

# The Cost of Occupation

## The Burden of the Israeli–Palestinian Conflict 2010 Report

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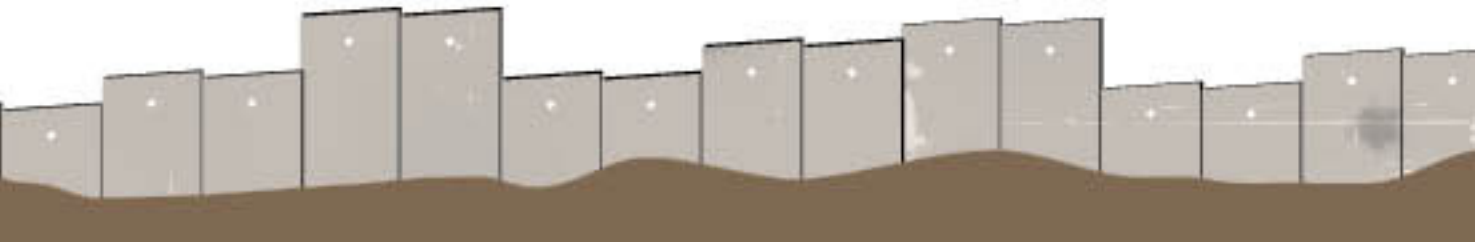
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# The Cost of Occupation

The Burden of the Israeli-Palestinian Conflict  
2010 Report



## The Burden of the Conflict

☀ June 2010 marks the 43rd anniversary of the Six Day War, during which Israel occupied all of the area of Mandatory Eretz-Yisrael/Palestine. Since then, the fate of the area has been in Israel's hands. While Israel cannot institute a political solution unilaterally, it is the party to the conflict that holds most of the cards, the most important of which are military control of the occupied territories; control of entrance to and exit from those territories; and settlements and military bases, which oversee a large part of the Palestinian territory in the West Bank. Thus, if Israel is paying a high price for the continuation of the conflict, this price is, in large measure, the result of its own doing.

For years Israel has been divided between the aspiration for a political solution to the conflict and the desire to constrain the freedom of action of the Palestinians as far as possible, including their physical space, sovereignty, political freedom, options for

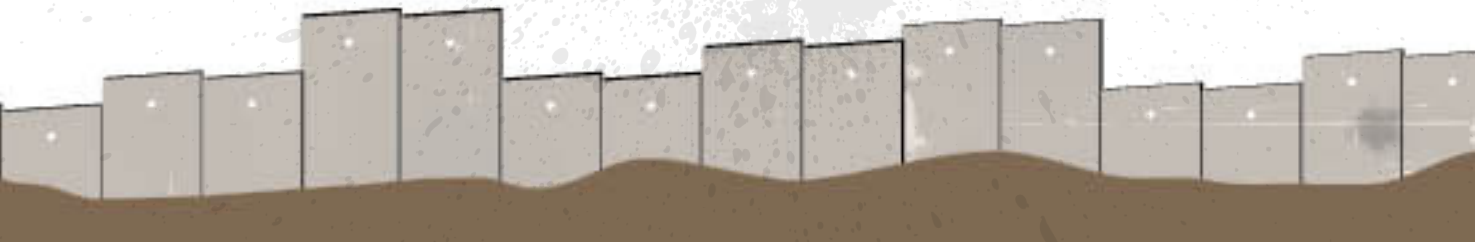
economic development, possibilities of self defense, immigration policy, freedom of movement and freedom of trade.

Both sides are paying a high price for the absence of a political solution to the conflict for over a hundred years.

The Palestinians are paying the highest price: they are subject to Israeli military rule that extends to every institution and every household; they are divided between "the Hamas state" and the "Fatah state"; they are unable to develop stable political institutions perceived as legitimate by the general population; they find it almost impossible to develop economically; their daily existence is dependent on the good will of donors; on the individual and family level, they are vulnerable to land expropriation, property damage, violence, arrest and expulsion, and to humiliation in their homes, their streets and at roadblocks; many of them have had

their studies interrupted; they suffer from high poverty rates, extensive unemployment, and food insecurity. For its part, Israel succeeds in carrying on “normal life,” most of the time and in most of its territory, thanks to a thick curtain of isolation based on physical separation and on a heavy military presence in the Palestinian territories. The curtain of isolation is so effective that most Israelis feel they live in a “normal” country. The truth is that Israel is not a “normal” country. The conflict hangs like a millstone around Israel’s neck: it undermines its economic growth, burdens its budget, constrains its social development, sullies its vision, harms its international standing, wearies its army, divides it politically, and threatens its future as a Jewish state. It also kills and maims thousands of Israelis. Israel is paying a heavy price for the continuation of the conflict and for the seemingly endless postponement of the implementation of a fair and agreed-upon division

of territory between the two peoples. The present paper delineates the social, economic, military and political price that Israel has been paying. Many Israelis will have trouble thinking in terms of cost, in other words, in terms of a policy that has alternatives. Most were born or arrived in Israel after 1967, they are not familiar with the Green Line, and they are accustomed to viewing Palestinian resistance as an expression of uncompromising hostility whose purpose is to threaten their own safety – rather than as an expression of Palestinian desire to end the occupation and live in an independent state. Moreover, many Israelis do not pay a personal price but rather make a profit, though it may not be direct or conscious. To this it should be added that it is not always easy to discern the cost of the occupation, especially in cases in which the cost is not personal but rather macro-economic or macro-social.








# **The Economy**

## **in the Shadow of the Conflict**

## Slower Economic Growth

 In the course of the last decade, the Israeli-Palestinian conflict has left its mark on the Israeli economy.

The end of 2000, a high-growth year, was marked by two events: the second Intifadah and the bursting of the global hi-tech bubble. While most of the countries affected by the hi-tech bust recovered within a short time, Israel experienced three years of low or negative economic growth, due to the added burden of the Intifadah.

In the years following the Intifadah, 2004-2008, the Israeli economy registered positive growth rates. Then, at the end of 2008, the reverberations of the global economic and financial crisis spread to Israel. In addition, in December 2008, Israel initiated the “Molten Lead” campaign in the Gaza Strip, which also had an adverse effect on economic activity, whether due to a decline in tourism or to a slowdown in economic activity in areas adjacent to the Gaza Strip. The combination between the global crises and the local hostilities results in Israel’s experiencing lower economic growth rates than other countries. This phenomenon reduces Israel’s ability to approximate the output and standard of living of Western countries: in order to catch up, Israel’s economy needs to grow at rates similar to countries like China and India, while in reality, due to frequent ups and downs, it has been growing at the lower rates that characterize Western countries.

Between 2000 and 2008 (before the global financial and economic crisis), Israel’s GDP grew at an average rate of 3.8%. The average includes the three Intifadah years, during which the average rate of economic

growth was only 0.3%. During the same period, China grew at an average annual rate of 10.1%, India at an average annual rate of 7.2%, and the countries of the Middle East and North Africa at an average annual rate of 5.1%. Although all these countries experienced decreases in their rates of economic growth between 2001 and 2003, in none was the decrease as large as in Israel, which suffered a double burden due to the hostilities of the second Intifadah.

The richest countries, those of the European Union and the G-7, registered lower rates of economic growth than Israel. However, if Israel is to catch up with those countries, it needs to grow at a faster pace. A higher growth rate was achieved in 2004-2008, but this spurt was not enough to make up for the poor performance of 2001-2003.

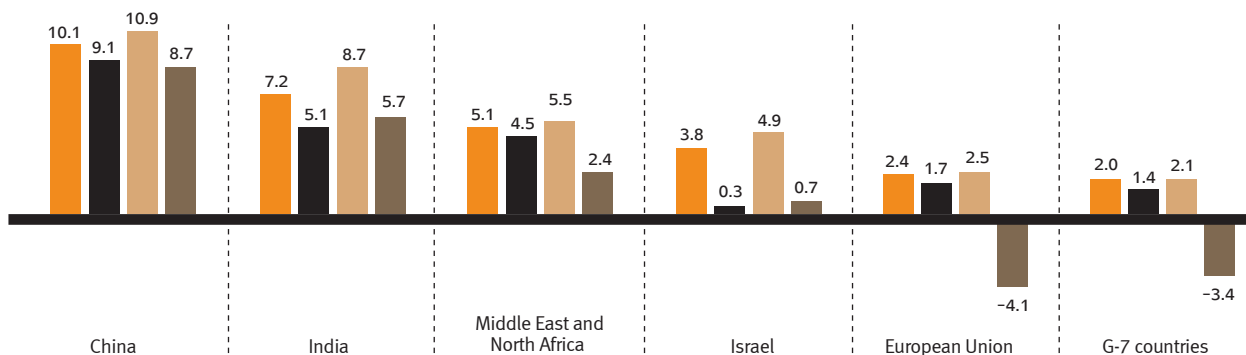
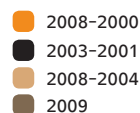
The picture becomes even clearer when we examine per capita rates in economic growth<sup>1</sup>. In China, India and Poland, the average per capita rate of economic growth between 2000 and 2008 was higher than that of Israel. None of these countries experienced a decrease in per capita GDP comparable to that experienced by Israel. In Germany and the United States, average per capita rates of economic growth were similar to that of Israel: 1.5%, 1.4% and 1.8%, respectively. Again, if Israel aspires to the standard of living in Germany and the United States, it needs to grow economically at a rate higher than that of these states for an extended period of time. The continuing conflict with the Palestinians makes this goal difficult to achieve.

<sup>1</sup> Unfortunately, the International Monetary Fund, from whose database we obtained the figures presented below, does not provide per capita growth rates by category of states.



