fied" that the PLO did not change its tough anti-Israeli stance.

PLO "Octopus"

Strategically, the key issue addressed by the PLO was the question of its political relations with the Communist parties and leftist movements of the Arab world. For instance, Kaddoumi received a standing ovation from the PNC delegates when he announced that the PLO had begun and would continue contacts with the Communist party of Israel (Rakah). In addition, there were signs of stepped-up cooperation with the West Bank and Jordanian Communist parties and the Lebanese CP and Lebanese national movement led by the late Kamal Jumblatt. Such a decision by the PLO places the organization in a critical position of leadership of the opposition forces throughout the Arab East.

The PLO also strengthened its links with the leftist opposition in Egypt. After Egyptian President Anwar Sadat spoke at the PNC meeting, in a widely publicized speech in which the Egyptian leader loudly proclaimed his intention never to give up "an inch" of Arab territory, then in a little-reported event the PNC invited a leader of the Egyptian left to address the conference. The links to the Egyptian left and Nasserist movement, which go back to the pre-Sadat days after the 1967 war under President Nasser, are still being maintained at the highest levels of Egyptian military and intelligence establishment, and represent an extremely important impediment to the pressure on Sadat to break with the PLO.

According to the *Jerusalem Post*, the PLO is an "octopus" stretching into almost every Arab country which, if put into danger, can threaten the existence of key Arab "moderate" — i.e., pro-Carter — regimes, including Sadat's.

— *Bob Dreyfuss*

Why Israel Must Have Peace — The State Of The Israeli Economy

SPECIAL REPORT

Israel's economy is geared to her maintainance as a military garrison state. Since 1967, the United States has maintained Israel on a course of increased military spending accompanied by drastic austerity. The defense burden now being carried by three-and-a-half-million Israelis is destroying her economy and population, just as the policies of Schacht destroyed the German economy during the 1936-39 period. If this policy of auto cannibalization is carried to its logical conclusions, then Israel must commit itself to war by the end of 1977.

This catastrophe can be prevented by those saner Israeli leaders who have devoted their lives to making the deserts bloom, those who know that development, and collaboration with the Arabs over such mutual development, is the key to ensuring the survival of, not only Israel, but all humanity as well.

During the past year the working class has been voicing increasing protest against the New York banks' austerity demands, culminating this month in the biggest strike wave to hit Israel since the 1966 recession. The Israeli newspaper Ma'ariv has called the situation "the very edge of sanity." Nearly every trade union has been on strike or threatening to strike, paralyzing the port and virtually bringing the economy to a standstill. An IMF mission is now in Israel demanding more austerity.

The Budget: Defense and Debt

The crisis facing the Israeli government is directly caused by the commitment to a militarized economy.

Since the October 1973 war, larger and larger proportions of the national budget have been alloted to defense — and the resulting debt burden from that defense spending. (See Table 1)...The religious commitment to these two items has caused social services to

Table 1

BUDGET 1976-1977	
TOTAL BUDGET -	$12 BILLION
MAIN EXPENDITURES	
DEFENSE	$4.7 BILLION
DEBT REPAYMENT DOMESTIC	$2.6 BILLION
BUDGET 1977-78	
TOTAL BUDGET -	$15.3 BILLION
DEFENSE	$ 5.2 BILLION
DEBT REPAYMENT DOMESTIC	$ 3.8 BILLION

be cut to the bone. Health care has deteriorated, medical services are no longer free. Transportation has been slashed, and the bus companies are bankrupt. Housing and construction have been brought to a halt. Education standards are falling as class size is increasing. Municipalities can no longer afford to pay their workers.

With the announcement of the 1976-77 budget, headlines in the Israeli papers screamed, "New Budget to Cut Standard of Living." A 40-50 percent increase in food prices was promised as one way the cuts were going to be made. Food subsidies were cut in November 1976, raising prices by at least 20 percent in one shot. Fuel prices, also received subsidies, which were also cut, increasing prices by 11 percent. (See Table 2)

By introducing the Value Added Tax at eight percent in June 1976, prices of, not only food, but all commodities and capital goods were being pushed out of sight. The hoped for income from this tax was $355 million, but in the first six months alone $445 million has been collected.

To illustrate what the cutting of food subsidies meant for the average housewife: bread prices went up 26.3 percent; frozen poultry, 22 percent; cheese, 19 percent; and milk, 12 percent. Real wages of civil servants, in particular, have been declining for the past three years, even with so-called generous wage increases. The decrease in real wages in accounted for, among other reasons, by the fact that workers have had to increase their working hours per week without corresponding pay increase.

