Israel and American Jews: The Economic Connection

by Eli Ginzberg
Columbia University

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The most recent authoritative data on the Israel economy is contained in the Prospectus of August 2, 1976: $1,000,000,000 Reconstruction and Development Issue, State of Israel, Development Corporation of Israel, 215 Park Avenue South, New York, New York 10003.

1. Introduction

Economists are fond of explaining the whole world in terms of a simple model of a market in which producers and consumers are constantly engaged in a struggle to improve their respective positions at one another's expense. And they are not wrong in giving weight to Adam Smith's insight into the universal propensity of men to barter and trade. But I learned early during my first visit to Israel in 1953 that the conventional wisdom of the West was not totally relevant to gaining an understanding of the situation of the newly established state on the Eastern Mediterranean coast. The new state was then struggling to feed and otherwise support itself while, at the same time, it faced the daunting task of absorbing over 200,000 recent immigrants, mostly from Moslem countries, who had arrived within the preceding two years, many in poor health and with little education and skill.

I remember that the two distinguished American economists, Raymong Mikesell and Gardner Patterson, consultants to the United States Treasury, who had been posted to help the Israeli government bring its fiscal affairs into order so as to minimize potential American subsidies, were of the opinion that, since the Arabs had been able to subsist largely on figs and olives and other local products during the years of the Mandate, there was no reason that the Jews could not do likewise. I never succeeded in explaining to them that the Zionist ethos which had provided the momentum for the creation of the state had more ambitious goals which included the establishment of a society that would provide a haven for millions of Diaspora Jews, while combining a socialist ethic with a modern high income economy. Their assignment was to protect the American taxpayer. Mine was to help the Israeli government develop a manpower policy, a task that I could not possibly launch, much less carry out, without uncovering the dynamics of the Israeli experience and its decision-making structures.

The critical insight which I gained during this first mission, and which was reaffirmed in the twelve succeeding assignments that I undertook on behalf of the United States government and other sponsors was the necessity to consider Israel as a special case whose present problems and future prospects could be assessed only by an understanding of its unique situation.

Every developing nation, from small Singapore and Libya to medium-sized Iran and South Korea, to giants such as Brazil, is inwardly propelled and responds to outside pressures in terms unique to its own experience. But only Israel lives under the euphoria of a dream two thousand years deferred and finally realized, although with fears of a repetition of the holocaust; and only Israel is able to draw on the continuing assistance of its millions of co-religionists in the Western World, and enjoys special political, economic, and defense linkages to the United States. No other developing country can point to so many distinctive characteristics that shape its every action and reaction.

In this paper I am committed to review the real nature of the economic ties between American Jews and Israel and to propose means of promoting better relationships, from the financial point of view, between the two communities. It may be useful, I suggest, to extract from my personal experience early clues to the thinking and actions of Israeli leaders in the economic arena.

Before the establishment of the state at the end of World War II and shortly afterwards, I tried several times to persuade Eliezer Kaplan, then the Treasurer of the Jewish Agency, how beneficial it would be for the Yishuv if he would recruit for two-year tours of duty capable young American Jews with diversified talents—managerial, scientific, economic—to speed the transfer of expertise and assist in the accomplishment of urgent goals. Among the secondary advantages of such a program was the likelihood that some of these able young people would decide to remain in what was then Palestine. I came away from these friendly discussions, however, with the distinct impression that Kaplan, a harassed man with many problems and few resources, saw little point to my suggestion or, for that matter to advice proferred by any American: he and his fellow leaders—or so he seemed to think—were fully capable of doing what needed to be done—all they required were dollars and weapons.

A second vignette from, I believe, 1961, occurred in Jerusalem when I called on Ben Gurion who reported that he had recently quoted me in the Knesset to the effect that "a leading American economist had told him that 'economics was not a science,'" to which I replied, "But that doesn't mean that money doesn't count." The Israeli leadership did not denigrate money, but it was my strong impression, based on recurrent exchanges with BG, that he decided first what had to be done and then sought the means to cover his commitments. If the new Israel was not to be a marginal agricultural society, there was no alternative but to move ahead and to assume that the dollars would follow.