## Gross Domestic Product

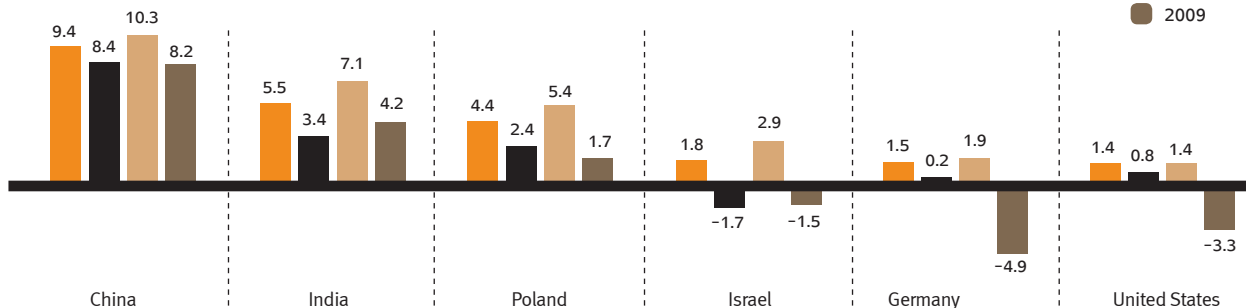
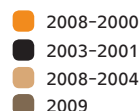
for selected countries and categories of countries, 2000-2009 ■ Average rates of change, for selected periods, in constant prices in local currencies, by order of descent in the column for average economic growth in 2000-2008



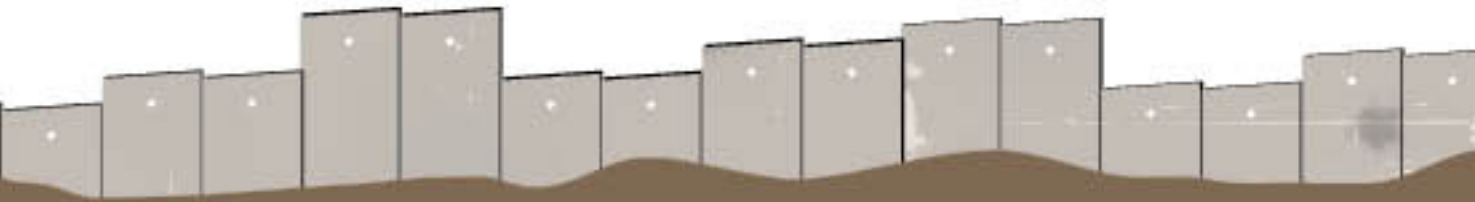
**Note:** Israel's GDP is not included in that of the countries of the Middle East.  
**Source:** Adva Center analysis of figures on the website of the International Monetary Fund.

## Per Capita GDP

for selected countries, 2000-2009 ■ Average rates of change, for selected periods, in constant prices in local currencies, by order of descent in the column for average economic growth in 2000-2008



**Source:** Adva Center analysis of figures on the website of the International Monetary Fund.



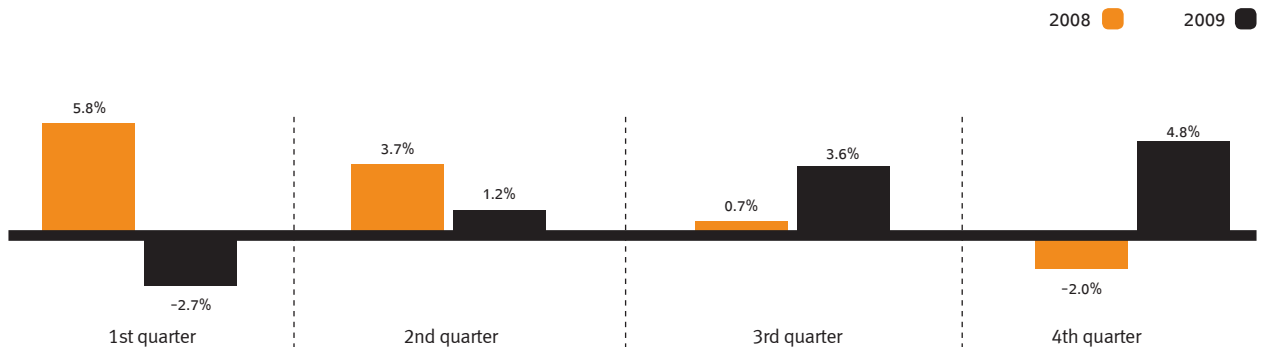
# Armed Confrontations and Economic Growth

Israel's frequent armed conflicts act to dampen its economic activity. On January 25, 2009, during the "Molten Lead" campaign in the Gaza Strip, the Bank of Israel predicted that the campaign would involve a significant budgetary outlay (and indeed, the outlay amounted to five billion shekels). It also predicted that the campaign was liable to have a negative effect on tourism (and indeed, the number of tourist entries for most of the months of 2009 was lower than that for the same months in 2008).

The graph on the next page presents quarterly growth rates for 2008-2009. It shows that the rate of economic growth in the first quarter of 2009 was negative, while that of the same period in 2008 was positive. The main reason for the shrinking of economic activity was the global financial and economic crisis, which began in the last quarter of 2008. At the same time, the "Molten Lead" campaign also contributed to the decline, especially with regard to tourism and to economic activity in the areas adjacent to the Gaza Strip.

## Quarterly GDP, 2008-2009

Rate of change for each quarter, compared with the previous quarter ■ 2005 prices



Source: Central Bureau of Statistics, Press Release, "National Accounts – Preliminary Estimate for the first Quarter of 2010," May 16, 2010.

# Tourist Entries

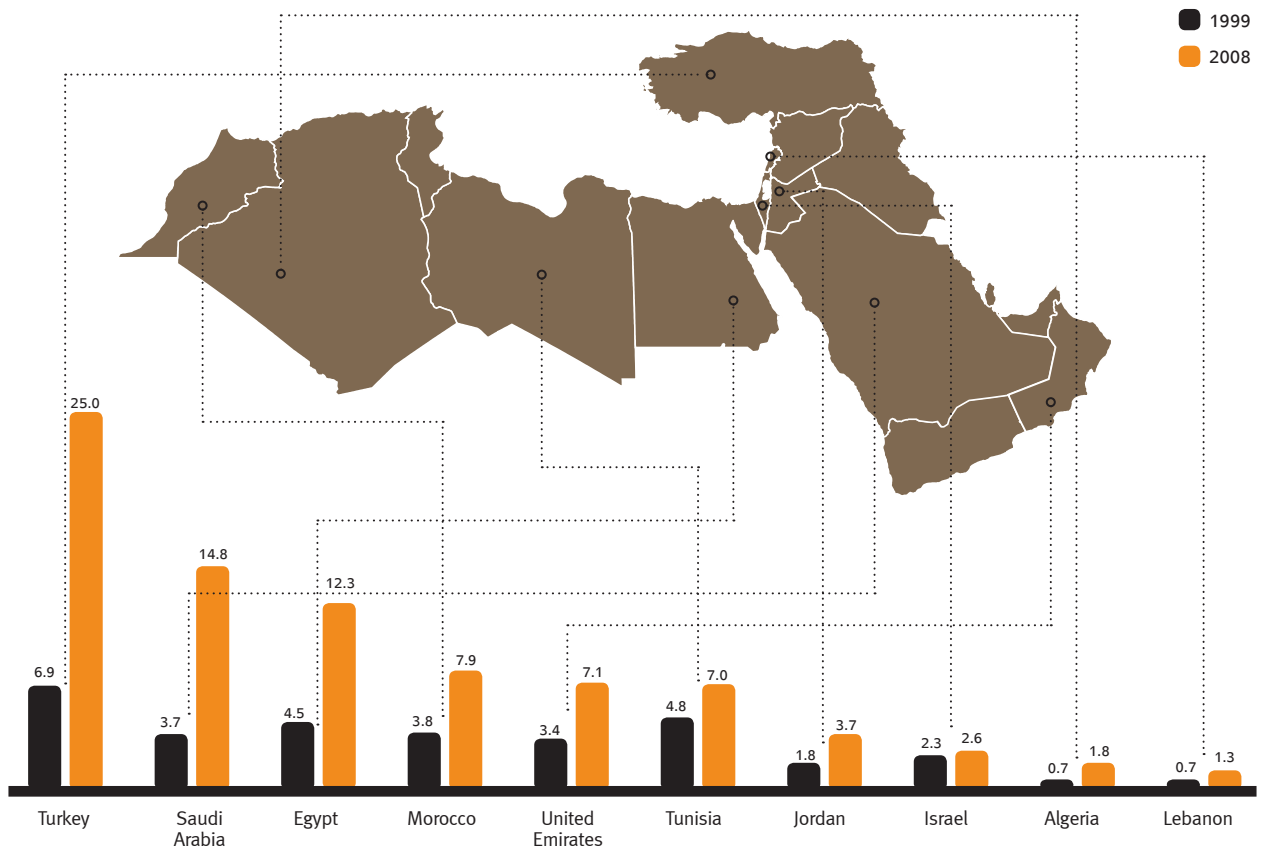
☉ The tourist industry is especially sensitive to violent confrontations. Israel and the Palestinian Authority are blessed with tourist attractions that are no less inviting than those of neighboring countries, but tourists are wary of hostile areas. The number of tourist entries to Israel in 2008 – 2.6 million – was much lower than the number of tourist

entries registered in Saudi Arabia, Egypt, Morocco, the United Emirates, Tunisia and even Jordan. Turkey leads the area in tourism.

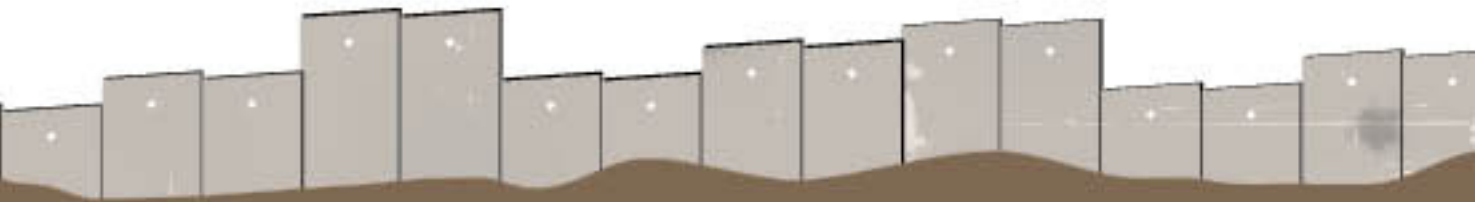
When it comes to tourism, Israel is similar to Lebanon and Algeria, which have also experienced prolonged internal conflicts.

## Tourist Entries for Israel and Neighboring Countries, 1999 and 2008

In descending order for 2008 ■ In millions



Source: The World Bank, 2000 World Development Indicators, Table 6.19.



