

Forbes

U.S. Should Stop Subsidizing Bad Israeli Economic And Occupation Policies

Doug Bandow

February 16, 2016

America is practically bankrupt yet Israel remains a multi-billion dollar dependent. The U.S. can't afford to continue subsidizing well-off nations, no matter how friendly. And Israel, which spends heavily both to expand state regulation and occupy Palestinian lands, doesn't need American support.

The Middle East is in flames, but Israel appears relatively secure. Argued Paul Scham of the University of Maryland's Gildehorn Institute for Israel Studies: "It may seem counterintuitive, or even downright strange, but Israel's geopolitical position is probably stronger now than at any time in the country's history."

Nevertheless, there may be no more politically sacrosanct expenditure in Washington than the annual payment of \$3.1 billion to Israel. That's more than \$350 to every Israeli man, woman, and child. As of last year total U.S. aid came to \$124.3 billion. There have been billions of dollars in loan guarantees as well. But few on Capitol Hill worry about the aid's purpose or efficacy. Even many avowed fiscal conservatives want to appear to embrace Israel while seeking the Christian Zionist vote.

But America's annual payment soon may run as high as \$5 billion a year, with the extra dollars offered to pacify Benjamin Netanyahu, who attempted to block the nuclear accord with Iran. President Barack Obama appears determined to make peace with the Israeli government, for which most of the Republican presidential contenders promised to do even more, irrespective of America's interests.

Most of the aid goes to Israel's military. However, money is fungible. Since security is Israel's first priority, that government would find the necessary resources even without U.S. support. The latter allows Israel to shift scarce resources elsewhere. A few years ago Yarden Gazit of the

Jerusalem Institute for Market Studies warned that “the Government of Israel’s reliance on the American taxpayer sets a negative example which acts to encourage a culture of dependence.

One consequence is artificially inflating the size of the Israeli state. Gazit explained: “Without this aid, it stands to reason that the government would be forced to reduce the public sector in size, through defense budget cuts, restricting and increased efficiency in other frameworks. This would direct many more resources toward the private sector, which would be motivated to seek creative and growth-oriented solutions, involving personnel, financing, as well as land and other resources currently held by the government.”

Israel’s economic record is mixed. Israel displays world-class entrepreneurial vigor in some areas but retains old-world collectivism in others. In 2013, the last year for which figures were available, Israel ranked 39th in the world for economic freedom. It did well in sound money, free trade, and credit market regulations. It was middling with legal system and property rights. But it rated poorly in size of government, business regulation, and labor market regulation

To Israel’s credit, it has improved significantly over the years. In 1980, for instance, Israel ranked just 99th in the world. Progress has been slower but still real in recent years. Nevertheless, JIMS has pointed out how government policies involving unnecessary regulatory barriers and high taxes continue to harm Israeli citizens, who in recent years have vigorously protested the high cost of living. Unfortunately, like less prosperous Third World states, Israel faces less pressure to adopt economic reforms when foreign transfers mask policy failures. Indeed, foreign funds directly subsidize oversized government.

Even worse, U.S. cash effectively underwrites Israel’s occupation of the West Bank and attempt to colonize that area through settlements. Had Israel seized empty land in the 1967 war keeping the territories would have been understandable. But Israel also conquered people. Subjecting them to almost a half century of rule without economic or political rights could not help but result in injustice and resentment. The settlements greatly exacerbate this problem, creating a privileged class in the West Bank with preferred access to land, water, roads, and subsidies. These special benefits extend “to virtually every aspect of life in the West Bank,” noted Human Rights Watch. Palestinians possess few rights vis-à-vis settlers, who strike their Arab neighbors with virtual impunity.

Settlers, a mix of religious who believe the land to be given by God and secular drawn by government subsidies, defend their presence as aiding Israel’s security. However, complained Israeli Justice Minister Tzipi Livni: “The settlements are not providers of security, they are consumers of it. Roads are paved with billions of our tax money under the premise of security—but in reality they serve a handful of homes.” Moreover, the settlers’ presence increases official repression of Palestinians—special roads and checkpoints are maintained for Israelis living in the West Bank, the security barrier encloses Palestinian lands to protect settlements, land and water are appropriated for Israeli colonists.

