Monetarism poses a clear and present danger for the Israeli economy

by Mark Burdman

The leading economic policy spokesman of the Israeli Labour Party's parliament faction, Gad Ya'acobi, rang the alarm bells Nov. 27 that monetarist austerity policies in Israel are bringing the economy to the brink of a combined hyperinflation/recessionary disaster.

Using the term "super-stagnation" to characterize Israel's current economic situation, Ya'acobi declared to the Nov. 28 *Jerusalem Post* that "we are moving into hyperinflation, and my conservative estimate today is that in the 12-month period starting on Oct. 1, 1983, the rate will be 220 percent. Conversely, we will be moving deeper and deeper into a recession, with a resulting high rate of unemployment."

Ya'acobi, a former transport minister and political ally of the late Israeli Prime Minister David Ben-Gurion, warned that this "super-stagnation" could lead to increasing emigration of young people from Israel and a slowdown of immigration into Israel; to the collapse of many undertakings in industry, since "the market for goods will shrink, while the price of capital and credit will grow"; and to a "considerable increase in unemployment." This latter problem, he said, will hit particularly hard in the area of construction and building trades.

The types of things that Ya'acobi is talking about provide an important strategic backdrop to the talks in Washington between Israeli Prime Minister Yitzhak Shamir and Defense Minister Moshe Arens and the Reagan administration. On the one hand, the potentially disastrous economic directions in Israel have created a situation where more openness exists in Israeli ruling circles to new solutions in the Middle East, especially as the expensive Israeli occupation in Lebanon is becoming untenable; this, in part, explains the adept Israeli moves of Nov. 24-25 in releasing 5,000 Palestinian prisoners from Israeli prisons and southern Lebanese internment camps. On the other hand, if Israeli economic policy continues to be under the sway of the monetarist policies of Milton Friedman and the International Monetary Fund, then Israel will be faced with the same economic and political threats which destroyed Weimar Germany under the direction of central bank head Hjalmar Schacht, and the potentials for goodwill and new solutions in the Middle East will dissipate. The monetarists' cuts in Israel's own defense capabilities will at the same time undercut the basis for effective and stable strategic planning by the country's defense-strategy establishment.

From the same standpoint, the chances of the Shamir-Arens governing team itself surviving politically beyond a few weeks if the economy is unravelled are almost nil. Several influential figures in Israel are positioning themselves for a major political fight in the early months of 1984. Some, like former President Yitzhak Navon of the Labour Party and Deputy Prime Minister David Levy of the ruling Likud Party, both themselves of Sephardic/Oriental Jewish origin, are sensitive to the power base of the Sephardic/Oriental poorer population being hit hardest by the austerity, and are making political calculations for the coming year partially on that basis. Others, like former Defense Minister Ariel Sharon, are counting on a complete collapse of Israeli institutions and a worsening atmosphere of national crisis, to create a "strongman" government modeled in all relevant details on the fascist regimes of the 1930s.

'Reduce wages, cause unemployment'

The point man for ramming home the Friedmanite-IMF policy is the recently appointed Finance Minister, Yigal Cohen-Orgad, whose policies are being likened in the Conservative British press to those of Margaret Thatcher and the British Treasury. Dissident Tories in London have recently stated to *EIR* that Thatcher's policies are undermining Britain's capabilities for defense and security.

Upon assuming office in mid-October, following the tumble of his predecessor Yoram Aridor, Cohen-Orgad declared that his policies would be to "reduce the standard of living" of the population as a means of reducing inflation. Cohen-Orgad, who himself has business-investment interests in the occupied West Bank, is at the same time committed

© 1983 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

to maintaining flows of investment capital into the territories, and is therefore in effect triaging Israel's own economy for dubious, ideologically motivated expansionist aims.

On Nov. 22, Cohen-Orgad bluntly announced that "real wages must fall" and that the standard of living for the population in general must be dropped by 7 to 9 percent. This could be achieved, he stated, by a tripartite "working agreement" among the Histadrut national labor confederation, industry, and the government around the necessity of austerity. In former times, that kind of arrangement was known as "corporativism."

While insisting that he would make cuts in defense-related areas, Cohen-Orgad saved his particular venom for the services sector, stating his commitment to create pockets of unemployment in the services sector whose victims would at some point find work in the productive sector.

This latter set of considerations is based on the fact that the reality principle is beginning to dawn on people in Israel, although the proposed cures are worse than the disease. The *Jerusalem Post* of Nov. 17 reported that today "only about one-third of the working force is engaged in production, while two-thirds are employed in services and businesses. . . . Of the 100,000 persons who joined the labor force in the past five years, only 8,000 went into the productive sector—industry, agriculture, etc.—while 92,000 found work mainly behind a desk or counter." *Post* commentator Macabee Dean stated that "the only real way to shift manpower is to cause unemployment. . . . The government should refuse to hire any more civil servants, and let the civil service slim down by natural attrition. Let many businesses go bankrupt. At the same time, funds should be poured into the productive sectors to encourage economic growth. This will cause the jobless rate to soar, and it will remain high for years—until industry absorbs them. But the end result will be a healthier economy, one much less dependent on foreign charity."

Debt reorganization for Israel?

These prescriptions miss the point. Israel has no options in this respect outside of the provision of new credits and the reorganization of the $23 billion-plus foreign debt, in the context of the types of global debt reorganization recommended on repeated occasions by *EIR* founder Lyndon LaRouche, in the context of an overall economic development policy-package solution to the Arab-Israeli crises. The prescriptions involved here obviously present certain new options for the Reagan administration for both aiding and pressuring Israel at the same time, but to do this would imply a radical shift away from Washington's own obsessive reliance on monetarist policies.

In the prevailing atmosphere in Israel, possible alternative conceptions are being mooted. Labour Party chairman Shimon Peres recently called for Israel to adopt a "Japanese model" for rapid high-technology-vectored national development. Also, prior to the Shamir-Arens departure for Washington, Haifa Technion professor Arnon Dar suggested that

Panic buying by Israelis before the October devaluation of the shekel.

the two leaders' main task in Washington should be to win American support for providing Israel with nuclear reactors to supply the country's growing energy needs over the coming years. Dar described nuclear power development as safe and "as important as the Lavie fighter project" to Israel's future.

The Lavie project has up till now been only conceived as a go-it-alone Israeli project for arms sales to the developing sector, and for Israeli development of cruise missile launch and delivery capabilities. Were the technological innovations associated with the Lavie to be somehow subsumed by the technological-strategic-industrial renaissance indicated by American commitment to development of laser beam antiballistic missile systems, Israel's own economic future might itself be revitalized and saved from veering off into an economy purely based on short-term arms-sale turnovers.

One final element in improving Israel's economic situation would be to investigate some of the circumstances surrounding the recent collapse of Israeli bankshares. Comments by Swiss bankers that Israel's debt situation might be most likened to that of certain countries of the Far East suggest that the bankshare problems might have been part of a pattern of restructuration of important financial networks internationally, including networks involved in flows of money associated with global drug trafficking. *EIR* investigators have had preliminary indications that Israel's economy is being targeted for financial warfare by those elements of the British and Swiss financial communities who bankroll the Nazi International and who have a mutual strategic interest with Moscow in destroying Israel as a sovereign state over the next period.