Besides real cuts in wages and increased food prices, the construction industry was targeted in the 1976-77

Main Items Israeli Budget (minus defense and debt) 1976 — 77

EXPENDITURES	MILLIONS OF DOLLARS
ADMINISTRATION	
POLICE	111
INTERIOR	12
TREASURY	46
LOCAL AUTHORITIES	397
EDUCATION	606
HEALTH	145
SOCIAL WELFARE	100
SUBSIDIES	228
EXPORT INCENTIVES	468
ALLOCATION FOR PRICE INCREASES AND RESERVES	2,078
DEVELOPMENT BUDGET	2,550
EDUCATION	58
HEALTH	64
HOUSING	428
AGRICULTURE	45
INDUSTRY	97
TRANSIT	28
COMMUNICATIONS	87
RESERVE	285

Main Items Israeli Budget (minus defense and debt) 1977 — 78

EXPENDITURES	MILLIONS OF DOLLARS
ADMINISTRATION	444
LOCAL AUTHORITIES	515
SOCIAL SERVICES	2,010
EDUCATION	(862)
HEALTH	(207)
SUBSIDIES ON BASIC COMMODITIES	(311)
ECONOMIC SERVICES	845
INVESTMENTS	
—ADMINISTRATION	10
—LOCAL AUTHORITIES	21
—SOCIAL SERVICES	658
EDUCATION	(66)
HEALTH	(59)
HOUSING	(505)
INVESTMENTS IN THE ECONOMY	542

Table 2 — Consumer Price Index

PER CENT OR INDEX NUMBERS (1970=100)

1972	1973	1974	1975
126.4	151.6	211.9	295.2

1976

I	II	III	SEPT	OCT
338.2	372.4	400.8	408.6	422.2

Source: IMF Statistical Yearbook

budget for a 15 percent decrease in housing investments, following a 5 percent decrease in the 1975-76 budget. The 5 percent budgetary decrease represented a 50 percent decrease in planned construction of new apartments. A Ministry of Labor spokesman, referring to the decreased allotment for road and highway repairs, apologized at the time of the 1976-77 budget announcement, "We will be unable to maintain road and highways as well as we would like to, nor will we be able to build new ones we deem required. For maintenance we requested I£155m but are given I£75m. For new road building, we are offered I£175m in lieu of the I£450m we asked for."

Development and services allocations were slashed 15-25 percent in the proposed budget for 1977-78. Threats of at least a 30 percent price increase for basic commodities and even the removal of the few remaining subsidies are planned. The subsidies given to exporters of fresh vegetables and fruit — the "green market" — are also being reconsidered.

The major thrust of the new budget is to increase exports at all costs. To do this export incentives are to be increased 50 percent, costing the government I£750m in order to achieve a 20 percent increase in exports this year. Indeed the IMF demanded that Israel pay the export incentives at a higher rate of exchange than the lira commands, intending that exports should pay for 65 percent of imports by 1980.

Despite the huge cuts in spending for the domestic economy, by mid-1975 the Finance Minister had to add an extra $1 billion to the $12 billion budget, adding another $452m to defense spending and national security. He also had to shunt monies into housing, municipalities and pensions so that they could each pay their commitments. But deficit financing — $634m in all — was still needed to pay for this supplementary budget, making the total budget deficit for that year 1975 $857m — amounted to $1 billion.

Two things left uncut in the budget were defense and domestic debt repayments. As a percentage of the budget, defense allocations comprised 39 percent of the 1976-77 budget and approximately 34 percent of the proposed 1977-78 budget. While debt service on domestic debt without interest payments took 23 percent of the 1976-77 budget, they will take 25 percent of an increased 1977-78 budget.

Three Years of Ineptness

After foreign reserves fell below the "red line" during 1974, the government introduced the New Economic Policy. Explicitly designed to get the population to live "within its means" and foster efficiency and "productivity" — per capita speed up — the policy started with a 43 percent devaluation of the Israeli lira. This was accompanied by a "package deal" between the workers, the government and the trade unions to "boost production and efficiency without increasing consumption"; a bank loan freeze; a development budget freeze; budget cutbacks; an end to free medical services and the announcement of massive new tax increase.