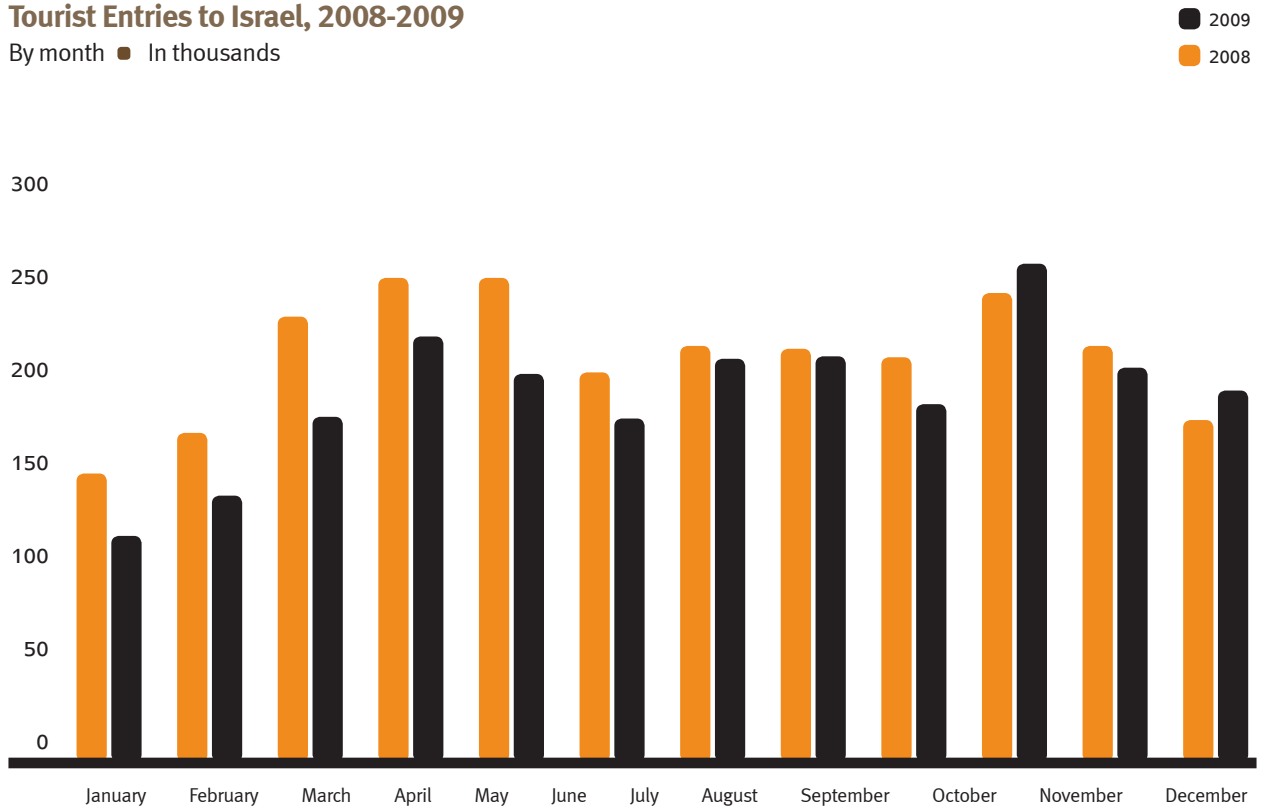
# “Molten Lead” Campaign and the Decline in Tourist Entries

Israel’s wars and the Palestinian Intifadahs were accompanied by declines in tourist entries. In December 2008, Israel attacked the Gaza Strip in the “Molten Lead” military campaign, which lasted three weeks. The attack, which received wide media coverage throughout the world, led to a decline in tourism for

Israel: in each of the months between January and September 2009, the number of tourist entries was lower than that for the corresponding month in 2008. The total number of tourist entries for 2009 was 2.3 million, compared with 2.57 in 2008.

## Tourist Entries to Israel, 2008-2009

By month ■ In thousands



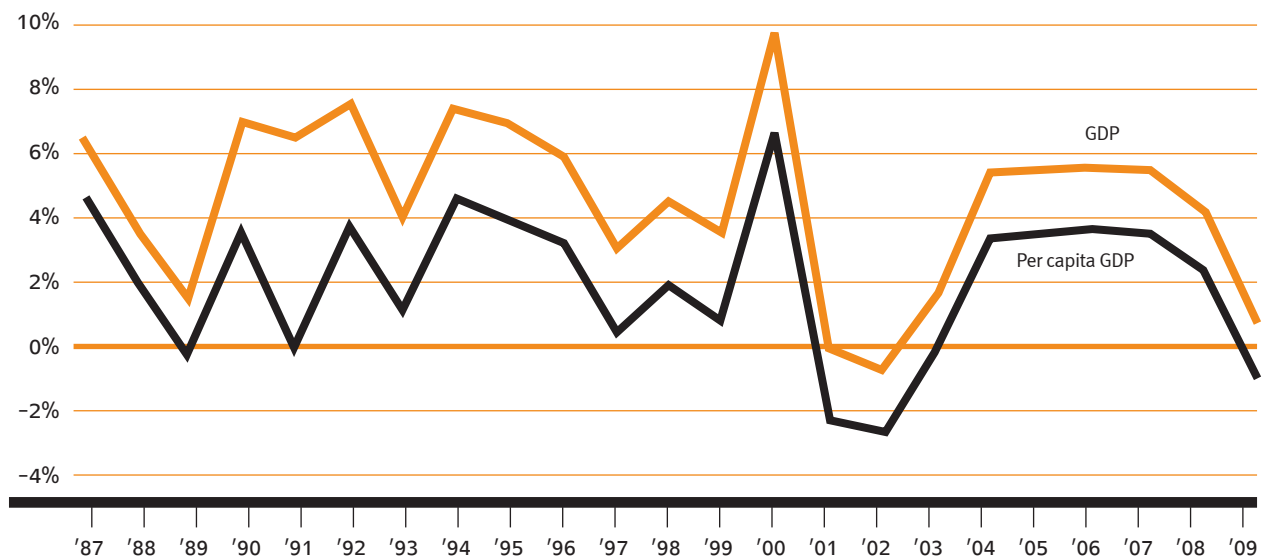
Source: Central Bureau of Statistics, *Quarterly Statistics for Israel*, website.

# Economic Stability in the Shadow of the Conflict

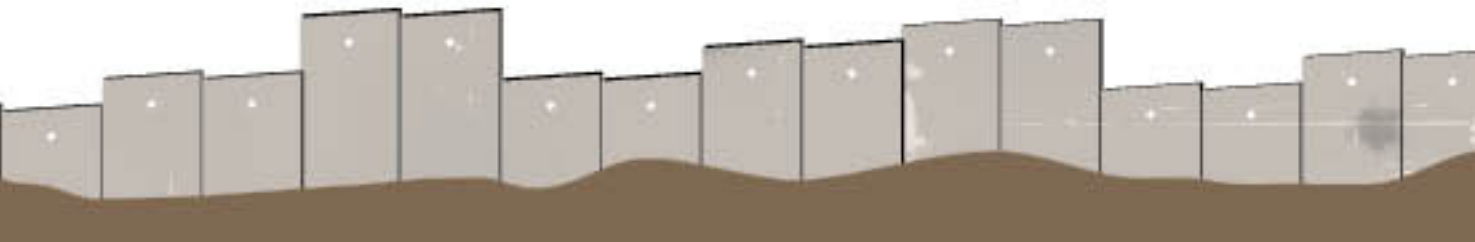
From the day that the Palestinians acquired the collective ability to contest Israeli domination, they have constituted a threat to Israel's economic stability. Both Palestinian Intifadahs, the first in 1987-1993 and the second in 2000-2003, brought about a decline in economic activity in Israel: a drop in tourism, a decline in investments, an increase in unemployment, and a decrease in the purchasing power of Israelis. In 1987, the year the first Intifadah broke out (in October), Israel's growth rate was 6.1%, a very respectable figure. However, in the following year, the first full year of the Intifadah, economic growth declined to 3.6%, and in 1989, to 1.4%. Luckily for the Israeli economy, 1989 marked the beginning of a large wave of immigration from the former Soviet Union, whose effect was to stimulate economic activity. The Oslo Accords (1993-1995) and the peace treaty with Jordan (1994) were beneficial for the Israeli economy, as they opened up many new markets. The improvement was less dramatic for the Palestinians. More than that, the massacre of Muslim worshippers in the Hebron

Machpela Cave, by Baruch Goldstein, in protest over the Oslo Accords, ignited a chain reaction of Palestinian suicide bombings in Israel that undermined public safety and put a damper on economic activity. The second Intifada broke out towards the end of 2000 – a year of exceptionally high economic growth (9.2%), due, among others, to the sale of a large number of hi-tech startups. The next three years were characterized by a heavy recession, described by the Bank of Israel as the longest in Israel's history. The economy began to recover only in the second half of 2003. The wave of economic growth that began in 2003 continued until the end of 2008, with the advent of the global crisis. The negative effect of the global crisis was reinforced by Israel's attack on the Gaza Strip at the end of 2008. The latest double crisis illustrates the fact that Israel is exposed to two threats: the threat of economic crisis in countries that are trading partners and the threat of economic crisis stemming from the Israeli-Palestinian crisis, which is at the base of the conflict with other countries in the area.

**Changes in GDP and in Per Capita GDP, 1987-2009** ■ Annual change rates ■ In percentages



Sources: Adva Center analysis of Central Bureau of Statistics, *Statistical Yearbook*, various years; *Israel's National Accounts for 2009*, March 10, 2010.



# International Economic Standing



The prolonged conflict has had a negative effect on Israel's international economic standing.

Tangible evidence of this phenomenon can be found in Israel's relatively low credit rating. In the United Nations Human Development Index for 2009, Israel is listed in 27<sup>th</sup> place among 182 nations of the world. This is a very respectable position.<sup>1</sup>

In contrast, the Fitch credit rating agency ranks Israel in 40<sup>th</sup> place (March 2010) ([www.fitchratings.com](http://www.fitchratings.com)).

Credit ratings are supposed to be an indication of the economic stability and reliability of different countries. The rating reflects, on the one hand, the economic power of various states, and on the other hand, their political stability and national security. It should be mentioned that many people have serious doubts about the reliability and validity of credit ratings, as well as of the considerations of the raters themselves. Still, credit ratings continue to serve as a basis for economic decisions, like the interest rates charged to countries seeking loans.

Israel's credit rating is much lower than that of the 26 countries that are above it on the UN Human Development Index. Most of them have a credit rating of AAA or AA, while Israel's 2010 credit rating is A. The main reason for Israel's relatively low credit rating is the security situation, and mainly the Israeli-Palestinian conflict.

A low credit rating means a higher rate of interest charged on government loans as well as corporate

loans taken abroad.

In 2003, during the second Intifadah, when Israel was in need of capital, it asked the United States for loan guarantees in the amount of nine billion dollars. The loan guarantees allowed Israel to obtain loans at a rate of interest similar to that paid by the United States, which has the highest credit rating, instead of at the rate of interest deriving from its own, lower, credit rating.

Israeli political leaders are very sensitive to any development that is liable to have an adverse effect on its credit rating. During the second Intifadah, ministers of finance lobbied the credit rating agencies in New York and London to prevent their lowering Israel's rating. And during the Second Lebanon war, the government avoided declaring a state of emergency. Such a declaration would have been very helpful to families and businesses harmed by the war, but it was avoided in order not to endanger Israel's credit rating. The global financial crisis of the past two years damaged the credit rating of a number of European countries, among them Iceland, Greece and Spain. In contrast, Israel's rating was not affected. Moreover, in May 2010 Israel was accepted into the ranks of the Organization for Economic Cooperation and Development (OECD). Still, Israel's credit rating remains lower than that of most other countries with a high position on the UN Human Development Index.

