

Sharon's Financial War On Israeli Population

by Dean Andromidas

A few hours before the first bombs fell on Iraq on March 19, U.S. National Security Advisor Condoleezza Rice telephoned Israeli Prime Minister Ariel Sharon to inform him that the Bush Administration had approved an aid package of \$1 billion in financial aid and \$9 billion in loan guarantees. The move is seen as a payoff to ensure that Sharon, who faces an economic collapse and desperately needs U.S. assistance, doesn't independently launch attacks on Arab countries while the United States is attacking Iraq. Unwilling to enter a peace process, which is the route by which there is any hope for the Israeli economy, Sharon will now also wage war directly against the Israeli population.

One of the Bush Administration's demands, in return for the aid, is that the Israeli government implement brutal austerity and structural reforms. Now the average Israeli, who for the past two years has felt relieved when he arrived home at the end of the day without being the latest victim of a suicide bomber, may find he will have no home to come to. Tent cities of homeless Israeli can be seen in parks in even the upscale neighborhoods of Tel Aviv.

On March 17, Finance Minister Benjamin Netanyahu held a press conference announcing his economic program. "Our economy is very sick," he said. "I found out how sick only when I came to the ministry. There was no money in the coffers. We have a 30 billion shekel [\$600 million] deficit and it is growing all the time. We are obliged, therefore, to take immediate and painful steps that will not be pleasant for the citizens of Israel. We will experience a difficult period, but after that, the economy will stabilize and a period of growth will begin."

Netanyahu then announced NIS 12 billion in budget cuts. Only hours before, he had agreed, under orders by Sharon and his generals, to increase the defense budget by NIS 2 billion, in addition to the NIS 41 billion already allocated. Defense spending accounts for well over 10% of the Israeli national budget. The major expense in the defense budget is not the war against the Palestinians, but the development of weapons of mass destruction, such as the so-called "axis of evil" nations can only dream of. Its arsenal includes both strategic and tactical nuclear weapons, intercontinental ballistic missiles that can reach anywhere in the United States, spy satellites, and even submarines capable of firing nuclear-tipped cruise missiles. These systems are financed over and above the \$3 billion a year in aid it receives from the United States, which it spends on conventional weapons purchases from the United



Israeli Finance Minister Benjamin Netanyahu is treating a "very sick" economy, with measures guaranteed to kill the patient.

States. Being a country of fewer than 6 million people, Israel is far too small to sustain such an enormous military establishment without impoverishing its own population.

The professional staffs of both the Finance Ministry and the Bank of Israel have repeatedly stated that the defense budget is unsustainable, and some have even called for opening peace negotiations with the Palestinians while there is still hope of preventing an economic collapse. When Sharon attacked the Finance Ministry for criticizing the lavish incomes of career Army officers, even Netanyahu had to come to the defense of the economic experts. "The Treasury was shocked to hear the Prime Minister's remarks," he said, and stressed that "without Sharon's full backing, the economic program is doomed to failure—and then it will be impossible to save the economy."

Netanyahu then detailed his economic program, which promises to cure the sick economy by killing the patient:

- A NIS 1 billion cut in the education budget. This will mean cutting 16,000 jobs, mostly teachers, and cutting teaching hours by almost 20% and teachers' wages by 15-20%.
- NIS 3 billion to be cut across the board from other ministries.
- Public sector wage cuts averaging 8% (the public sector accounts for almost 55% of the workforce).
- Pension "reform," which includes increasing the retirement age from 65 to 67 and increasing worker contributions to the system by 2%. Pension payments were already cut last year. The reform includes forcing pension funds to be invested in the stock and private capital markets.
- Accelerating privatization of government-owned companies. This entails eliminating the tenure system, thereby allowing the government to lay off workers as it closes down departments and sells off corporations. As many as 60,000 people, or 10% of the public sector workforce, could lose their jobs.
- Cuts in child support payments of up to 50%, which

will most seriously affect the Arab Israeli citizens, where the highest unemployment exists alongside the lowest wage levels.

- Tax breaks to benefit investors, corporations, and the rich. This despite the collapse of revenues which led to budget deficits for both January and February that were twice as large as expected.