By mid-1975 these measures were considered inadequate and in June the Brazilian system of creeping currency devaluations approximating 2 percent a month

Table 3 — Current Deficit And Capital Account

(millions of dollars)

	1972	1973	1974	1975
CURRENT DEFICIT	-1,101	-2,642	-3,387	-4,036
LONGTERM CAPITAL TOTAL, EXCL. U.S.GOVT.AID	1,514	2,117	1,548	1,406
THEREOF: TRANSFERS	995	1,377	1,062	1,113
U.S. GOVT AID	262	1,057	822	1,855
SURPLUS OR DEFICIT (-) NET OF LONGTERM CAPITAL	675	532	-1,017	- 775
LONGTERM LOANS	580	815	537	1,425
IMF CREDIT	- 33	---	39	215
SHORTTERM CAPITAL	- 663	- 297	1,323	663
FOREIGN CREDIT TO NON-FINANCIAL SECTORS	- 36	17	82	160
LIQUID FOREIGN OBLIGATIONS OF ISRAELI BANKS	- 93	212	464	531
CHANGE IN FOREIGN EXCHANGE RESERVES OF MONETARY AUTHORITIES	- 534	- 526	778	- 68

Source: Adapted from 1975 Bank of Israel Report whenever the government thought it necessary was begun. To date this has amounted to a 49.3 percent overall devaluation at an average annual rate of 28.2 percent. Following this, the Tax Reform program was introduced in July, culminating in the July 1976 Value Added Tax. But even with these severe measures, the debt situation did not improve.

Foreign debt today is soaring at around $15 billion (although official figures conservatively put it at $10.7 billion), almost three times the 1973 debt of $5.7 billion. Long and short term debt ending 1975 was, according to the central bank, a staggering $7.6 billion, half of which was repaid by a further borrowing from the following sources: 20 percent short term; 36 long term, mainly from the U.S.; 28 percent from unilateral transfers (gifts and monies from world Jewry); and 16 percent in U.S. grants. (See Table 3)

Things were so bad by the end of 1975 the U.S. had to pump in $500m in transitional aid until the 1976-77 fiscal year began. A shift can be seen in the nature of the deficit borrowing since 1974, with a marked reliance on short-term credit to finance the deficit. Such borrowing in 1974 was $1.3 billion, by 1975 it was up to $2 billion. The 1976 estimated short-term borrowing was near $3 billion. The 1974 debt was owed mainly to foreign banks; but the 1975 borrowing utilized credit granted by local banks, based on deposits of foreign residents. This was used to finance imports. (See Table 4)

The non-military trade deficit for 1975 was $2.37 billion — Israel having run a constant trade deficit since 1948 because its economic base is too tiny to support its population. Of the $2.37 billion, $1.85 billion was paid for by long term capital imports from U.S. aid. The 1976 trade deficit including military spending is said to be about $1.80 billion, a decrease of about $800 million. While due in part to increased exports, the decrease is largely because of a policy of holding back goods at port of entry and delaying military imports until 1977. (See Table 5)

The debt service on the ballooning debt over 1974-76 is estimated in the region of $3 billion; in 1976 alone it was $800m.

Foreign currency reserves at the end of 1976 were $1.15 billion, running at 1972 levels and enough for only three to four months of imports at the 1976 level. In 1975 $300m short term borrowing went to boost the sagging foreign reserves.

Aside from debt on foreign borrowing, Israel is often short of cash to pay for imports and resorts to simple money printing methods,only last month she flew in $200m from printing presses in Europe to pay government wages. One doubts the government's official inflation rates, reportedly running at 40 percent for 1976 and threatening to escalate to the 1974 level of 56 percent.

Back in 1975 Finance Minister Yehoshua Rabinowtz said, "Israel has been living beyond its means from the day the State was born, thanks to charitable contribut-

Table 4 — Money Supply

(MILLIONS OF ISRAELI LIRA END OF PERIOD)

	1973	1974	1975	1976 I	1976 II	1976 III
MONEY	7,393	8,721	10,614	10,904	11,663	12,052
QUASI-MONEY	13,147	22,498	30,791	33,496	40,995	34,739
TOTAL	20,540	31,219	41,405	44,400	52,658	46,791

SOURCE: IMF STATISTICAL YEARBOOK

Table 5 — Balance Of Trade

(BILLIONS OF DOLLARS)

	1972	1973	1974	1975	1976 I	1976 II	1976 III
EXPORTS	1.20	1.52	2.14	2.00	.566	.552	.548
IMPORTS (EXCLUDING MILITARY)	2.08	3.13	4.74	4.43	.915	1.05	.948
BALANCE OF TRADE	- .88	-1.61	-2.60	-2.36	- .349	.508	- .400

The Biggest Little Army In The World

U.S. Military Assistance

	LOANS AND GRANTS	LOAN	GRANT
1974	2.48B	982.7M	1.50B
1975	.30B	200.0M	100.0M
1976	1.50B	750.0M	750.0M
1976-77 TRANSITIONAL QUARTER	.28B	128.6M	150.0M
1977-78	1.50B		