Of course, the abuse of Palestinians doesn't excuse recent violence against Israelis, including settlers. Murder is wrong and no answer to anything. It also discredits the Palestinian cause. Palestinians have been ill-served by malicious leaders and violent militants alike.

The Netanyahu government should not be surprised at Palestinian hatred boiling over, however. American ambassador Daniel Shapiro recently condemned the fact that "Israel has two standards of adherence to rule of law in the West Bank—one for Israelis and another for Palestinians." Shapiro added, reiterating U.S. government policy: "continued settlement growth raises honest questions about Israel's long-term intentions," and termed "Israeli settlements activity as illegitimate and counterproductive to the cause of peace."

In fact, HRW has published a new study on how companies tied to settlements, doing business with or in the latter, contribute to "violations of international humanitarian law and human rights abuses." Such offenses are most likely to occur in four areas, argued HRW: "discrimination; land confiscations and restrictions; supporting settlement infrastructure; and labor abuses."

Unsurprisingly, it is expensive to enforce the occupation and subsidize the settlements. In 2013 the group Peace Now found that settlements received money or services from the ministries of agriculture, education, housing, industry and commerce, interior, transportation, and water, as well as the public works department and settlements division. These programs cost the state of Israel several hundred million dollars annually.

Exactly how much is difficult to assess, and pro-settlements parliamentarians block transparency. Knesset (and Finance Committee) member Elazar Stern complained that "Funds are hidden. Clauses are lumped together so that you vote on an item that is justified and then they slip it in." Tzipi said "Money meant to boost construction is given under the table with no transparency or oversight." As of 2010 the Macro Center for Political Economy estimated that Israel's government had spent about \$17 billion on the settlements. These outlays continue and, in fact, are up sharply under the Netanyahu government.

The overall cost of maintaining military control over millions of people is even greater, though some of the expense in effect has been subcontracted to the Palestinian Authority. Shlomo Swirski of Israel's Adva Center noted that occupation costs were relatively low until 1987. However, while the Palestinians cannot win a conventional battle, "their very readiness to return to the battlefield, again and again, to express their desire for independent national life has, since 1987, become a constant threat to Israel's political and economic stability." Include settlements subsidies and the first four decades of the occupation are thought to have cost around \$50 billion.

Unfortunately, perpetual conflict imposes an economic price as well. The Macro Center's Ruby Nathanson complained: "There's a terrible distortion, an enormous economic cost in addition to the huge military burden." A 2015 study by the Rand Corporation figured that reaching a two-state solution would provide a nearly \$200 billion economic boost for both Israelis and Palestinians over the next decade. In contrast, a return to violence would cut the Israeli GDP by

10% by 2024, and constrict the smaller Palestinian economy even more. Noted Rand: “In most scenarios, the value of economic opportunities gained or lost by both parties is much larger than expected changes in direct costs.”

While the U.S. has made some deductions from loan guarantees for money spent on the settlements, that isn't nearly enough. Washington should stop providing support that ends up hampering Israel's private economy and promoting the colonization of the West Bank, which makes peace increasingly difficult if not impossible.

Even some Israelis question the value of U.S. aid. Gazit warned that “a good many people do not appreciate the real costs of America's assistance to Israel.” First, the money is linked to aid to Egypt and Jordan. Neither seems likely to threaten Israel but the latter needs to be prepared for any eventuality. Egypt, especially, does not need the high-tech toys the generals spend Americans' money on. Ending this aid would eliminate a potential threat to Israel as well.

Moreover, U.S. funds are conditioned. This means that Israel often must purchase American weapons and raw materials even if cheaper, better competitors are available. Israeli firms lose economies of scale and export sales, since foreign governments often look to see what weapons the Israeli military is using.

Finally, U.S. funds create a direct incentive for overspending in the defense area. Warned Gazit: aid irrespective of Israel's needs “leaves the system with no incentive to become more efficient.” Israeli officials admit that American money reduce the pressure on Israel to trim unnecessary military expenditures.

The U.S. is broke, yet it is borrowing cash to give away to prosperous states such as Israel. Instead of negotiating an increase in aid, the Obama administration should plan its end. Congress should follow, choosing America's interest over members' political ambitions. Uncle Sam has no extra money to give.

Doug Bandow is a senior fellow at the Cato Institute, specializing in foreign policy and civil liberties.