One more impression was based on my long-term, if periodic, exposures to Israel's economic development strategy. Faced with a range and complexity of requirements, civilian and defense, that far exceeded its local resources, constrained by powerful extra-governmental bodies from the Histadrut to the rabbinate, and committed to a democratic form of government that depended on coalitions, the young state early started to use some part of its foreign remittances as a political solvent, just as another larger part went into supporting a higher level of consumption. A great many difficulties were eased by the infusion of funds that were not raised from local taxpayers. The late Pinhas Sapir is reported to have siad that he had made 2000 millionaires. What we could have added is that although his ability to distribute funds for investments, change the subsidy on imported goods, and intervene directly and continuously in the operations of the economy contributed to a high rate of growth, it assured the dominance of government in the operations of the economy. The political stability that was Israel's in the first quarter century of its statehood may have been essential, but the cost in economic efficiency came high.

The following priorities stand out in the Israeli economic experience: growth over a fear of inflation; a rapidly rising standard of living over economic independence; short-term domestic political advantage over long run economic efficiency; and a policy of "let's do it ourselves" over joint undertakings with foreign enterprises.

2. Realities

Despite a distance of 5000 miles and a hiatus of three years, I will now summarize what to the best of my present knowledge I believe to be the critical elements conditioning the performance of the Israeli economy in the years immediately ahead.

---- The rapid growth of the Israeli economy, which has leveled off in the last two years, is likely to proceed at a reduced rate in the period ahead as a consequence of reduced immigration, the dampening of the consumer sector due to balance of payments difficulties, and the invidious effects of an inflation that remains unchecked.

There have been, and will probably continue to be, relatively wide fluctuations both in immigration into Israel and in emigration from Israel. In the early 1960s the annual immigration approximated 60,000, as a consequence of the large influx from Morocco and Rumania. In the middle and late 1960s the annual number of immigrants dropped from that level to around 25,000. In the early 1970s the total annual immigration was in the 40,000 range because of the large numbers of Jews arriving from Soviet Russia, but in the mid-1970s, the annual inflow dropped to half that level.

Government estimates look to an annual inflow of about 30,000 for the remainder of the 1970s, but they also allow for an emigration ratio of half that number. It is estimated that between 1976 and 1980, the Jewish population of Israel will increase from about 2.9 to 3.3 million, a rate of increase of about 1.4 percent per annum, the slowest rate since the establishment of the state.

---- At the end of 1974 the foreign indebtedness of Israel was in excess of $6.2 billion. It is estimated that by the end of 1976 the devicit will be $9.5 billion, up about one-half in two years. A further increase to a level above $11 billion is forecase by the end of 1978, after which it is scheduled to level off. If these figures hold, even approximately, the foreign exchange debt between 1974 and 1978 will be up by more than three-quarters in 4 years!

Between 1973 and 1975 the deficit of Israel's foreign trade in goods and services increased from $2,642 millions to $4,037 millions, During this time, defense imports increased from $1,253 millions to $1,846 millions.

Perhaps the most disconcerting of all recent economic data is the leveling off of the Gross National Product, even though part of the explanation is to be found in the government's efforts to control consumption. In the decade of the mid-fifties to the mid-sixties, the growth rate was over 9 percent per annum; in the following decade, it averaged more than 7 percent. Over these twenty years the average annual rate of growth was 8.2 percent. The rate for 1975 and 1976 has been calculated at 0.4 and 2.9 percent! The substantial slowdown in the rate of population growth; the tightened controls over consumption; the disruption of the important construction industry which has had a negative growth for the past three years—all indicate that the near-term future of the Israeli economy will be closely linked to the prospects for its export trade—in agriculture, manufacturing, and services.

---- In foreign trade, although the trend in exports is up, the near and medium term outlook for a substantial increase is as critical as it remains uncertain.

