

# THE NATIONAL INTEREST

## ***The Case for Ending Aid to Israel***

Doug Bandow

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You can't buy love, it is said, but it isn't for want of trying by Washington. The United States appears to believe the only way to demonstrate friendship with other governments is to either defend or subsidize them. Unfortunately, the latter strategy rarely works. It's time for Washington to turn off the aid spigot—especially for wealthier nations like Israel.

Israel does not need foreign aid—it is a wealthy nation with a booming hi-tech sector. Weaknesses elsewhere in the economy are largely self-inflicted through collectivist economic practices. Moreover, Israel is a regional military superpower. If anything, the transfers should run in the other direction. However, the Senate is considering legislation to extend \$9 billion in loan guarantees and provide more military support. Rather than reflect warming ties, however, the extra cash indicates an election-year financial raid. Israeli politicians enjoy having more American money to spend while U.S. politicians enjoy spending more American money to win votes.

Yet even some Israelis doubt that American “assistance” is so good for their nation. Last year, Yarden Gazit of the Jerusalem Institute for Market Studies [wrote a study](#) that warned “a good many people do not appreciate the

real costs of America's assistance to Israel." His analysis suggests that true friendship for Israel would be to set it free.

Washington has provided more than \$110 billion in aid over the years, not counting loan guarantees. Last year, figured Gazit, American support accounted for 1.5 percent of Israel's GDP, 4 percent of the government's budget and 24 percent of security outlays. Since 2008, all U.S. aid has been for the military, but money is fungible. Israel receives \$3 billion annually, three-quarters of which must be used for the purchase of U.S. weapons. Gazit noted: "While on the face of it, three billion dollars of annual assistance seems fully advantageous, a closer look reveals not a few shortcomings." Money from America has conditions, most notably the requirement that Israel purchase U.S. weapons, which raises Israeli acquisition costs. Gazit estimated that America's "gift" may cost around \$600 million. That's a fifth of the nominal "foreign aid." That money, at least, is primarily a subsidy to U.S. arms makers.

Washington also links aid between Israel and Egypt. The latter typically receives two-thirds of whatever Israel collects. The transformation across the Nile could upend the arrangement, especially if Cairo abandons peace with Israel, but so far the relationship continues.

Jordan, too, receives bountiful American subsidies—about \$700 million last year. Although the Egyptian and Jordanian grants are a mix of economic and military support, again, money is fungible. And that means American aid frees up resources for Egyptian and Jordanian military use. While the danger of either country attacking Israel remains small, Gazit pointed out that Israel "must be prepared for any eventuality—even one of very low probability—of a defensive war on either the Egyptian or the Jordanian front."

Thus, the more money given by America to Egypt and Jordan, the more Israel must spend on its military. Added Gazit: "With Israel's comparative disadvantage in terms of relative population (over ten Egyptians for every Israeli), maintaining a qualitative advantage in equipment and weaponry is

critical.” Gazit cited researcher Erez Raphaeli in asserting that every extra dollar to Egypt requires an Israeli expenditure of \$1.30 to \$1.40 to maintain the military balance. In this way, complained Gazit, “Not only does American assistance not provide Israel with an economic advantage, it requires Israel to expend additional amounts from its own internal security reserves.”

There’s another problem with U.S. aid. While bilateral defense cooperation has helped boost the Israeli arms industry, the conditions on American aid do the opposite. Since in some cases the Israeli government has to go with U.S. weapons even if the domestic products were better, cheaper or both, efficient Israeli producers lose government contracts and consequent economies of scale. Israeli companies also have to purchase American raw materials, which raise the costs of Israeli weapons in world markets.

Further, notes Gazit: “Due to Israel’s reputation as a military power, any acquisition choice of Israel’s will instantly increase the demand for that product on the international market. When a foreign country contemplates a purchase from an Israeli arms manufacturer, the question of whether Israel’s own army uses that product often plays into the decision.” Thus, if the Israeli government buys American instead, Israeli companies may lose contracts abroad.

Washington even uses its leverage to limit Israeli overseas arms sales. For instance, in 2000 Congress threatened to reduce aid if Israel provided weapons to China. “American assistance places pressure on Israel in this area, with the resulting economic loss,” says Gazit.

Another impact of foreign aid on Israel is the same as elsewhere—a disincentive to be efficient. The guaranteed payment irrespective of Israel’s defense needs “leaves the system with no incentive to become more efficient,” warns Gazit. Former prime minister Ehud Olmert argued that Israel could cut its military outlays with no harm to its security but that American money reduces the pressure to do so.

Perhaps even worse is how U.S. “assistance” further inflates Israel’s already bloated government. Government-to-government “aid” has expanded the overbearing, money-wasting regulatory state around the globe. Israel is no different.

Explains Gazit:

*Without this aid, it stands to reason that the government would be forced to reduce the public sector in size, through defense budget cuts, restructuring 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.*

Encouraging a larger and less efficient government naturally reduces Israel’s economic strength, which is necessary to maintain an effective defense. More broadly, he argues, “the Government of Israel’s reliance on the American taxpayer sets a negative example which acts to encourage a culture of dependence.”

Gazit worries about the intangible moral damage to Israeli society. He recognizes that budget pressures in America eventually may affect financial aid to Israel. Then unilateral cuts would be seen as weakening the commitment to Israel, yet “if the same move was the outcome of an agreement between the two countries, at Israel’s initiative, Israel’s situation would not be impaired.” Overall, he predicts that “the economic and strategic damage to Israel as an outcome of American aid will only increase.”

The financial trials facing America will worsen in coming years. Instead of continuing to borrow to subsidize other countries, Uncle Sam needs to admit that he’s broke and stop giving away money he doesn’t have. Heavily indebted Spain just announced that it was ending development assistance for Latin America. Washington should do the same, including to Israel. Far from hurting

Israel, ending “aid” would be doing America’s ally a favor. Israel is likely to achieve its full potential only after it ends its unnatural dependence on Washington.

*Doug Bandow is a senior fellow at the Cato Institute. A former special assistant to President Ronald Reagan, he is the author and editor of several books, including Foreign Follies: America’s New Global Empire (Xulon) and Perpetuating Poverty: The World Bank, the IMF, and the Developing World (co-editor, Cato Institute).*