strassler, Nehemia, 143
- Strategic Defense Initiative Program, 102–103; Israel's participation in, 141
- Strategic Defense Initiative (SD), Israel included in, 95
- Subsidies, to Israel, 95–109
- Syria: Camp David Accords, 67; economy following war with Israel, 132–136
- Taba issue, 114–115
- Tadiran Company, 102
- Tariffs, Free Trade Area agreement with Israel and, 105–109
- Teicher, Eli, 144–145
- Terrorism, in Middle East, 116
- Third World: foreign aid objectives and, 4–7, 42; foreign aid programs for, 39–40; International Monetary Fund and, 31
- Timmerman, Jacobo, 150–151, 153
- Tornado fighters, sale to Saudi Arabia, 118
- Tower Commission, 8, 88
- Truman, Harry S., 36; Zionism and, 53–54
- Tunisia, Israel attack on, 67
- Turkey: U.S. assistance to, 23–26; U.S. economic aid to, 80; U.S. and Soviet Middle East policy and, 40–41
- United Israel Appeal (UIA), 91–92
- United Jewish Appeal (UJA), 90–91

- United Nations, 10
- United Nations Interim Force in Lebanon (UNIFIL), 115
- United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), 121
- United Nations Security Council, 54–55, 118
- United Nations Security Council Resolutions (242) and (238), 118
- United Nations Truce Supervision Organization (UNTSO), 115
- United States: Agency for International Development, 39; agricultural assistance, 36–37; Anti-Apartheid Act of (1986), 57; Arab League boycott of Israel and, 108; bilateral assistance programs, 29–30; business loans to Arab States, 116–119; Camp David Accords, 67, 112–116, 138–141; Carter administration and Israel, 67–68, 97–98, 112–113; conclusions about foreign aid to Israel, 155–157; Continuing Resolution for FY 1985 (P. L., 98–453), 70; costs of supporting Israel, 111–124; Department of State, *see* U.S. Department of State; development assistance programs, 29–30; economic assistance to Israel, 75–84; Economic Support Fund (ESF), 16–17, 42–43; Eisenhower administration and Israel, 54; Federal Election Commission report on PACs, 61; foreign aid, *see* Foreign aid; foreign aid objectives evaluated, 8–10; foreign aid objectives in Middle East, 6–8; foreign aid objectives of, 3–10, 40–45; foreign aid programs, 11–34; foreign aid to Israel, 40–44, 53–77, 92–105, 127–146, 140–142, 147–154; Foreign Military Sales (FMS), 13, 22–23, 49; Free Trade Area agreement with Israel, 93–94, 105–109; Gramm-Rudman-Hollings Act, 44; history and development of foreign aid programs, 17–31; immigration to Israel by American Jews, 88–89; impact of October 1973 War between Israel and Arab States, 137–142; Iran-contra affair, 88; Iran-Iraq War and, 5–6; Israel debts and, 67–70; Israeli military development and, 98–103; Israel's current economic crisis and, 142–146; Israel's financial need and U.S. aid, 77–83; Jewish influence in, 54–58; Jewish lobby and, 58–64; Jewish lobby and U.S. foreign aid, 58–64, 90–92; Johnson administration and Israel, 55; magnitude and geographical distribution of foreign aid, 43–50; marine withdrawal from Lebanon, 116; Marshall Plan, 35–36, 41–42, 63; Master Defense Development Data Exchange Agreement with Israel, 96; Memorandum of Understanding of Strategic Cooperation with Israel, 71–73; military assistance to Israel, 55, 65–74; multilateral assistance programs, 30–31; Nixon administration and Israel, 55; objectives and implications of foreign aid programs, 31–34; Peacekeeping operations in Mideast, 15–16; Pollard espionage case and, 87; Reagan administration and Israel, 57–59, 71–73; Security Assistance Program, 12–15; Senate Armed Services Committee, 62; Senate Foreign Relations Committee, 62; South Africa and, 107–108; Soviet Union's foreign aid ambitions and, 40–43; Special International Security Act of (1979), 112–113; support of Israel's war efforts, 119–120; Truman administration and Palestine, 121; U.S.-Israel strategic cooperation, 71–73
- UN Partition Plan of (1947), 54
- U.S. Agency for International Development, 33
- U.S. Congress, Middle East policy and, 6–8
- U.S. Department of Defense, 72
- U.S. Department of State, 4, 7
- U.S. Merchant Marine, 36
- Vietnam War, Johnson administration and Israel, 55
- Wars: October War of (1973), 58–59, 84, 137–142; October War, 84; Six Day War, 67–68, 119, 132, 151–152



- Wasserman, Gary, 33  
 Weizman, 107  
 Weizman, Chaim, 75–76, 154  
 West Bank, 66–67, 72, 86, 91, 151–152; Israeli occupation of, 132–135; labor force of, 134–137  
 West Germany: economic assistance to Israel, 75–77; foreign aid to Israel, 103; reparations from, 57, 148; reparations to Israel, 128, 131–132  
 Wilson, Charles, 98  
 Wingerter, Rex, 73  
 Wingerter, Rex B., 61  
 World Bank, 94  
 World War II, foreign aid following, 35–36, 63–64  
 World Zionist Organization Settlement Department, 91  
 Yaccobi, Gad, 142  
 Yavin, Aviv, 146  
 Yom Kippur War. *See* October War of (1973)  
 Zaire, U.S. advisors restricted to, 57  
 Zakheim, Dor, 99, 100  
 Zamir, Zeev, 149  
 Zelnick, C. Robert, 135  
 Zimbabwe, U.S. budget cuts and foreign aid, 49  
 Zionism, 53–54, 128–133, 149; Center for Humanistic Zionism, 140; creation of Israel and U.S. support for, 54–56; “double loyalty” concept, 88; Palestinian refugees and, 120–121  
 Zvi, Yitzhak, 129



## ABOUT THE AUTHOR

MOHAMED RABIE is the president of the Center for Research & Publishing in Washington, D.C. Previously, he taught for almost fifteen years at several American and Arab universities, including Kuwait University and Georgetown University in Washington, D.C. He lived in Jordan, Egypt, West Germany, and Kuwait before settling permanently in the United States.

He has served as a board member of the Arab Fund for Technical Assistance for African Countries, as the publisher of *Your Health* magazine, as the president of International Trade and Investment, Inc., and as the executive director of the Institute for Palestine Studies in Washington, D.C. He has published extensively in Arabic and English. His most recent book is *The Other Side of Arab Defeat*. Dr. Rabie did his undergraduate work in Egypt; his graduate work was completed in Egypt, West Germany, and the United States. He holds a B.S. in Agricultural Economics, an M.S. in Rural Sociology, and both an M.A. and Ph.D. in Economics.









22