1 The UN Human Development Index is calculated using a number of criteria, among them life expectancy at birth, adult literacy, GDP, per capita GDP, and enrollment rates at different stages of the education system. Israel's public health system and its high enrollment rates in primary and high school contribute to its high position.

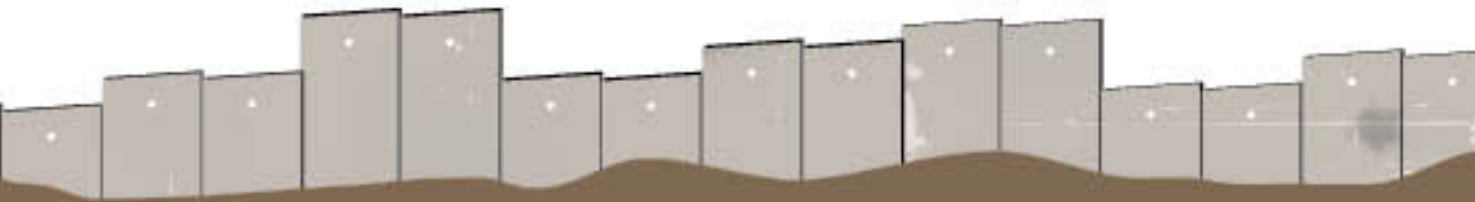
## Credit Ratings of Countries High on the UN Human Development Index

In descending order

	Credit Ratings	
Norway	AAA	2009
Canada	AAA	2010
Switzerland	AAA	2009
Holland	AAA	2010
Sweden	AAA	2009
France	AAA	2010
Luxemburg	AAA	2009
Finland	AAA	2010
United States	AAA	2010
Austria	AAA	2010
Denmark	AAA	2009
Great Britain	AAA	2010
Germany	AAA	2010
Singapore	AAA	2009
Spain*	+AA	2010
Australia	+AA	2010
Belgium	+AA	2010
New Zealand	+AA	2009
Hong Kong	AA	2009
Japan	AA	2009
Italy	-AA	2010
Ireland	-AA	2010
Korea	+A	2010
Israel	A	2010
Iceland	+BB	2010
Greece	-BBB	2010

Source: Fitch website, March/April 2010.

\*Spain's credit rating was updated in June 2010.









# **Budgeting**

## **in the Shadow of the Conflict**

## The Economic Burden of Defense Spending

☉ The military victory of 1967 transformed Israel into the strongest military power in the region. This position has entailed a heavy economic and military burden.

In contrast to the previous wars, after the 1967 war, the defense budget not only failed to decrease, it grew, and in the wake of the Yom Kippur war in 1973 it increased even more, peaking at about one-third of the total state budget. The size of the defense budget was one of the main reasons for the economic crisis that occurred in the midst of the 1980s.

In the beginning, the conflict with the Palestinians was not the main factor behind the economic burden of defense spending. The budgetary cost of holding onto the Palestinian territories was low, both because Israel did not invest in economic development in the territories and because Palestinian resistance, which was limited in those years to border-crossings and on attacks on Israeli targets abroad, did not require the deployment of a large military force. Most of the IDF activity in the early years of the occupation was carried out by a relatively small number of elite corps. Center stage was occupied by the confrontations with Egypt (the War of Attrition and the Yom Kippur war) – which ended in a peace treaty in 1979 – and with Syria. The peace treaty with Egypt allowed Israel to reduce its defense budget.

However, not long after the signing of the Israeli-Egyptian agreement, the Israeli-Palestinian conflict did move onto center stage. In 1982, the IDF invaded Lebanon, in an attempt to weaken the Palestinian military organizations deported there from Jordan in 1970 (Black September). The IDF's presence in Lebanon continued until 2000. The same war was responsible for the growth of the Hizbullah, as well as for the Second Lebanon war in 2006.

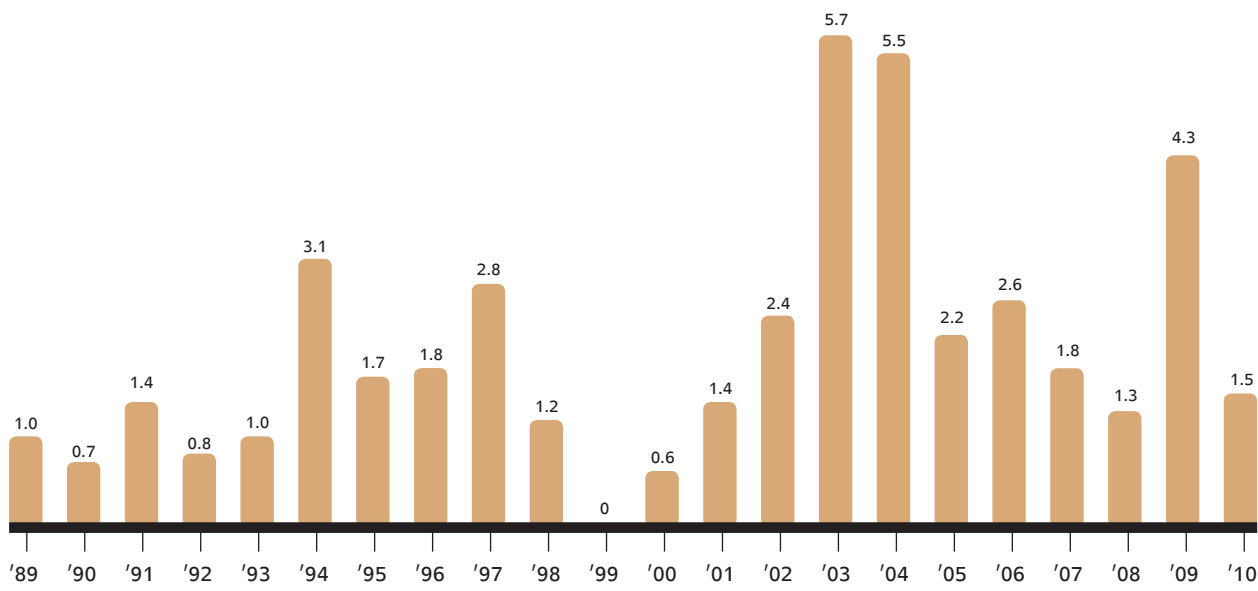
In 1987, five years after the IDF's invasion of Lebanon, the Palestinians in the occupied territories initiated the first Intifadah. The effect of the Intifadah was to raise, at once, and permanently, the economic-military cost of the occupation to Israel. The IDF set up special commands for the Palestinian territories, the Gaza and the Judah and Samaria commands. It also set up special units to cope with the Palestinian uprising, among them Duvdevan and Shimshon. Not only that: most of the field reserve units found themselves serving in the occupied territories. In addition, military protection for the Jewish settlements also required increased resources.

The signing of the Oslo Accords did not lead to the reduction of Israel's military presence in the Palestinian territories. Firstly, the division of the territories into three categories – Areas A under complete Palestinian responsibility, Areas C under Israeli control, and Areas B under joint responsibility, led to the permanent deployment of IDF forces in areas C and at numerous roadblocks at the convergence points of the different areas. Secondly, Baruch Goldstein's massacre of Muslim worshippers at the Machpela Cave necessitated an increased presence of IDF and secret forces in the territories.

While the first Intifada had been an unarmed civilian uprising, the second Intifada involved armed resistance. The IDF responded with full force, deploying a large part of the regular army as well as of the reservist contingents to suppress the uprising. In the course of the hostilities, the IDF reoccupied all of the Palestinian territories. With the waning of the Intifadah, IDF presence in the territories was reduced, but a larger force than had been deployed in the past remained throughout the West Bank and around the Gaza Strip. The Gaza Strip became the next focus of confrontation:

## Additional Appropriations to the Defense Budget Stemming from the Palestinian Uprising, 1989-2010

Earmarked Explicitly for Military Actions in the Palestinian Territories ■ In NIS billions ■ 2009 prices



**Note:** Does not include appropriations for the Second Lebanon war.

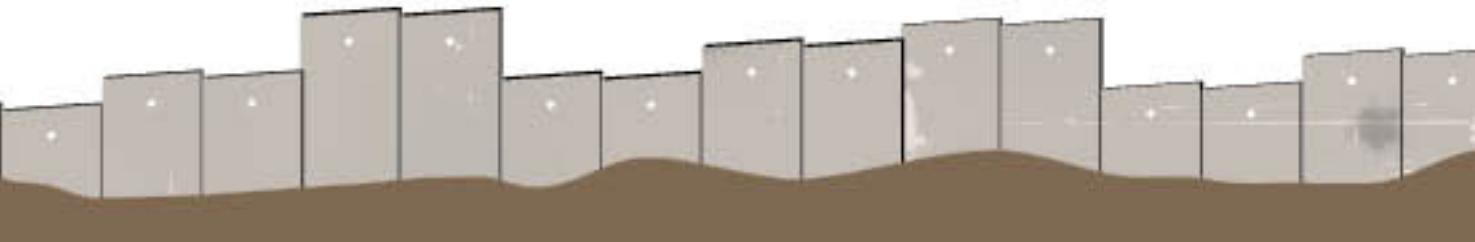
**Source:** Adva Center analysis of Ministry of Finance, *Proposed Budget: Budget Summary*, various years.

in January 2006, the Hamas movement won the elections to the Palestinian parliament. Israel refused to recognize the victory. A year later, the Hamas took control of the entire Gaza Strip, and in response, Israel tightened the closure of the Gaza Strip initiated earlier. The closure was further tightened after the Hamas kidnapping of Israeli soldier Gilad Shalit. The Palestinians in the Gaza Strip then began shelling settlements within Israel with rockets and mortars, necessitating large investments in the defense of those settlements. In January 2009, Israel attacked the Gaza Strip in the framework of the “Molten Lead” campaign:

the campaign cost approximately NIS 5 billion, to which needs to be added another billion for the fortification of buildings in the area adjacent to the Gaza Strip (Ministry of Finance, *Budget Proposal for 2009-2010: Budget Summary*).

### Additional Appropriations to the Defense Budget for the Explicit Purpose of Suppressing Palestinian Opposition

There is no way we can calculate the full budgetary cost of Israel’s military control of the Palestinian territories –



the cost of command centers, the use of special forces, the extensive deployment of reserve units, and the like. Most of the budget books on defense expenditures are secret.

