
Free Market Reforms in Israel

The Trojan horse that could bring down the Gaza-Jericho accords

by Dean Andromidas

On Dec. 30, 1993, *EIR* had the opportunity to interview Dr. Roby Nathanson, director of the Institute of Economic and Social Research of the Histadrut Labor Organization of Israel. Dr. Nathanson expresses the concern within the Israeli trade union movement with the Israeli government's implementation of a program of widespread privatization and free-market reforms.

While international attention has focused on the Israel-Palestine Liberation Organization talks on implementing the Gaza-Jericho accords, these accords are being undermined, as *EIR* warned they could be, by the policies of the World Bank, the International Monetary Fund (IMF), and leading proponents of free trade who are direct opponents of the accords. While Prime Minister Yitzhak Rabin and Foreign Minister Shimon Peres continue to try to push the peace process forward, their toleration and support for these policies will prove to be their Achilles' heel.

For the last several years, the Israeli economy has been undergoing extensive free market reforms. Israel has traditionally been a highly regulated and economically protected economy; some have even called it socialistic, though that might be too strong. Nonetheless, it has an extensive public sector and a protected industrial base, particularly in the defense- and infrastructure-related industries. Similarly, its financial sector has been conservative, as reflected in the fact that foreign commercial banks do not operate in Israel. The commitment to this traditional approach has rapidly deteriorated with the free market approach predominant within policy circles. These policies have been given widespread public attention. The Jerusalem Business Conference held last October (reported in *EIR*, Nov. 26, 1993) was a very important example. Free market ideologues have been crawling all over Israel.

The first week in January alone saw the arrival in Israel of none other than George Soros, whose Quantum Fund is the leader in international derivatives speculation and support of free trade policies. He was given red carpet treatment usually reserved for a head of state, and met with President Ezer Weizman, Prime Minister Rabin, Foreign Minister Peres, Finance Minister Avraham Shohat and the governor of the Bank of Israel, and key leaders in the Israeli business commu-

nity. He also announced a \$200 million investment in two Israeli companies, Indigo, a graphics house, and Geotek, a telecommunications company.

Only a few days before Soros's arrival, the Israeli business community was surprised to read about the collapse of the fourth largest Spanish bank, Banco Español de Crédito (Banesto), whose chairman, Mario Conde, is not unknown in Israel. Conde, a featured speaker at the Jerusalem Business Conference last October, announced at that time the formation of a new consortium to invest in Gaza and the West Bank. The company, Salaam 2000, capitalized at \$60 million, is a joint venture with Banesto; Koor Industries, which is Israel's sometimes troubled and biggest industrial conglomerate; a Moroccan investment company, ONA; and a group of Palestinian businessman led by Jawid Al Hussien. A spokesman for Koor Industries, while confirming its concern with the Banesto failure, refused to comment further.

The Knesset (Israeli parliament) will start debate in the second week of January on legislation to allow the establishment of a Free Export Processing Zone in the Negev development region. The brainchild of a group of American investors linked to New York financial houses including Salomon Brothers, it calls for the creation of an offshore banking center in the zone. Despite initial opposition to the offshore banking side of the legislation for fear that it would become another haven for money laundering, it will most likely be approved by the Finance Ministry and Central Bank.

Interview: Dr. Roby Nathanson

EIR: The Israeli government appears to be implementing the same type of economic reforms now being implemented in eastern Europe, Russia, many Third World countries, and now many western nations. Promoted by the World Bank and International Monetary Fund, these reforms are based on free market principles, include extensive privatization and free trade policies, and have had disastrous results in many countries. What is the situation in Israel and how does Hista-

drut, the leading trade union organization in Israel, view these policies?

Nathanson: During the 1980s, we had a period of hyperinflation and a large budget deficit. The government and we of Histadrut participated in this, launching a very successful stabilization program. Although prices were stabilized and the deficit was closed, nonetheless, in 1987-88 we did not have the economic growth the experts had promised. The debate then opened: How do we stimulate growth? Should we permit growth through government intervention and regulation, or through the open market? The government leaned toward the latter approach. The government has given tax exemptions, loosened monetary policy, fixed exchange rates, and maintained high interest rates. Although we have guaranteed price stability, we have had high unemployment. This has served to intensify the debate along the lines of whether to open the economy even more, or to promote government support and incentives.

The debate has not changed much as to whether there is a Likud- or Labor-led government. The IMF approach is still very popular. You probably heard that there is legislation before the government to build a free export processing zone in the Negev, as in a Third World country—maintain low deficits, etc. So this is the approach of the government.

EIR: Policymakers in Europe, Russia, and North and South America are beginning to question these policies as their disastrous effects are becoming too obvious to ignore. Is this questioning reaching Israel?

Nathanson: The debate is there. This is how we see it. There are three reasons why the liberal approach can't work:

The first is the immigration issue. As you know, over a half-million Russian Jews have immigrated to Israel, 80,000 last year alone, and with the new situation in Russia, we can expect more next year. They will need employment, housing, and social services.

