Israel's war economy

Tamar Goznanski

In the four years since the June 1967 war the Israeli economy has undergone important changes: it is more war-oriented and more dependent on foreign capital; the bourgeoisie has grown richer and the working class poorer.

Military expenditures, high already before the June war, soared. The following picture is produced by official data, plus additional unbudgeted expenditure:

	1967	1968	1969	1970	1971 (est.)
Military spending (million IL*)	2.8	3.2	4.5	6.0	7.5
Per cent of GNP	23	23	28	31	33

*One IL=$0.29.

Approximately half the military outlay pays for purchases abroad, mostly in the United States. Rising war expenditure has increased the balance-of-payments deficit, which reached a record $1,265,000,000 in 1970 (in 1968 it was $660,000,000).

The inflated war budget has expanded the military sector out of all proportion, which affects the entire course of economic development. In 1970 Ministry of Defense purchases from industrial and building companies accounted for seven per cent of the nation's industrial output and 25 per cent of construction. Some 10 per cent of the civilian labor force is directly involved in war production. The growth rate of the military sector may be illustrated by the fact that from 1960 through 1969 the state-owned 'Aviation Industries', working mainly for the military, increased its personnel fourfold and its annual turnover 15-fold. Since 1968 the government has been encouraging private enterprise to switch to war production by offering easy credits, long-term contracts, etc.

Exploitation of occupied territories

The Israeli rulers' avowed intention to retain control over the occupied territories is not only politically motivated. A weekly of one of the coalition parties describes the occupation of Arab territories as 'the best ever economic deal of the state of Israel.'

What are the immediate economic benefits derived by Israeli and foreign capitalists from the occupation?

Firstly, Israeli firms have expanded their market. Official statistics show that Israeli goods account for 90 per cent of the imports in territories brought into Israel's economic sphere, with the surplus in Israel's trade with them rising from IL130,000,000 in 1968 to IL200,000,000 in 1970.

The government lost no time in getting the Sinai and Gulf of Suez oilfields working, and according to official figures $55,000,000 worth of oil was produced in 1970. This gave impetus to the construction of a pipeline from Eilat to Ashkelon, financed in part by foreign capital.

By the end of 1970 some 33,000 workers from occupied territories were employed in the Israeli economy, half of them in building and the other half in agriculture and industry. An Arab building worker is paid only half of what a Jewish worker is paid for the same work and, furthermore, receives no social security benefits. It is estimated that by reason of this wage difference alone, Israeli contractors have increased their yearly profits by 60-70 million liras.

An Arab's wage in the occupied territories is even lower, amounting to about a quarter of an Israeli worker's. Firms use this to attract small local sub-contractors and set up Israeli enterprises with their help. Last year an industrial center was built in the Gaza area, where Israeli firms exploiting local labor installed themselves.

Thus, from the economic angle the occupied territories may be regarded as an Israeli colony and, what is more, in the classical sense of that word. Israeli and foreign capitalists are raking in substantial profits from exploiting these territories.

Economic consequences of militarization

Militarization of the economy and colonization of occupied territories helped Israel overcome the 1966-1967 economic crisis more speedily. In 1968-1970 the gross national product increased by an annual average of 11.6 per cent, while unemployment declined substantially. Meanwhile, inflationary processes sparked by the growing budget deficit IL1,200 million worth of new money in 1969, and 900 million worth in 1970.

The war boom is now over, and if the military sector continues to advance, civilian production may be expected to fall off and unemployment to rise.

Higher taxes and deficit financing do not fully explain how Israel can sustain the huge war expenditures (doubly so since civilian branches of the economy also expanded). The explanation lies mainly in the influx of foreign capital, primarily American. In four years (1967-1970) the officially specified influx of capital totalled $4,300 million against the $6,700 million in the preceding 18 years (1949-1966).

Israel's foreign debt spiralled from $1,600 million at the end of 1967 to $2,800 million at the end of 1970, and is expected by the government to climb to $3,500 million by the end of 1971.

All other varieties of capital imports have increased along with direct foreign investments – credits, West German reparations payments, donations from Zionist foundations and private sources. Since the June war the dimensions of grants and direct U.S. government aid have increased considerably. Whereas before the war grants were 22 per cent of the total influx of capital, in the past three years they amounted to 47 per cent. Whereas over 19 years (1949-1967) U.S. government subsidies and loans totalled $502 million or seven per cent of the total influx of capital to Israel, in the three subsequent years they were $537 millions, or 15 per cent. If cash collections of U.S. Zionist bodies and the proceeds from sales of Israeli bonds are added, the total for 1968-1970 builds up to $1,800 million or almost 50 per cent of the total import of capital. This shows clearly who is financing the Israeli rulers' military adventures.

Thus, the war and the militarization of the economy have resulted in Israel's growing dependence on American imperialism, which, for its part, is generous in aiding the annexationist policy of Golda Meir and Moshe Dayan.

All Israel's influential financial groups were linked with foreign capital long before the June war. The militarization of the economy gave impetus to the penetration of international monopolies into the military sector, especially electronics, iron-and-steel and non-ferrous metals. The major American corporations with investments in Israeli concerns dominant in war production include (the corresponding Israeli firm is given in parentheses: General Telephone and Electronics (Tadiran), Control Data (Albit and Contal), Motorola (own enterprise), Miles Laboratories (Miles Yeda and Miles Chimicalim) and Mansanto (Monsol). These are closely connected with U.S. military businesses and are Pentagon suppliers, their control over military production in Israel emphasizing the latter's dependence on the United States.