An inkling of the extent of the military expenditure can be obtained from a figure that is published annually: additions to the defense budget appropriated especially to pay for increased military activity in the Palestinian territories. Between 1989 and 2010, the Ministry of Defense received special appropriations totaling NIS 45 billion (in 2009 prices).

*This figure is larger than the total budgetary outlay for elementary, secondary, and tertiary education in Israel in 2009.*

## The Disengagement and the Separation Wall

The additions to the regular budget of the Ministry of Defense include not only expenditures for military actions against Palestinians, but also two other heavy expenditures: for the disengagement from the Gaza Strip and for building the separation wall.

In 2005, Israel dismantled the Israel settlements and army camps in the Gaza Strip, in a unilateral move taken without an agreement with the Palestinians. The disengagement has involved high costs: a recent estimate put the total at NIS 9 billion.

*This sum is larger than the annual budgetary outlay for all the ministries dealing with the economy: mainly Agriculture, National Infrastructures, Industry, Trade and Employment, Tourism, Communications, and Transport.*

As mentioned above, the disengagement from the Gaza Strip was unilateral. Moreover, Israel (in coordination with the United States and with the Palestinian Authority) refused to recognize the Hamas victory in the elections to the Palestinian Authority. This policy led to an internal Palestinian conflict, the Hamas seizure of the Gaza Strip, and the shelling of Israeli localities adjacent to the Gaza Strip. The Gaza Strip continues to require the deployment of large numbers of troops, which surround it from the land, the sea, and the air. Moreover, shelling from the Gaza Strip obliges the government to finance the fortification of houses and schools in the areas within shelling distance.

To the expenditures of disengagement one needs to add the budgetary expenses of the separation wall. In 2003, following the outbreak of the second Intifadah, Israel began to build a separation wall around the Palestinian territories in the West Bank. Here, too, the action was one-sided and did not involve any agreement with the Palestinian side. At any rate, the only legitimate placement of the wall is the border recognized by the major international bodies – the Green Line. Had the wall been constructed along the Green Line, it would have been 313 kilometers long. However, the wall was built so as to place a good many of the Israeli settlements on the Israeli side of the wall, which involved annexing areas populated by Palestinians as well. This move will make the wall more than twice as long – 790 kilometers.

The cost of the separation wall was estimated by the Brodet Commission at NIS 13 billion.

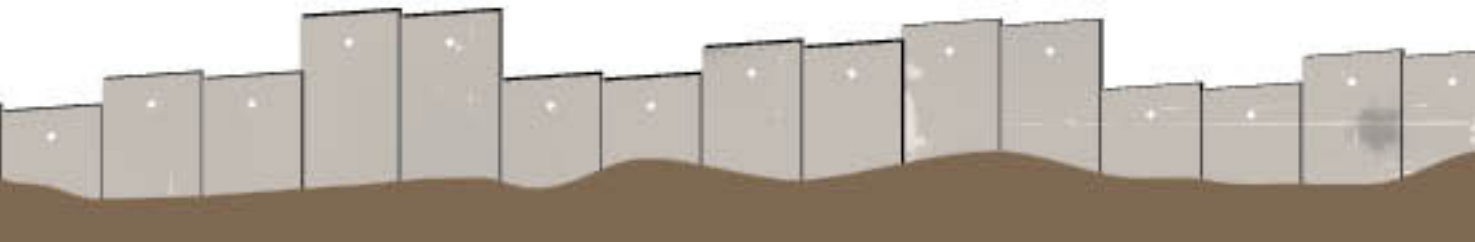
*This figure approximates the budget of the Ministry of Health for 2008.*

# The Future Economic-Military Burden: What is the Prognosis?

☀ If there is no political solution, the budgetary cost of the conflict will continue to constitute a heavy burden. This is the conclusion of the Brodet Commission, whose recommendations were submitted in May 2007:

“ . . .The Palestinian front requires huge resources that take up a significant part of the regular outlays for routine defense as well as intelligence. “It appears that neither the political nor the military officials have internalized the high alternative cost of a permanent diverting of resources to this arena . . . an up-to-date defense perception is that this arena will continue to be central and carry even greater weight in the future . . . and the IDF will continue to invest numerous resources in the area in the coming years. “Moreover, it appears that there is a steady process of increasing these costs, because the terrorist elements are determined to continue in a sort of symmetrical arms race (or balance of terror). For example, the terror of suicide bombers required the construction of a separation wall,

whose cost is estimated at NIS 13 billion. This is a huge sum by itself and surely relative to the Palestinian arena. The wall is proving effective, but in the Gaza Strip its effectiveness is being neutralized to a certain degree by the use of tunnels and rocket fire. The military system is developing responses to those threats, but the cost of defensive and offensive measures is very high. As for ground attack options, these, too, are becoming more and more expensive, due to the availability of advanced anti-rocket arms to terrorist organizations. The important point is that the conflict with the Palestinians is becoming ‘expensive,’ mainly from the standpoint of the diversion of limited military resources, like manpower and command attention, all that on an ongoing basis and without much change on the horizon. This is one of the most important recent developments . . . a development that has not been properly internalized, among other things because a considerable proportion of the costs is not fully reflected in the defense budget ....” (Brodet, 14-15).



## Budgeting in the Shadow of the Conflict: Guns or Butter

☉ The second Intifadah led to a heavy recession: economic activity declined, as did tax revenues. Faced with this decrease, and, at the same time, with Ministry of Defense demands to increase its budget, the government made large cuts in all civilian budgets. Between 2001 and 2004, those cuts totaled approximately NIS 65 billion – an unprecedented retrenchment.

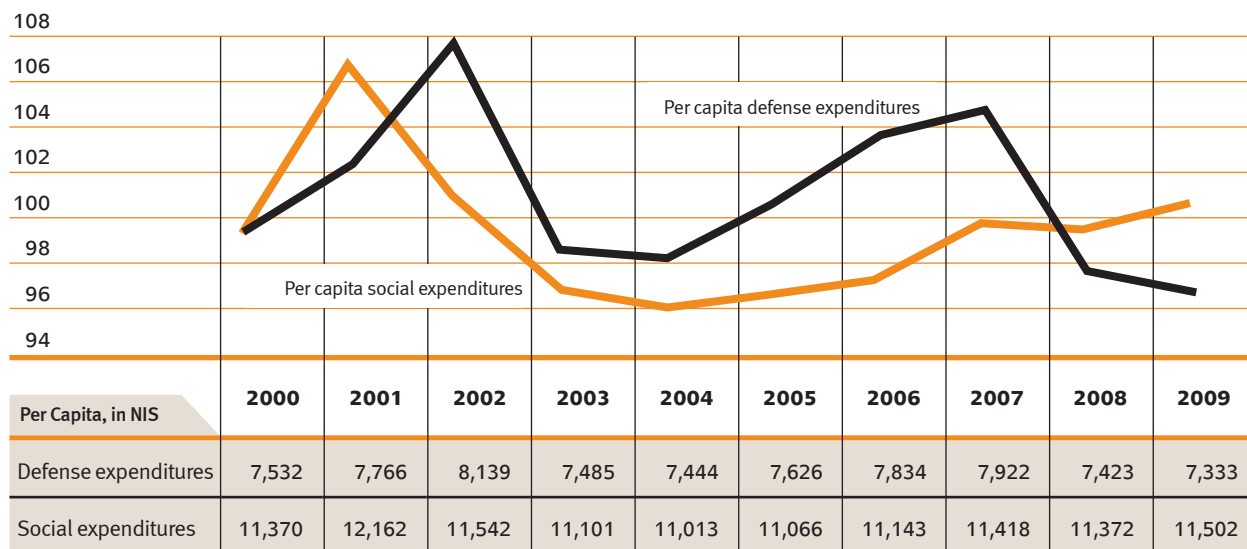
There were those who justified the cuts by claiming, as the economic right is wont to do, that the state budget needs to be cut back so as to place as many resources as possible at the disposal of the private sector. However, if it had not been for the Intifadah and the feeling of crisis that it inspired, it is doubtful if such large cuts would have been approved by the Knesset. It was not for nothing that the then Minister of Finance, Silvan Shalom, referred to the cuts as the “economic defensive shield,” after the name of the military campaign in the West Bank, “Defensive Shield.” The cuts had an adverse effect on all the social services in Israel – health, social welfare, the school system, higher education, housing, and above all social security transfers. Their effects are still being felt today. The five years of economic growth that followed the quelling of the Intifadah (2004-2008) did not yield full compensation for the budget slashes, and the total expenditure for social services did not revert to its 2001

level. The failure to return to the previous expenditure level is due, among others, to the fact that the Israeli-Palestinian conflict led to new armed confrontations: the Second Lebanon war in 2006 (the war was connected to the conflict, as Israel’s involvement in Lebanon began following the establishment of an economic and political Palestinian infrastructure in Southern Lebanon), which cost the state coffers NIS 8.2 billion shekels. And in December 2008, Israel initiated the “Molten Lead” campaign in the Gaza Strip, at a cost of NIS 4.8 billion shekels, paid over 2009 and 2010. To these figures one needs to add another billion shekels for fortifying buildings in the area adjacent to the Gaza Strip.

The following graph shows the effect of each of these confrontations on the ratio between per capita social and defense expenditures. Following the budget slashes that accompanied the second Intifadah, social expenditures decreased in the course of the decade to below their 2001 level (and for four years, below their 2000 level). At the same time, per capita defense expenditures were higher than they were prior to the Intifadah (with the exception of 2003 and 2004, the years immediately following the Intifadah, and 2008 and 2009). It was only in 2008 and 2009 that per capita social expenditures increased more than per capita defense expenditures.

## Changes in Social Expenditures and Defense Expenditures, on a Per Capita Basis, 2000-2009

2000 Expenditure = 100



**Note:**

Social expenditures were computed by adding the actual expenditures of the following ministries: Education, Science, Sports and Culture, Health, Higher Education, Social Welfare, and social transfers financed by the state budget.

Defense expenditures are the actual expenditures of the Ministry of Defense.

**Sources:**

Adva Center analysis of Ministry of Finance, Office of the CFO, *Financial Accounts*, various years; Central Bureau of Statistics, *Statistical Abstract of Israel*, various years; Central Bureau of Statistics, Press Release, "At the Advent of 2010 – 7.5 Million Residents of Israel," December 30, 2009.





The background features a series of vertical orange panels of varying heights, each with a white circular hole near the top. Below the panels is a dark, textured silhouette of a landscape, possibly representing a wall or a barrier. The overall color palette is dominated by orange and dark brown/black.

# **Israeli Society**

**in the Shadow of the Conflict**

# Israeli Society in the Shadow of the Conflict

☉ The frequent confrontations between Israelis and Palestinians are damaging to both sides.