Israeli Military Exports

(MILLIONS OF DOLLARS)

1974	90M
1975	190M
1976	350M

Israeli Military Budget

(BILLIONS OF DOLLARS)

1975-76	4.7
1976-77	3.6
1977-78	4.6

Military Expenditure Per Capita

1972	$ 506.00
1973	$1,130,000.00
1974	$ 910,000.00
1975	$1,110,000.00

ions from abroad and from other governments and loans. Today we can no longer rely on these sources to cover our foreign currency depletion. Let's face it; we must all drop to a lower standard of living." And living standards have dropped in real terms — 3 percent in 1975 and another 3 percent in 1976. Real dispensable income per capita dropped 5.5 percent in 1975 and another 3 percent during 1976 reaching 1973 levels. Direct taxation soared 53 percent in 1975 on top of a 38 percent increase in 1974. Indirect taxation also jumped 41 percent in 1975, although less than the 65 percent leap in 1974.

Military

Israel is the most armed country in the world outside of NATO and the Soviet Union. Military expenditures are a whopping 34-6 percent of the GNP — 12 percent more than Cambodia ever spent at the height of the Vietnam war.

Since 1973 approximately $10 billion has been spent on arms. Military expenditures per capita for 1975 were $1.1 billion, only $20,000 less than during the 1973 war period, and 45 percent of all imports. Current military expenditures are in the $4 billion a year range, and the 1977-78 budget increases military spending to $4.5 billion.

Along with the money increase on arms spending, there has been an enormous push to militarize the whole population. Figures published by the International Institute for Strategic Studies in 1975, show that after 1973 regular troop strength was increased from 30,000 to 34,000 and conscripts from 85,000 to 122,000. Within 72 hours of a mobilization, the totals can be raised to 400,000 compared with 300,000 in 1973. (See Table 6)

While the levels of militarization are probably now as high as they can go, given the present Israeli population size, Israel is psychotically trying to out-arm the combined military strength of her Arab neighbors.

Armed forces strength is on a par with Egypt, whose population is 12 times larger. Tank numbers are nearly half those of combined Syrian, Egyptian and Jordanian tanks. Combat aircraft is at 60 percent of the combined Arab totals.

Israel has developed a military industry that now exports, according to official figures, $350m worth of military goods during 1976. Unofficially they are exporting at least $1 billion worth of arms and equipment. This industry has started to dominate all others.

Mainly because the Defense Department is bankrupt, military production is becoming export-oriented. Tank

Table 6 — Middle East Arms Balance (1973-75)

(1973 FIGURES IN BRACKETS)

	EGYPT	SYRIA	JORDAN	ARAB TOTAL	ISRAEL
ARMED FORCES	342,500	227,000	67,900	637,400	400,000
	(298,000)	(132,000)	(72,000)	(502,000)	(300,000)
TANKS	1,650?	2,300	490	4,400*	2,700
	(2,000)	(2,000)	(420)	(4,400)	(1,700)
COMBAT AIRCRAFT	488	440	66	994	550**
	(620)	(326)	(52)	(998)	488

* APPROXIMATE

** PLUS 60 RESERVE

and plane production are being sped up. Israel has managed to produce over 700 different military items over the past year, 120 developed for armored and artillery corps alone. Another 280 developments were related to ammunition and light weapons.

The Ordinance Corps of the Israeli Army is in contact with 1,015 factories in Israel which produce for the armed forces. Along with the domestic production of arms, Israel buys huge amounts of spare parts, assembly parts and finished systems from the U.S. There are three major branches of the aircraft and weapons industry, the Israel Aircraft Industries; Taas, producing military arms and ammunition, and Rafael, the government armaments development authority. IAI employs some 18,000 highly skilled workers including more than 50 professional engineers and produces some of the most technologically advanced aircraft and missiles available today. The Kfir combat aircraft and the Gabriel missiles are world famous names in military hardware. The twin engine transport plane, the Arava, is now being displayed in more than seven countries.

Technology for Development

Israel's Arab neighbors are badly in need of Israeli technology. Israel's military production industries can be retooled for capital goods such as tractors and machine tools. Israeli shipyards, besides producing surface-to-surface missile and gunboats, also produces container ships of the 9000 dwt caliber, cargo ships, dredgers, landing craft, and sea-going tugs. A $5 million investment has gone into the industry for an additional production line for fast craft, in which the yard specializes. The yard employs highly skilled naval architects, engineers, technicians and researchers.