Both Sharon and Netanyahu are demanding that the Bank of Israel lower interest rates. Bank of Israel Governor David Klein has become their public enemy, second only to Palestinian Authority President Yasser Arafat. Despite the fact that he is a typical central bank monetarist, Klein has stated that without a political settlement with the Palestinians and a massive cut in the defense budget, there is no hope of an economic recovery. He fears that any cut in the interest rate at the same time that Sharon is determined to continue prosecuting the war, will contribute to runaway inflation, collapsing the banking system, and an Argentinian-type crisis. Klein is not the only one who remembers the triple-digit inflation and collapse of all the major Israeli banks in the 1980s, as a result of Sharon's orchestration of the Lebanon war.

In an attempt to rescue Klein, the International Monetary Fund has released a report demanding that Israel come into conformity with "normal" practice and pass a law that protects the central bank governor from being arbitrarily fired by the government.

War Against the Home Front

To implement this draconian policy, Netanyahu demanded that, Israel's major labor federation, the Histadrut, cooperate—or his ministry will act unilaterally.

The Histadrut immediately vowed to fight the cuts. The heads of the teachers and police unions also announced that they would take action against the cuts. The situation is so tense, that one Bank of Israel official told the daily *Ha'aretz*, that Israelis should stock up on food and batteries—not because there might be Scud missile attacks from Iraq, but because a general strike appears inevitable and promises to be of long duration.

Meanwhile, the economy continues to collapse. The number of people registered for unemployment benefits increased 2.6% in February, with another 22,800 newly unemployed (193,600 are now registered for unemployment benefits). Official unemployment is 11%, but the reality is closer to 15%, or 350,000. The discrepancy is because many unemployed are no longer registered, and their benefits have run out. The number of people demanding income supplements (welfare benefits) increased by 4.3% and stands at 87,000. New rules have disqualified many people for unemployment benefits, so fewer are now registering. Furthermore, the welfare stipend for a family with two or more children has been cut from NIS 2,950 to NIS 2,300. The de facto depreciation of the shekel by 20% over the past year has led to a serious depreciation of wages. On March 17, Israel's Central Bureau of Statistics reported that the average wage fell 5.6% last year, which

does not even take inflation into consideration.

The international credit rating agencies are expected to downgrade Israel's sovereign credit rating. Even now, Israel pays a high-risk surcharge on its foreign borrowing, because of the Palestinian-Israeli conflict.

Netanyahu and 'Clean Break'

Netanyahu is carrying out this policy with enthusiasm, because he is as much committed to radical free-market ideology as he is to the fascist ideas of the late Vladimir Jabotinsky. One of the ideological sources for his economic policy is the same as for his strategic-political policy. *EIR* reported last week that the strategic-political strategy now being implemented in Israel was drafted in 1996 by Richard Perle, Doug Feith, and David Wurmser, three of the most rabid chickenhawks in the Bush Administration. Their report, entitled "Clean Break: A New Strategy for Securing the Realm," was prepared for then-Prime Minister Netanyahu, and sponsored by the Institute for Advanced Strategic and Political Studies (IASPS), which is based in Jerusalem and Washington. It called for regime change in Iraq, Syria, and the Palestinian Authority, and overturning the Oslo Accords.

It also called for radical free-market reforms in Israel. The document states that Israel can become self-reliant only by boldly "liberalizing its economy, cutting taxes, re-legislating a free-processing zone," and eliminating "state socialism." In the 1990s, IASPS promoted the establishment of a "free-

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processing zone” in the Negev Desert, but the Bank of Israel forced the cancellation of the project, once it became clear that its only exports would be laundered drug money. This was at a time that Israel was already under massive international criticism, for being one of the worst money-laundering centers in the world.

Netanyahu believes these structural reforms will lead to an increase of foreign investment, which has completely collapsed because of the flattening of the “new economy” bubble and the security situation.

Israeli commentator Hannah Kim wrote in *Ha'aretz* on March 18, that Netanyahu's idea that “structural reform will lead to an increase in the number of foreign investors in Israel is a fantasy, of the sort that only orthodox believers in the free economy can sustain. Social stability is an economic value. Investors will not be attracted to a place where tents are being erected by the homeless, where the elderly are picking through the garbage cans, or where crime is rife. The continued collapse of the social security net in Israel will drive any reasonable investor away from Israel. Except, perhaps, for Ronald Lauder.”