Second, these big structural changes, such as privatization and elimination of government subsidies and protection, will affect our industrial base, especially in the defense industries. Despite national security needs, the government is no longer ready to subsidize this industry. This involves thousands of jobs, good jobs such as engineers, high-tech. For every one job lost in defense, three other jobs will be lost as well.

Third, the peace process itself. As can be seen with the increase in violence, this process is going to take a lot of sacrifice. If the people do not see real economic change for the better in their own lives, I don't see how the situation can go forward. Here in Israel, we have statistics showing a marked increase in the number of people living below the poverty line. This will also make it difficult to accept the sacrifices needed to go forward with the peace process.

I don't see how a liberal economic approach can solve these problems. We will need a very interventionist policy. But I am afraid that the news that is reaching people in

Europe, the United States, and Latin America has not yet reached Israel.

EIR: Behind these policies is a group of speculators such as George Soros, who, through buying out privatized companies, for instance, such as in eastern Europe, engage in asset stripping and irresponsible speculation, such as in the derivatives market. Are people aware of these dangers in Israel?

Nathanson: We have some feelings about these groups of very powerful potential buyers, mainly from abroad, interested here and there in mainly cheap offers of important industries and strategic resources. We are very sensitive to that. There have been some precedents already. You've heard about [Robert] Maxwell. He had wanted to buy at one time a public company, but this was denied by the parliament. So we are aware of it, not in a systematic way as you put it in your publications, but we will take it into consideration.

EIR: What has been the government response to your "14 principles to ensure workers' rights and status in the case of privatization"?

Nathanson: Not very much; we had two weeks ago a general strike, and today there are discussions with the government on the same issue. The danger of a renewal of the strike is there on this particular issue. So I cannot say that we have concluded an agreement with the government on this issue.

EIR: Has the government rejected the 14 principles?

Nathanson: They are not rejecting the points specifically. They want to take some steps, mainly in the aviation industries and also in the telecommunications industries. It will be a kind of privatization, but not in all cases will it be a pure privatization; for example, in the telecommunications sector, which, in certain sections, is closed to foreign companies, they want to give concessions to international companies so that they can compete with our companies, which could endanger many working places in this industry. Although this is not actually privatization, it is a way to privatize, to get rid of governmental intervention in this particular sector. They also want to do something in the electrotechnical industry, open it up to foreign companies. This is a way to privatize, not actually selling something, although they would like also to do that, therefore allowing foreign companies to compete in these sectors which are essential infrastructural sectors with great importance to our economy.

EIR: What is Histadrut's position on that?

Nathanson: From the point of view of Histadrut and the workers, it is almost the same, there is no difference. The problem is that if a particular sector loses its protection by the government, it won't be able to compete, it will put great pressure to reduce labor costs and also social rights, and eventually it will lead to layoffs and possibly completely closing down certain branches of the electrical and telecommunications industries and so forth. So this is the fear we

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have now, and we want to guarantee that this won't happen.

EIR: Has the government suspended the privatization process?

Nathanson: No, they are not suspending it, but they know they have a problem with Histadrut about it. It went on strike once, and now there is again a declaration to strike today. Today the papers are full of news that if they don't get an agreement, they will go on strike about this issue. But it will not prevent the government from going on to sell if they want to. But if, today, they decide to sell something, it would be interpreted by Histadrut as a big provocation. In this event, Histadrut would certainly have to go on strike. So I don't expect the government to do that. If they were to decide today, tomorrow, or next week to do something, it would be a big provocation.

EIR: Has there been discussion of privatizing Israeli Aircraft Industries?

Nathanson: Yes, this is a big problem. They have been running a large deficit; it is also a question of price. I mean that if the government would not do something about the aviation industries, then they will have to pay a lot to maintain them in terms of subsidies, close to \$300-400 million a year, and this will be a lot of money. So from the public opinion point of view, people will start to understand that there is a big problem there.

EIR: But it is a strategic industry.

Nathanson: It is a strategic industry, but it has its problems, because it cannot compete on the international market. For this kind of strategic industry, you have to pay a price. The question is, are we ready to or not? You have to bear in mind that it developed at a time when we were depending on our own military production, and now we are going into a new era. Israel will still need weapons and everything, but not in the same dimension and proportion as it has in the past. Israeli Aircraft Industries are the biggest industries in Israel. These are very productive working places, and it is the greatest generator of exports of industrial products of production in general, of over \$4 billion a year, and of exports of about \$1.5 billion a year. It is an enormous complex of economic activity. But it has a deficit of over \$300-400 million a year, and it will get worse.

It is a problem we will have to handle, because there

we have 16,000 working places, and each of these working places of engineers and technicians generates two or three or four working places in other sectors. So it is a very big problem. This is the most important part of it, because the pressures they are putting on Histadrut and the government are enormous. You must imagine that 16,000 people means that there are 16,000 families; if you double it, adding the wives, it is 32,000. If you take into consideration that each of these working places affects at least two or three more working places, it will affect close to 100-200,000 people in Israel. And this is enormous pressure.

EIR: Can't this industrial capacity be converted and used in the development of infrastructure, particularly in the context of the economic annexes of the Gaza-Jericho Accord?