At present, with the cease-fire in effect, when the influx of private capital has decreased considerably, the exploitation of our economy by foreign monopoly interests is especially apparent. In 1965 net foreign investments totalled $113 million, while repatriation of profits (including dividends, interest, etc.) was $94 million; in 1970, net investments slumped to $55 million, but the outflow of profits leaped to $165 million. When the new Israel Corporation was set up in 1968 to attract foreign capital, it obtained only $21 million instead of the planned $100 million by the end of 1970, mostly from private firms in West Germany and the International Reconstruction and Development Bank.

Social aspect of war economy

The growing influence of the military-industrial complex on the country's life may be judged even from the trickle of press reports. The complex includes such financial groups as the Kur concern, Discount Bank (one of the country's three biggest), and G.A.S. Industries. In the case of these groups war production accounts for a substantial part of their output; all have highly profitable government contracts and excellent connections with the army and Defense Ministry. Retired General Meir Amit is the director-general of Kur and its metalworking enterprises are headed by another general, Yeshayau Gavish.

These groups of the military-industrial complex and the capitalists connected with them have made money out of the military business. The profits of Israeli banks, for example, almost doubled from IL44 million in 1967 to 80 million in 1969.

The enrichment of the Israeli bourgeoisie is accompanied by a pauperization of the masses. According to figures of the Histadrut's Institute of Economics, the percentage of wages in the national income fell from 63 in 1966 to 55 in 1969 despite the 13 per cent increase in job holders, while the percentage of profits increased from 37 to 45. The Israeli working class was unable to maintain its share in the national income, and the responsibility for the deterioration of the condition of the working people rests squarely on the government, which is placing on them the burden of its policy of conquest and annexation. The government enforces a wage-freeze and is raising direct and indirect taxes.

In 1970, according to official statistics, the average nominal wage increased by 11 per cent. However, the official price index, too, went up by the same amount. Four per cent of the eleven per cent nominal wage increase, moreover, is deducted for compulsory payment for state bonds. The actual real wage, therefore, has fallen.

The growth of direct taxes has greatly outstripped growth of nominal wages. In 1970, total wage payments were some 40 per cent higher than in 1967. But wage-earners' income taxes rose 65 per cent and social security dues 125 per cent. By the end of 1970 direct taxes and compulsory deductions alone swallowed from one-quarter to one-third of a worker's wage.

As a result real incomes declined and consumption of meat and other staples in working-class families dropped, testifying to a continuous absolute impoverishment of the working people. An analysis of urban family budgets by the Statistical Bureau in 1968/69 showed that 34 per cent of all families spend less than 600 liras monthly, a sum meeting only the most essential requirements.

These findings present a picture of woeful housing conditions and want often bordering on semi-starvation. Children are often forced to leave school before the compulsory term of schooling. According to the National Security Institute, 800,000 people or 27 per cent of the population, are poor.

The working class struggle for better working conditions and higher wages is difficult. Cheap manpower from the occupied territories enables employers to reduce wages, especially in building and agriculture, and in some branches of industry. Meanwhile, government agencies cooperate with employers and the Histadrut leaders to check the working people's struggle by invoking anti-labor laws and fanning chauvinist sentiment to prevent labor unity.

Yet, even in the difficult wartime conditions the people are fighting on. The number of strikes went up from 100 in 1968 to 168 in 1970, and the number of strikers from 42,000 to 120,000. Protracted strikes were held in several metalworking and chemical plants, and by schoolteachers, postal staffs and airport and port workers.

Should peace be feared?

Government circles spare no effort to convince the people that the present situation of 'neither war nor peace' is the best, claiming that a peaceful settlement of the Middle East conflict would precipitate an economic crisis. History has already proved the fallacy of this claim: no economic crisis followed the withdrawal of Israeli troops from Sinai in 1957. On the contrary, 1958 saw the beginning of an economic upsurge, which lasted until 1964.

The only ones to gain from fanning this fear of a peaceful settlement are the monopoly groups of the military-industrial complex, which are afraid of losing lucrative military contracts; foreign monopolies that have profited from militarization and taken over promising economic fields, extracting high profits, and local capitalists in town and country exploiting cheap manpower from the occupied territories.

The working class and other working people are suffering increasingly from the burdens of the military situation. Continued militarization bodes nothing but higher taxes, worse labor conditions and insecurity; inflationary price increases will continue and unemployment, according to all indications, will grow.

Only the Israeli government's consent to take practical steps towards implementing the Security Council resolution of November 22, 1967, and, in the first place, withdrawal from occupied territories, can put an end to the bloodshed and lead to a peaceful settlement of the Middle East conflict. A settlement based on respect for the legitimate rights of all the peoples of the Middle East, the right of all states of the area to a sovereign existence within stable and recognized boundaries, may not solve all the political, economic and social problems of the people of Israel, but would at least facilitate their struggle for a democratic solution.

Peace would facilitate a drive to reduce the military budget and to allocate more to economic and social needs: medical services, extension of compulsory schooling, developing industry and agriculture, and subsidizing scientific research for peaceful purposes. A settlement of the conflict would create better conditions for the workers' struggle for their class objectives. It would be harder, for instance, to invoke the emergency laws banning strikes and attaching factory and office workers to their jobs. Peace would help the working class to rid itself of chauvinist prejudices, which impede its fight against the impoverishment policy.

In conditions of peace the struggle for economic independence, limiting the domination of foreign capital in the economy, would be on the order of the day. It would become possible to develop mutually advantageous economic ties with the socialist and developing countries. All this may sound like a pipedream. But the dream can come true. As a new Israeli peace song says: 'Say not "The day will come," but bring that day!' This lofty task now faces the people of Israel.