In the same issue, *Ha'aretz*, economic correspondent Nehemia Strassler questioned whether Netanyahu can carry out his policy, especially when the “Histadrut organizes demonstrations outside his house chanting slogans like ‘with blood and fire, Bibi [Netanyahu] we'll fire.’ ” Not to mention what the settlers in the Palestinian territories will do, when they get word that their tax breaks have been cut.

Strassler also wrote that Netanyahu's arithmetic doesn't add up: “The deficit is now 6% of the GDP, NIS 30 billion. The budget cut is NIS 9-10 billion, meaning the fixed deficit will still be 20 billion, or 4% of GDP. So how can Netanyahu declare he'll finish the year with a deficit of 3-3.5%?” Netanyahu is banking on “growth,” which Strassler says is unlikely to occur. “What happens if the terrorism continues or even increases, if the fighting in the territories doesn't come to an end, and the war in Iraq has a bad influence on the economy? The investments will continue to decline, private consumption will shrink, and tax revenues won't climb, they'll drop even further. Then it will turn out the cut wasn't enough and Netanyahu will have to submit a new budget, and another, and another.”

As of this writing, Netanyahu's economic plan has yet to be brought to the Cabinet, but the National Religious Party, one of the ruling coalition partners, has said it will vote against it. Although not likely, it is not out of the question that Sharon's government could fall if the package is not passed.

Sharon's and Netanyahu's only hope is that the \$10 billion U.S. package will save them; but it won't. The \$1 billion in aid has to be approved by Congress, and even if it does pass, the money will go to Sharon's war machine, and the \$9 billion in loan guarantees, which have to be paid back, will not finance growth, but will be used to plug the holes in the budget and to maintain the illegal settlements in the West Bank.

Kabul's Blunt Message: Aid, or Heroin Economy

by Ramtanu Maitra

On March 14, after presenting the country's \$2.25 billion annual budget, Afghanistan's Finance Minister, Ashraf Ghani Ahmadzai, told Afghan legislators that unless the international community pledges and delivers more financial contributions forthwith, Afghanistan will slip back into its role as the world's premier heroin producer. The message of the former World Bank official, an American citizen, was blunt, yet to the point. “The narco-mafia state will have the lowest indirect price. . . . But it will have the highest indirect costs.”

After these provocative words, on March 17 at Brussels, international donors from 40 countries “assured Afghanistan that the country would not be forgotten after a possible war against Iraq,” and recommitted themselves to around \$1.8 billion to help cover Kabul's budgetary shortfalls. But Ghani Ahmadzai should keep his fingers crossed. Last year, at the international donors' conference held at Tokyo, Afghanistan was promised \$4.5 billion. Less than one-third of that amount actually showed up in the year 2002.

The Afghan Finance Minister's budget had two major components: \$550 million to cover normal government spending, including wages and salaries of government employees; and the other \$1.7 billion was destined to start rebuilding of some of the infrastructures destroyed by two decades of civil wars and foreign invasions. Ghani Ahmadzai made it clear that more than \$1.0 billion of the stated \$1.7 billion is missing, and not even promised. In addition, Afghanistan does not even have the \$550 million it hopes to spend to keep the government machinery going; it would require \$234 million to bridge that gap.

The Afghan treasury is empty, having procured a meagre \$83 million in government revenues last year. On the other hand, the Afghan poppy fields are blooming, and going by the UN estimates, Afghanistan will produce a bumper crop of 3,400 tons of opium this Spring. Even a fraction of that sold in the international market in the form of heroin would relieve Ashraf Ghani Ahmadzai of the fiscal deficit. But before making that noxious choice, he has made it clear to the international community that the ouster of the Taliban by force cannot be the be-all and end-all of meeting Afghanistan's deep-seated problems.

The problem is that the Finance Minister has taken up a very difficult job, depending entirely on others. The Afghan transitional President, Hamid Karzai, who is Ashraf Ghani's boss, is a handmaiden of the Americans. He got his job by becoming a close associate of Zalmay Khalilzad, a colleague