Palestinian society is the biggest loser: Mahmoud Abbas, Chairman of the Palestinian Authority, reflected this reality when he described the second Intifadah as “one of the biggest mistakes of our lives” (*Haaretz*, May 26, 2010). Over the years, Israel lost less than Palestine; in fact, Israel today is far more developed and affluent than it was in 1967. These differences lead many Israelis to believe that the prolonged conflict has not touched them and does not do them any harm. But the truth is otherwise.

Moshe Dayan, Ministry of Defense during the Six Day war and in the period immediately following it, stated during the 1969-1970 War of Attrition with Egypt that Israel could not fly two flags at one and the same time – the defense flag and the social flag. The veracity of Moshe Dayan’s statement still holds. Social groups that did not manage to prosper prior to the Six Day war had a hard time doing so in its aftermath – for example, residents of Jewish development towns and of Arab localities. The disparity between the center and the periphery increased and became a permanent feature of life in Israel. The bargaining power of workers declined, and the elementary, high school and higher education systems left most of Israel’s youth outside the mainstream of economic growth. One out of every five Israeli families is poor, compared with one out of every ten in the 1970s.

A large part of these developments stem from a neo-liberal economic outlook, influential in Israeli policy-making since the middle of the 1980s. Some of them may have come to pass even without the conflict and the economic burden of defense accompanying it. At the same time, in several cases the influence of the conflict was direct.

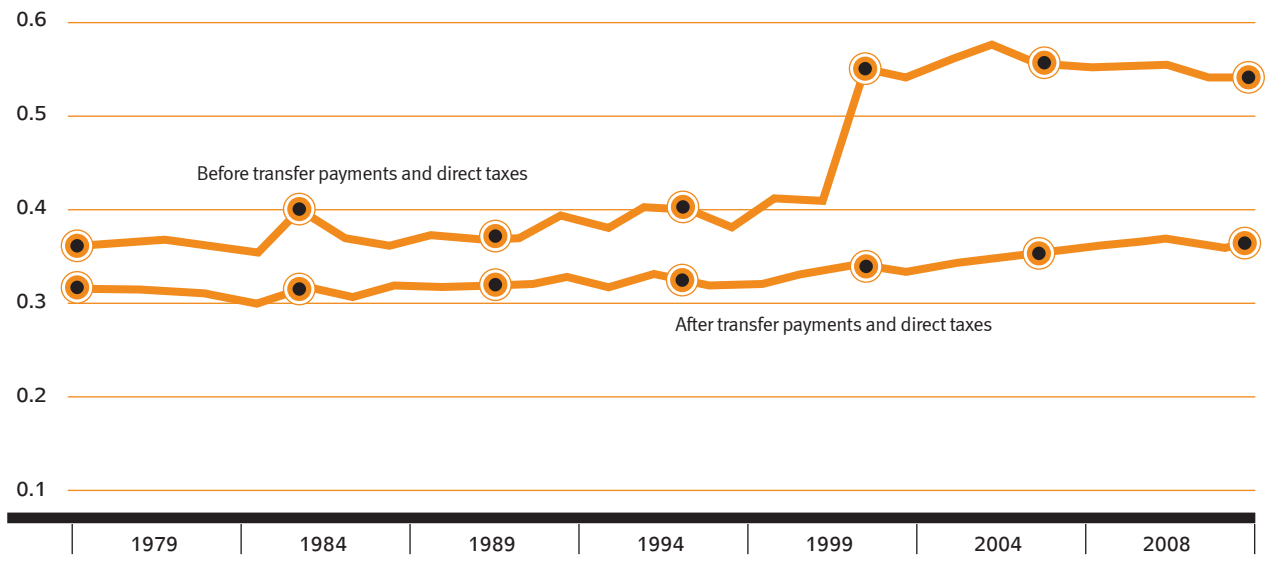
Firstly, the bargaining power of Israeli workers weakened as a result of the entrance to the Israeli labor force of Palestinian workers, who were employed without the protections of either the state or the Histadrut. Later, when Israel imposed closures on the Palestinian territories, hundreds of thousands of migrant workers were brought to Israel from abroad, further weakening the bargaining power of Israeli blue-collar workers.

Secondly, the large state investment in the settlements in the occupied territories lowered the priority of the pre-1967 development towns and was incomparably larger than the investment in the former, made under Project Renewal.

Thirdly, the prolonged confrontation with the Palestinian national movement interfered with the process of integration of the Palestinian minority on the Israeli side of the Green Line, as well as with their social and economic advancement. Today, there is a broadening consensus that the marginalization of Arab citizens of Israel is damaging to the economic development of Israel as a whole.

## Gini Coefficient of Inequality in Income among Families, 1979-2008

Before and after direct taxes and transfer payments



Source: National Insurance Institute: *Annual Survey*, various years.

## Inequality in the Shadow of the Conflict

● Inequality in Israel has been increasing since the middle of the 1970s.

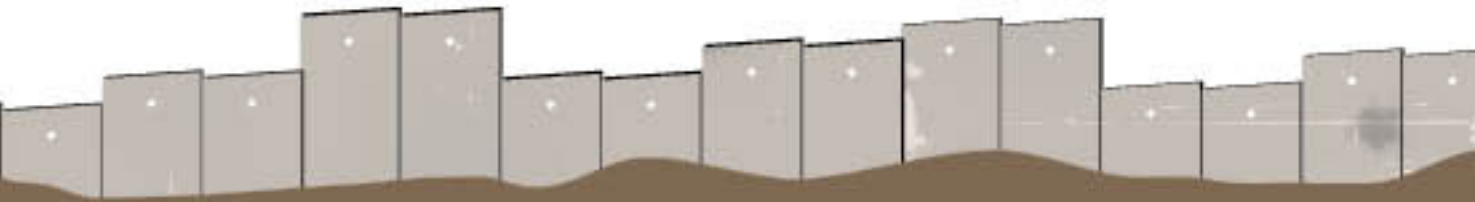
The graph above, based on the Gini Coefficient, clearly demonstrates this trend. The Gini is an accepted measure of inequality: when the coefficient is 0, there is absolute equality – everyone has the same income; when the coefficient is 1, there is absolute inequality – all the income is concentrated in the hands of one person.

The top line in the graph shows inequality among families with regard to income from work. It demonstrates that inequality in the labor market is high and that it has increased over the years.

The lower line shows inequality after direct taxes (income and corporate taxes) and transfer payments. It demonstrates that inequality contracts after taxes and transfer payments: transfer payments increase the

income of low-income families while taxes lower the income of high-income families. Still, the figures reveal a trend of long-term growth in inequality.

Inequality is the product of several factors: the growth in the economic and political power of the business sector and the weakening of the bargaining power of workers; the concentration of investments in a small number of industries, in the center of the country; and the fact that the school system provides different social groups with differential levels of learning. But it also is connected with the fact that due to the prolonged conflict with the Palestinians, Israel finds itself having to increase its investment in guns over that in butter. Entrenched inequality has far-reaching implications for the fabric of society: Israel of 2010 is a society with much less solidarity than Israel of 1967.



## Social Security in the Shadow of the Conflict

☉ The social safety net, as embodied mainly in the payments of the National Insurance Institute, aims to supplement the labor market, by assisting people who do not manage to make a living from their work income alone (for example, persons with disabilities), people who are temporarily outside of the labor market (for example, unemployed persons and women on birth leave), or people who have left the labor market (retirees).

The Israeli social safety net is similar in many ways to those in European states, with one important difference: the low level of most of the payments in Israel.

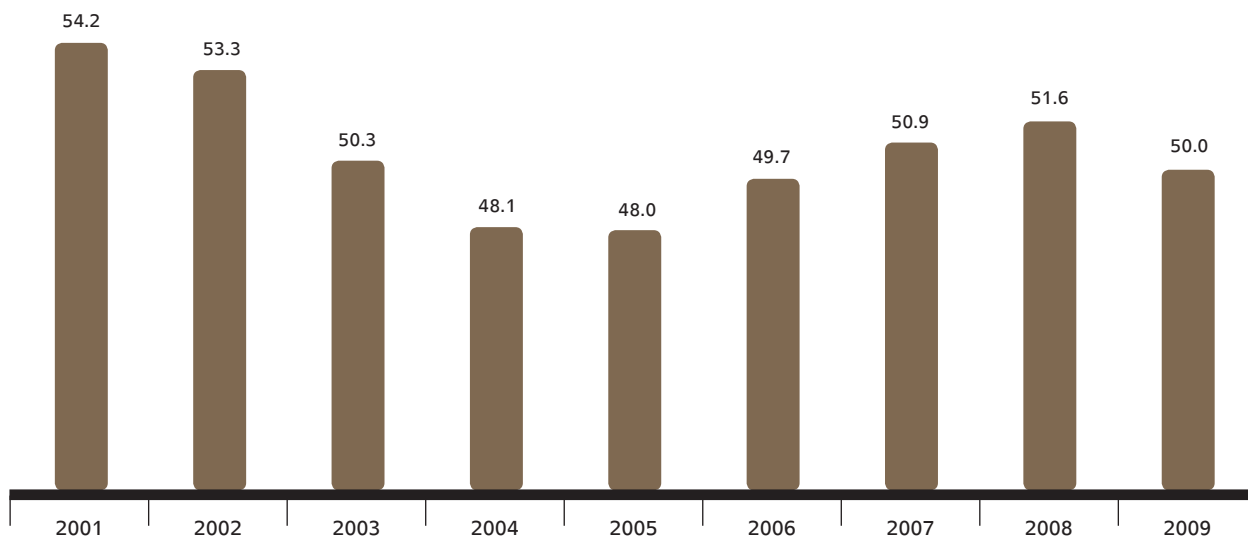
Following the second Intifadah, during which successive administrations made cuts in the state budget, totaling some NIS 65 billion, safety net payments were severely damaged. In the course of five

years – 2001 through 2005 – child allowances were cut by 45%, unemployment compensation by 47%, and income maintenance by 25%.

The Ministry of Finance described the necessity of choosing between social and defense expenditures thusly: “Against the background of the security situation since September 2000, the defense budget increased considerably during the years 2001-2004, following a period of stability during the 1990s. In the four-year period, defense allocations were financed by means of cuts in the budgets of other government ministries, especially transfer payments (like income maintenance and child allowances), with all that [such cuts] entails with regard to the level of services offered to citizens and the possibility of setting priorities in the state budget (Ministry of Finance, *Proposed Budget for 2009-2010, Budget Summary: 77*).