Israel has the scientific know-how to have developed and mantained research institutions for two atomic reactors, and are leading the field in research into lasers for industrial and medical use.

Certain technologically advanced industries now geared to the military industry can be regeared for peace. These high technology industries include: electronics, including computers and telecommunications; machinery; metalworks, mining and chemicals. All but the chemicals industry are nearly exclusivly used for defense industries, and are now being oriented to the export market, after reaching saturation of the domestic economy.

Israel's traditional industries, which compete on established world markets and form the backbone of the domestic economy include agriculture and food processing; chemicals, rubber, plastics; textiles, clothing leather and wood. At present the traditional industries have been down graded in favor of high technology industry. It is policy to consolidate them into a few large industries, with the intention of retooling the labor from these industries for the military-related industries. This can only be done, as the government has said, by slashing living standards.

But the traditional industries are the producers of the real limited wealth of the state. If they are eliminated the Israeli economy would collapse in very short order. As one Israeli economist recently said " If all the GNP was used for defense our security would not improve. Because we would have nothing to eat and drink."

The traditional industries are desparate for new capital investment for both expansion and modernization. The 1976 investments in fixed assets was 22.5 percent below the 1973 war level and investments in productive assests fell 10 percent in the same time period. Ironically reduced capital investments as a means of holding down infaltion will result in a decrease in future production. Therefore, even with increased productivity and running the machinery at full capacity, the policy of 'export of die' is doomed to failure.

This sector has also suffered from the world market collapse in trade. Exports have been sluggish since 1974, with only a 6 percent growth for 1972-74. The 6 percent industrial export increase reported for 1976 was mostly military. Real exports continued to stagnate. The chemical and mining industries, fighting to stay in the forefront of leading research and development techniques, could be utilized to particular effect to complement the resources of the Arab oil producing countries.

The industries span the mining of raw materials, manufacture of chemicals and oil refining and by-products, and are differentiated into production of pesticedes, pharmaceuticals, basic chemicals, soap and detergents, paints and lacquers, and cosmetics.

In 1973 there were over 200 such plants with a labor force of 14,000. Over 50 percent of the output of the chemical industry is used as raw materials, both in the chemical industry itself and in other branches of the economy. The rest is exported. Pesticide production is dominant, including acaricides, insecticides, fungicides, herbicides, plant growth regulators and fruit coating waxes, many of the processes being the original invention of Israeli scientific research.

The pesticide and pharmaceutical aspects are expected to boost Israeli exports last year by over $100 million. Exports from the mineral and chemical industry as a whole should total $350 million.

Quarrying phosphates in the Negev, though small now is expected to increase. But the Dead Sea is virtually an unending source of minerals *with vast amounts* of phosphate being mined there, although in order to increase production a channel from the Mediterranean to the Dead Sea is envisaged as solving the problem of a decreased water level of the Dead Sea. The scheme will cost a mere $200 million, yet no one so far has the money to fund it.

The production of bromium compounds has lately been expanded, Israeli production being second only to the U.S. Dead Sea magnesium, used as a soil disinfectant and as an agent to make materials fire resistant — again an Israeli technological breakthrough — goes into fire resistant bricks. The related plastics and rubber industries are also expected to be expanded since Israel pioneered in the manufacturing of irrigating and sprinkling equipment from plastics, which eliminates the burden of transportation and movement within the fields.

Agriculture, an industry Israel has developed above all others, the lack of increased mechanization and desalination plants is holding down its tremendous potential for want of investment. Agriculture continues a five to six percent annual yields of citrus and wheat growth rate with only five to six percent of the population employed in it. It is highly mechanized and is extremely efficient and productive. But because of the export drive, nearly all the crops grown are exported, — some 35 percent of the total agricultural output with expectations of rising to 40 percent in 1980.

Wheat production has fallen because land is being taken over for growing high export earners like flowers and soft fruits. In 1975 Israel had to import 400,000 tons of wheat, or two thirds of her requirement, and in 1976 imports are estimated to be higher than 1975. The rationale is that it is cheaper for Israel to buy grain from the U.S. under PL 480 loans than to use more acreage and water in increased production. The high export earners are being grown to get immediate cash.

If mechanization was brought to the citrus industry, using the Israeli invention of magic-eye ripe fruit detector pickers, it would reduce the labor time involved and make picking and marketing more efficient.

Surprisingly enough Israel has only just developed a desalination program that doesn't involve miles of expensive cooling pipes. But it is unlikely that it will ever get implemented given the tight investment budget.