Nathanson: You know, conversion is very difficult, it takes a long time, and it is also very, very expensive. I agree with it; I also dealt with this issue in research three or four years ago when we had our first crisis in our military industry, the result of which was the consolidation of the Lavi project. This led to the reduction of 1,500 engineers and technicians from the aviation industry. Conversion is difficult and not always possible in these sectors. If you do it, it will take a lot of time and it will cost the government a lot of money. They would have to go back to the infant industry argument of creating a nucleus of production that, under protection and subsidies, will be developed until it is profitable enough to compete in the local or international market. It is a possibility and we discuss it, but at the same time it is a question of how much the government will be ready to pay for it.

EIR: Has the Histadrut been involved in the ongoing negotiations between Israel and the Palestine Liberation Organization?

Nathanson: Yes, we discussed the economic agreement with the government and the team that is negotiating now, mainly people representing the Ministry of Labor and Welfare where we have been voicing our position on the issue of social security, as well as health, pension funds, and basic social rights.

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On most issues, we are in accord with the position of

the government. There is some discrepancy on the issue of whether we should agree to a free trade zone with the Palestinian autonomy, but I think on this issue we can come to a successful conclusion. Otherwise, Histadrut also has close links with the trade unions in the territories, and we had some meetings with the representatives of the Palestinian trade union leaders in Tunisia.

EIR: Is cooperation between Histadrut trade unions and the territories growing?

Nathanson: Yes, I would say it is growing; contacts are growing, and it is a very positive development on this issue. And it is also very important for us that within the territories, a proper trade union movement is developed capable of organizing the workers and dealing with labor market conditions. The trade unions are not yet well organized. They have a leadership, they have a framework, but we cannot say that there is a general federation of trade unions in the territories. They would like to build one, and they are of course working very hard, and they have a legitimate and effective leadership, also in other sectors, such as professional unions for doctors and lawyers and so forth. But they have to build up an organization, an umbrella organization, and be recognized by the Palestinian autonomy as a proper trade union movement, and negotiate and make policies and collective agreements.

EIR: There has been discussion of opening up the Israeli market to Palestinian goods, particularly agricultural products, as well as to allow numbers of Palestinian workers to work in Israel. What is your view on this?

Nathanson: The size of the Palestinian economy is about 4% of the Israeli economy in terms of GNP. Workers earn one-tenth of the income in terms of GNP per capita, as do Israeli workers. So even if we have very open economic relations with the Palestinians, which could do some harm to the Israeli economy, it would be very little compared to the advantages that Israel would have in the economic potentials of peace, such as an end to the Arab boycott, more foreign investment, more infrastructure, better access to energy sources. The advantages are enormous compared to the very little damage that an open economic relationship with the autonomy would have.

And the Palestinians would need this openness to develop their own economy and avoid building up a fortress autonomy system simply as a demonstration of national aspiration. If we could develop a system where each economy could concentrate its comparative advantages, we all will profit from it. We also have to consider that they have to provide 100,000 working places by the end of the century. That is why I believe Israel will have to supply 100,000 work places in the short term. In the longer term, I hope they will provide enough working places and it would not be necessary to work in Israel. So this is more or less my approach.

Interview: Raffaele Tiscar

Embargo against Iraq is not justified

Italian Christian Democratic parliamentarian Raffaele Tiscar was interviewed by telephone by Muriel Mirak-Weissbach shortly after his return from a fact-finding trip to Iraq.

EIR: Mr. Tiscar, with whom did you travel to Iraq?

Tiscar: It was an official Interparliamentary Group led by the Honorable Cresco, president of the Parliamentary Subcommittee on the Middle East.

EIR: Did you meet government representatives in Baghdad?

Tiscar: We met the vice president, the prime minister, the minister of foreign affairs, Deputy Prime Minister Tariq Aziz, the health minister, the minister of trade, and various prefects of the provinces of the south. We did a tour of the region of Basra. We went to visit the area where there was a problem reported with the Shiites.

EIR: What was the overall aim of your visit?

Tiscar: The aim was to see with our own eyes the consequences of the embargo. We, as Italian parliamentarians but also as representatives of the Interparliamentary Group, went with the idea of reestablishing diplomatic ties and also to promote an initiative in the Italian Parliament to convince the government to become the promoter of a dissuasive action vis-à-vis the embargo. The results [of the embargo] we were able to see were not those initially expected, because, with the excuse of blocking the supply of even spare parts, in reality, human lives are being placed in jeopardy, because a lot of medical equipment does not arrive. Since it is impossible due to the lack of spare parts to repair pumps of hydroelectric plants, there is no electricity in the hospitals. There are no spare parts for hospital equipment.

EIR: Recent press reports have noted that even the middle and upper classes are being affected.

Tiscar: I can confirm their difficulties, and add the important fact that the most seriously affected are the weakest layers, i.e., the aged. Despite rationing of food and basic commodities, the situation is becoming dramatic, especially for the ill, the children, and the elderly. Infant mortality has been multiplied 20 times over last year's levels. So the