### Transfer Payments of the National Insurance Institute, 2001-2009

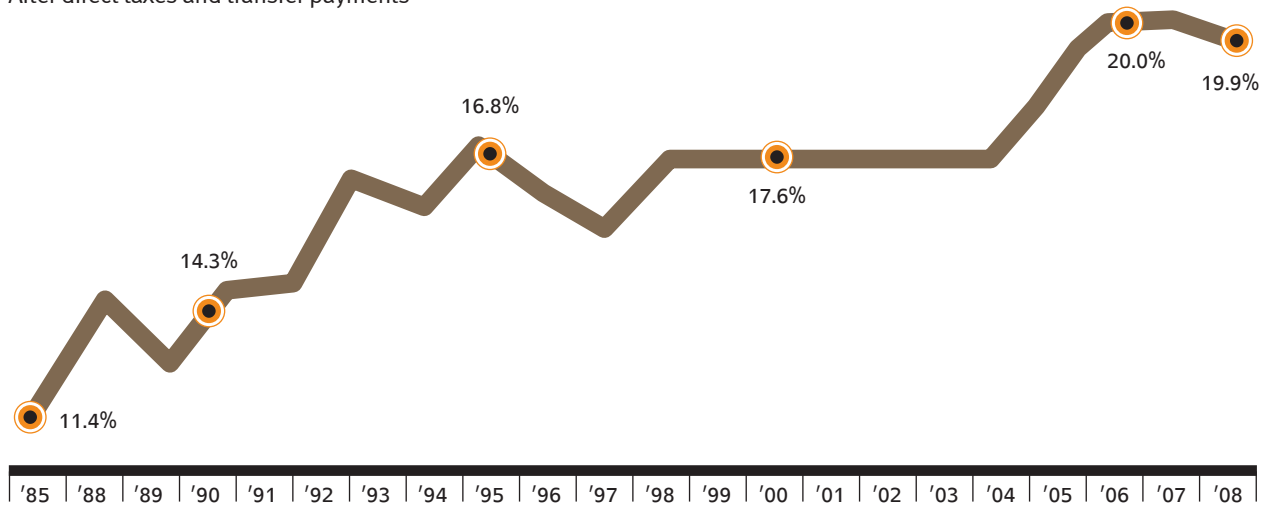
In NIS billions ■ 2009 prices



Source: Adva Center analysis of the National Insurance Institute, *Operating Expenses*, various years.

## Poverty Rate for Families in Israel, 1985-2008

After direct taxes and transfer payments



Source: National Insurance Institute, *Annual Survey*, various years.

## Poverty in the Shadow of the Conflict

Poverty in Israel has been increasing since the 1980s.

- In 1985, the poverty rate for families was 11.4%;
- In 1995, it was 16.8%;
- In 2008, it was 19.9%.

The increase in poverty is not the product of the conflict alone. It is also the result of the arrival of hundreds of thousands of immigrants from the former Soviet Union and from Ethiopia, who experienced unemployment or employment at low wages. In addition, the increase in poverty is also the result of a labor market that excludes many Israelis; of a labor market characterized by years of high unemployment; and of a policy that aims to lower the cost of labor by weakening labor unions and by employing workers through contract agencies. The fiscal burden of Israel's prolonged occupation of the Palestinian territories is a factor that contributes to the increase in poverty. We have already seen

that during the period of the second Intifadah, the government increased the defense budget, in large part at the expense of transfer payments, whose decline led to an immediate increase in the poverty rate.

As a result of the foregoing, Israel finds it more and more difficult to cope with poverty. It does not invest enough in the economic development of peripheral areas, or in vocational training to upgrade workplace skills, or in expanding day care in order to increase employment among mothers.

The state also finds it difficult to slow down the increase in poverty by means of income transfers:

- In the 1980s, transfer payments reduced the overall poverty rate by approximately 60%;
- In the 1990s, they reduced the overall poverty rate by approximately 56%;
- Since the turn of the century, transfer payments reduce the overall poverty rate by approximately 53%.

## Guns or College Grads

 The budget cuts made during the Intifadah years had an adverse effect on higher education in Israel. The universities lost hundreds of academic jobs. In 2005, a national commission was set up, chaired by former Minister of Finance Abraham Shohat, to examine national policy regarding the financing of higher education. The commission recommended that the government not increase the higher education budget (but rather, reinstate the appropriations cut in 2001-2004, thus returning to the 2001 per student level of financing by 2013). Its recommendation was for universities to raise tuition levels and to step up their fund-raising efforts. The very same year, 2006, following the Second Lebanon war, the government set up another national commission, chaired by another past Minister of

Finance, David Brodet. This commission was charged with examining the defense budget. It recommended increasing the defense budget by an annual average of NIS 4.6 billion, for a period of ten years (additional sources of income that were to increase the defense budget: efficiency measures and more American aid). In 2007, the year both commissions submitted their recommendations, public financing of higher education totaled NIS 5.5 billion. Thus, in the coming years the defense budget will grow by an amount that approximates the total state higher education budget, while the latter will be dependent upon tuition raises and fund-raising. The defense budget is to grow, among others, at the expense of Israel's investment in higher education.



# **The Military**

**in the Shadow of the Conflict**

# The Military Cost: Politicization of the Israel Defense Forces

Israel's occupation of the Palestinian territories is a policy determined by the political leadership, but its implementation is in the hands of the Israel Defense Forces (IDF). Since the Israeli-Palestinian conflict is not one that can be solved in the arena of military strategy, but rather in the arena of internal politics, the army finds itself inadvertently thrown into the political arena.

## The IDF and Israeli Politics

Sociologist Moshe Lissak contended back in 1990, in the wake of the first Intifada, that in contrast to a situation of war, in which the IDF knows how to act in accordance with military considerations, when it comes to deal with the Intifada, it cannot ignore political and ideological considerations. The IDF finds itself in confrontation situations with leading political figures, on the one hand, and with settlers, on the other. Thus, Lissak warned, there is a danger of erosion in the base of public support for the IDF top command – from the right as well as from the left. Moreover, the new situation contains an inherent danger of di-legitimization of military service (Moshe Lissak, “The Intifada and Israeli Society: A Historical and Sociological Perspective,” in Reuven Gal (editor), *The Seventh War: The Effects of the Intifadah on Israeli Society*, Tel Aviv, Hakibbutz Hameuchad, 1990: 24-25).

## The IDF and the Belief in the Justice of Military Action

Political scientist Yoram Peri pointed out the operational implications of having to cope with a national uprising: legal uncertainty arising from confrontations with unarmed civilians; tension between the IDF and the judicial system, as a result of the difficulty of defining norms of conduct; damage to the

reporting regime of the IDF; and a feeling of betrayal on the part of military officers, due to the legal restraints imposed on the way in which the war was waged and the increase in litigation based on the contention that military personnel engaged in illegal actions. Peri added that the first Intifada created, for the first time, a breach in the conception of security: if in the past there had been a consensus regarding the justice of Israel's wars, this time there were those who viewed the Intifada as a just struggle on the part of the Palestinians for self-determination (Yoram Peri, “The Effect of the Intifadah on the IDF,” in Gal, op. cit.).

## The IDF and the Settlements

The settlements are the focus of a bitter political debate between right and left. Not only that: many of the settlers act in concert as a bona fide political camp identified with the political right. The IDF, as a state apparatus, is supposed to avoid taking a position between the main political camps in Israel, and it is supposed to avoid actions dictated by the agenda of one political camp or another. However, the conflict with the Palestinians is being conducted on territory on which the settlements are located; not only that, but the settlements constitute a central target for Palestinian fighters. Against this background, an unavoidable connection was established between soldiers and settlers, and the army finds itself operating as an army for the defense of the settlements (Akiva Eldar and Edith Zertal, 2004, *The Lords of the Land: The Settlers and the State of Israel 1967-2004*, Tel Aviv: Kinneret, Zmora-Bitan-Dvir).

Politicization connected with the settlements was reflected in the heavy pressure brought to bear on the IDF by settlers during the disengagement from the Gaza Strip and by rabbis from the right calling on soldiers to refuse to take part in the evacuation of the settlements.



### **The IDF as an Instrument of Policy**

Often, in the absence of progress on the diplomatic front, the IDF finds itself acting as policy in and of itself. The government's decision not to recognize the results of the Palestinian parliamentary elections in 2006, in which the Hamas won a majority, Israel's boycott of Hamas rule in the Gaza Strip, and the tight closure imposed on the Gaza Strip, led to frequent exchanges of fire. In December 2008, the Cabinet sent the IDF into the "Molten Lead" campaign, in which 1,400 Palestinians died, most of them civilians. The IDF then found itself on the side of the accused in the Goldstone Commission report. An IDF action was also the solution chosen by the administration for the Turkish flotilla to the Gaza Strip in May 2010: once again, the IDF found itself the center of a diplomatic upheaval.

### **The Military Price: Undermining Moral Legitimacy**

From the moment that the main operational role of the IDF became enforcing Israeli control over the Palestinian territories, breaches began to open in the broad-based legitimacy enjoyed by the IDF ever since its establishment. Numerous Israelis came to wonder about the morality of the use of the army to enforce the occupation, instead of to defend the state and its citizenry.

Immediately after the 1967 war, there were voices that warned against the implications of military control over Palestinians. Best known were the voices of Professor Yeshayahu Leibowitz, Itzhak Ben Aharon and Pinchas Lavon. They were preceded by Shimon Zabar, who together with another eleven persons published on September 22, 1967 – three months after the war – an advertisement in the *Haaretz* daily newspaper warning against the serious implications of turning the IDF into an instrument of occupation.

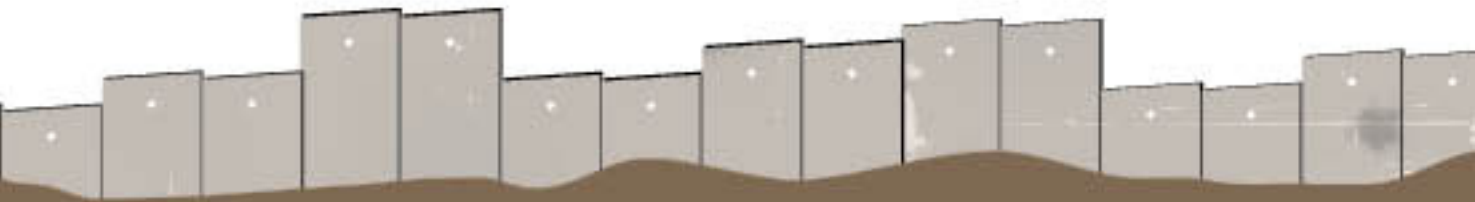
"Our right to defend ourselves against destruction does not give us the right to oppress others  
Occupation results in foreign control  
Foreign control results in opposition  
Opposition results in suppression  
Suppression begets terror and terror against terror . . ."

