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Money woes plague Israel

The damned economy is a greater threat than all the Arabs put together," a senior Israeli officer told me recently. His words are sadly true. Having bested all its enemies in battle, Israel now finds itself under growing economic siege.

Inflation, today running at 650%, may soon reach 1,000%. Israel's foreign debt amounts to \$32 billion; servicing this sum costs \$4.5 billion annually. Only one month's worth of foreign exchange remains.

Israel's businessmen, workers and consumers are hard-pressed to cope with mounting economic turbulence and a currency that loses value daily. Suddenly Israelis, who have enjoyed a Western European standard of living and lavish social welfare, are faced by the prospect of national impoverishment.

The shaky coalition government has recently asked Washington for \$5.3 billion in aid in 1985, up 50% from 1984. Israel is already the largest recipient of American foreign aid. Since 1948, Washington has given or loaned Israel some \$37.2 billion, more, for example, than total U.S. aid to all of Latin America.

Generous U.S. assistance may, however, now be constrained by three new factors. Washington is desperately seeking ways of cutting its deficit. It will be difficult for Congress to give more money to Israel while it reduces spending at home. Jesse Jackson's demands that money be spent on blacks rather than on Israel have not gone unnoticed.

Second, only 33% of American Jews voted for Reagan. Jewish leaders are concerned that the White House may thus lessen its formerly strong support for assistance in Israel.

Finally, the U.S. is committed by the Camp David accords to give Egypt almost as much as Israel. Last year, these two nations accounted for 45% of total American foreign aid. If Israel gets new billions, so must Egypt, lest it abandon Camp David and rejoin the Arab camp. The U.S. is fast running out of funds for its Mideastern allies and new problems in Central America.

Additional U.S. aid may not even solve Israel's basic economic dilemma of living far beyond its means. Jerusalem spends 30% of GNP and 40% of the government budget on defence (Canada spends less than 2%). As a result, Israel has one of the world's most powerful military forces.

Before the 1967 war, Israel spent only 10% of GNP on defence and kept 75,000 men at arms. Today its standing army is grown to 150,000 and military spending by 3.8 times — and still, security is no closer. The need to acquire a new generation of expensive, high-tech weapons will further boost military spending.

Occupying southern Lebanon costs \$665 million annually. In spite of recent talks over withdrawal, it appears likely that Israel will remain indefinitely in Lebanon's Bekaa Valley. Money is now being spent there to improve fortifications, an action that would not be taken if withdrawal was, in fact, contemplated.

On the occupied West Bank, Israel is spending almost \$800 million annually on building new settlements and providing subsidies to encourage Jews to move there. Attempts by the Labor party to cut such spending have been frustrated by its coalition partners of the Likud party.

Israel simply cannot afford to maintain a large army, occupy southern Lebanon and colonize the West Bank — all at the same time — without greatly reducing its standard of living. But Israelis are used to a cornucopia of government goodies that make Canada look austere by comparison. Nor are Israel's powerful labor unions about to agree to massive cuts in wages.

Behind all of this is the growing fear that economically shell-shocked Israelis may leave the country in growing numbers. Reports, strongly denied by the government, suggest that Israel is already experiencing a net outflow of people who are moving to the U.S., Europe and Canada.

As the economy continues to worsen, this process may accelerate, posing a truly grave threat to the long-term viability of the Jewish state. After having absorbed the West Bank and Gaza, Israel's population is almost 40% Arab. The last thing Israel needs is to lose more Jewish citizens. Some studies have even predicted that by the year 2000 it will have a majority of Arabs — and these assume no loss of Jewish Israelis.

All of these problems have now combined in the current economic crisis. Like many other Western nations, Israel's politicians have promised their voters more than can possibly be delivered. Having done this, the unstable coalition government absolutely lacks the political will or gumption to make massive, unpopular cuts in spending.

Yet Israel must take drastic action if it is to avoid a catastrophic economic collapse. Given the psychology of voters the world over, it is likely that Jerusalem may decide to cut spending on the military, Lebanon and the West Bank before it slashes social programs. Ideology is one thing; irate voters being hit in their pocketbooks is quite another.

Israel's Arab neighbors, Jordan, Egypt and Syria, are also in growing economic trouble. The cost of running on war footing is threatening to bankrupt everyone in the region. This growing realization may compel Israel and its Arab foes to begin seriously negotiating a peace settlement. Money woes often resolve problems that politicians cannot.

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