Ad in *Haaretz*, September 22, 1967

With the passage of time, the IDF repeatedly found itself up against the phenomenon of soldiers, mainly reservists, who refused to mobilize for the mission imposed on the IDF. It happened at the time of peace talks with Egypt, when the government tried to evade evacuating the settlements; it expanded during the first Lebanon war, whose original purpose was to destroy the institutional infrastructure established there by Palestinians who had been deported from Jordan; and it reached its largest proportions during the two intifadas.

A strong challenge against the use of the IDF to sustain the occupation came from women in Israel. The largest and most persistent movement was "Women in Black." Another women's movement, one that succeeded in directly influencing policy was "Four Mothers," which contributed to the decision to pull out of Lebanon after a stay of 18 years.

The fact that Palestinian opposition to the occupation involves fighting in the midst of a civilian population has repeatedly enmeshed the IDF in actions arousing moral critique in Israel and abroad. The IDF finds itself stained due to the necessity of carrying out military actions in situations in which political actions are called for. One of the results of this phenomenon is the threat of IDF senior officers being tried abroad for crimes against humanity by international courts of justice.



In the last decade, there were at least four outstanding instances of the killing of civilians by the IDF:

- During the second Intifadah, the killing of Palestinian activists, along with their families and neighbors, by manned and unmanned aircraft, as in the example of the killing in 2002 of Salah Shahadah in the Gaza Strip, which caused the deaths of 15 civilians, children included.
- In a demonstration of peace activists from abroad on behalf of the Palestinians, the wounding and killing of demonstrators, as in the example of the killing of Rachel Corrie in the Gaza Strip in 2003.
- In the “Molten Lead” campaign, the killing of hundreds of Palestinian civilians.
- In the recent Turkish flotilla affair, in May 2010, the killing of nine foreign nationals.

### **Reduced Motivation on the part of the Well-Off**

Sociologist Yagil Levy pointed to a motivational crisis among what he refers to as “the western, secular middle class.” Levy sees this crisis reflected in, among others, a gradual but continual decrease in the general desire to serve in the army and to volunteer for combat units and for officer school. The motivational crisis began at the end of the 1980s. It had several causes, among them the relative decline in the value of military service as a channel of mobility and a parallel increase in the other alternatives, among them business pursuits (Yagil Levy, *A Different Israeli Army: Material Militarism in Israel*, Tel Aviv: Yediot Aharonot, 2003). Still, it can also be assumed that the first Intifadah, which was accompanied by a prevalent feeling among people in the above middle class, that the role played by the IDF was not in keeping with their values or with the political interests of Israel, also played an important part in creating a motivational crisis.

The background features a series of vertical orange panels of varying heights, each with a white circular hole near the top. Below the panels is a dark, textured silhouette of a landscape, possibly representing a wall or a barrier. The overall color palette is dominated by orange and dark brown/black.

# **Israeli Politics**

## **in the Shadow of the Conflict**

# Israeli Politics in the Shadow of the Conflict

☉ In most of the years since 1967, and certainly since the outbreak of the first Intifada, the Israeli-Palestinian conflict has been a central issue in the Israeli political arena, so much so that it has pushed to the margins issues that in other countries are at the center of public debate, like social and economic policy.

While in other countries, social and economic issues are those that differentiate between the main political camps – left and right – in Israel, the line of demarcation is policy on the Palestinian issue.

The main result of this situation is the poverty of public debate in matters that determine the standard of living and the quality of life for Israelis in the present and future: economic development, wages, schools, higher education, health, and the social safety net. For years, Israeli governments have risen or fallen on their stance on the Palestinian issue and not on the above matters. For most of the years since 1967, and certainly since the outbreak of the first Intifadah, the Israeli-Palestinian conflict has been the main business of the political leadership in Israel. Prime ministers are occupied primarily with the conflict: negotiating with the Palestinians, fighting them, dealing with international pressures, and maintaining government coalitions in the face of developments in the Israeli-Palestinian arena.

At least since the 1980s, the Israeli-Palestinian conflict

has influenced the degree of stability of coalition governments. For example, the agreement signed by Prime Minister Binyamin Netanyahu at Wye Plantation led to a shortening of the days of his government; the failure of the Camp David talks with the Palestinians led to the fall of the Ehud Barak government; the coalition formed by Ariel Sharon came apart against the background of the disengagement plan for the Gaza Strip; Ehud Olmert's coalition partners warned him not to include Jerusalem in his negotiations with the Palestinians; Binyamin Netanyahu is rendered powerless by his coalition partners from the right, who oppose peace negotiations and a freeze on building in Jerusalem.

The Israeli-Palestinian conflict led to the first assassination of a national political figure: Prime Minister Yitzhak Rabin was murdered because he signed the Oslo Accords with the Palestinians. The IDF fiasco in the affair of the Turkish flotilla to the Gaza Strip forced Binyamin Netanyahu to cancel his meeting with US President Barack Obama, which had been perceived as an excellent opportunity to raise the subject of Iran's nuclear power, a subject that Netanyahu hoped to place at the top of the agenda. This event is additional testimony to the fact that it is impossible for Israel to escape the Palestinian question.



# **Israel's International Standing in the Shadow of the Conflict**

# Israel's International Standing in the Shadow of the Conflict

☉ The prolonged occupation of the Palestinian territories has placed Israel in the situation of friction or even confrontation with sizeable parts of the international community.

- No other country, including the United States, recognizes the occupation.
- No other country, including the United States, recognizes Israel's annexation of East Jerusalem.
- No other country, including the United States, recognizes the settlements established on Palestinian territory.
- No other country, including the United States, recognizes the separation wall as a border. The international court of justice in The Hague handed down an advisory opinion stating that the construction of the wall in the West Bank and Jerusalem is illegal and that Israel ought to dismantle it and pay compensation to Palestinians who suffered damages because of its construction.

The Israeli-Palestinian conflict in general, and the occupation in particular, weaken the international standing of Israel, cast doubt on the legality of its actions and damage its status in the world as a democratic state committed to the preservation of human rights.

## 1

Israel was created by a Jewish national movement – the Zionist Movement. With the founding of the state, Israel received the support and identification of Jewish communities around the world, which increased following the 1967 war.

However, the Israeli-Palestinian conflict has gradually undermined the nearly automatic support for Israel on the part of Jews, at the same time that it undermined the standing of Israel in the eyes of the international community. Israel's international status was further undermined by the “Molten Lead” campaign in the Gaza Strip.

For the first time, Jewish Zionist organizations were created in the United States and Europe to oppose the automatic support of the traditional Jewish community leadership for Israel. In the United States J Street was established in 2008 and in Europe J Call in 2010. Both of these organizations call on the government of Israel to initiate a two-state solution.

An even more worrying concern, from the viewpoint of Israel, is the distancing of the young generation of secular American Jews from Israel (Peter Beinart, “The Failure of the American Jewish Establishment,” in *The New York Review of Books*, June 10, 2010).

## 2

For a long time after the 1967 war, Israel was ostracized by many nations of the world. This was detrimental to, among others, Israeli trade.

In the wake of the Oslo Accords and the peace agreements with Egypt and Jordan, Israel emerged from its isolation, but it is still disconnected from many nations in the Middle East, Africa and South East Asia. Due to its prolonged diplomatic isolation, Israel

came to depend more and more on the support of the United States and, in fact, became its protégé.

The United States is the strongest power in the world, and its patronage has many advantages. However, it also involves disadvantages, for example, the severe limitations that the United States imposes on the development of Israel's defense industries.

Recently, a change has occurred in the degree of support that Israel receives from the United States.

A reflection of this change came in the wake of the crisis that developed at the time of the visit of Vice President Joe Biden to Israel, when the government of Israel announced its plan to embark on a construction project in the Ramat Shlomo quarter of Jerusalem, which is on the Palestinian side of the Green Line.

Israel's ambassador to the United States described the situation as the most serious crisis in more than 35 years (*Haaretz*, March 15, 2010), and *New York Times* columnist Thomas Freedman described the government of Israel as a drunken driver who had lost contact with reality and thought he could embarrass his only real friend without damaging that friendship (*New York Times*, March 14, 2010). On May 28, 2010, the United States joined the unanimous vote of 189 nations that are signatories to the nuclear non-proliferation treaty calling for an international congress to convene in 2012 to discuss disarming the Middle East of nuclear

weapons. The call contained a specific reference to Israel (*Haaretz*, May 29, 2010).

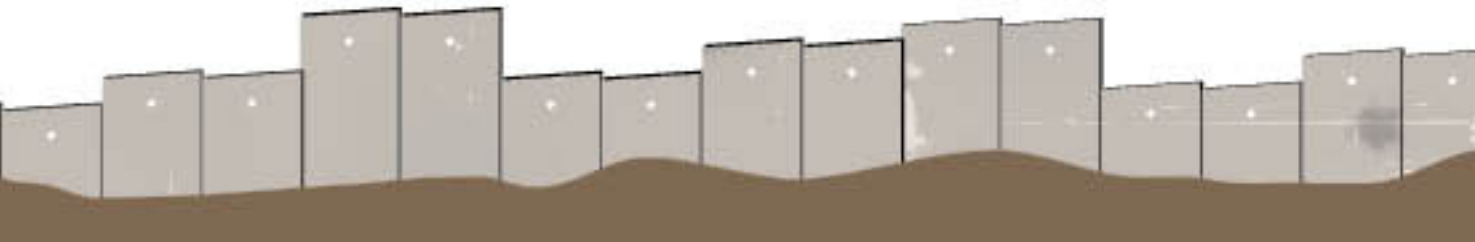
In contrast to Israel's relations with the United States, its relations with the European Union have been characterized by recurring frictions. The European Union is Israel's second largest trading partner. The European Union has already used its power against Israel, when it removed tax benefits from the products produced in the settlements, benefits that accrue to other items that Israel exports as well.

## 3

Israel's status in international public opinion, which was quite high immediately after the founding of the state and in the aftermath of the 1967 war, has decreased significantly with the prolongation of the occupation.

Public opinion surveys reveal repeatedly that Israel's image among the world of nations is negative.

Various circles in the West, mainly intellectual groups, have tried repeatedly to impose a boycott on Israeli products and even on Israeli universities and scholars. Since the second Intifadah, the boycott movement has spread in the countries of the West, involving persons as well as products, especially those produced in the settlements. For the time being, the boycott movement does not constitute a serious threat to Israel's economy, but it illustrates the increasing erosion of Israel's international standing due to its unresolved conflict with the Palestinians.



מרכז אדפה מרכז אדפה  
**Adva Center**  
Information on Equality and Social Justice in Israel

DESIGN: STUDIO NOAM TAMARI