From one vantage, the export story is highly favorable. As recently as 1970 the export of goods amounted to slightly over $700 million, with another $650 million received for the export of services; this made a total of about $1,350 millions. The estimate for 1976 is, respectively, about $2,600 million for goods and $2,000 million for services, or a total of $4,600 million, more than a three-fold gain within six years.

But this is only one part of the story. Israel must import a great deal in order to live and export. In 1970, its total import surplus came to over $1.2 billion; in 1976 it will amount to $3.6 billion. Exports as a percentage of imports amounted to 51 percent in 1970, and stand at 55 percent in 1976—a modest improvement in these years, but one that leaves a wide gap.

Several other observations are pertinent to an understanding of what constitutes Israel's export trade: diamonds account for about one-thid of all industrial exports—$600 million out of $1.8 billion; even in a good year, agricultural exports amount to less than one-fifth of industrial exports, $335 million compared to $1.8 billion. With regard to earnings on services, the gib item is transport—$800 million out of a total of $2.3 billion. Earnings from travel and tourism are substantial, but when account is taken of the considerable travel abroad by Israelis, the net profit is only around $300 million.

With regard to the geographic distribution of its exports, Israel has increased the proportion shipped to the European Economic Community (EEC) countries, which now receive about 40 percent of her total, up from one-quarter some years back. The share going to North America, primarily the United States, has long been in the 20 percent range. With the rest of Europe (outside the EEC) taking another 13 percent or so, it is clear that if past patterns persist the key to the future of Israel's exports will depend on Europe, primarily the EEC countries, and the United States. The rest of the world remains a minor customer.

Exports of industrial products, food and clothing bring in about $100 million respectively; approximately a similar sum is netted by the recent export of each of the following: chemical products, basic metal products, and machinery and electronic equipment. On a considerably smaller scale are mining and quarrying products and rubber and plastics, each bringing in about $30 million.

While the foregoing data provide assurance that selected sectors of the Israeli economy are finally beginning to compete in the world markets, they do not encourage the belief that advances toward self-sufficiency will come early or quickly. As noted earlier, exports at present cover only a little more than half the amount spent for imports.

In sum, a hard look at the Israeli economy in 1976 cannot ignore the likelihood of slower growth, a disturbingly large and increasing foreign indebtedness, and a long and difficult struggle for economic independence that can come about only from a much enlarged export trade. With this tentative appraosal we can now take a closer look at United States-Israel economic relations.

3. Relationships

The first challenge in explaining the economic relationships between Israel and American Jews is to establish a schema that is sufficiently detailed to capture the most important movements of trade, money, and people and which at the same time does not become unnecessarily complex by being too comprehensive.

In structuring such a schema, cognizance must be taken of the principal actors—governments, philanthropic agencies, business enterprises-individuals; we must also distinguish between those that are exclusively Jewish in leadership and membership, and those involving non-Jews. It may also be desirable to separate loans and grants for defense from the flow of funds into the civilian sector.

To cut to the heart of the matter. It is questionable whether there would be a state of Israel without the strategic contributions from American Jews, direct and indirect.

The best way to assess the total contribution of the United States to the economic viability of Israel is to set the American flow of funds within the context of the total capital of Israeli imports. Through 2976 total capital inflow to Israel will be in excess of $31.3 billion, with a net of $25.6 billion; $5.7 billion representing primarily maturities on outstanding debts and a small amount of Israeli investments abroad. Of this huge sum, transfer payments accounted for apprximately $16 billion; loans for about $13 billion; and investments in Israel for about $2 billion.

A closer look at the $16 billion of transfer payments discloses that financial restitutions and reparations from Germany totaled over $4 billion; personal remittances were $3.3 billion, institutional remittances amounted to just under $5 billion, and United States governmental aid, $3.6 billion. Since a high proportion of "institutional remittances" represents philanthropic contributions from American Jews, the following were the principal sources of transfer payments: the German Government, the United States Government, Jewish philanthropies in the United States, and personal remittances into Israel in roughly equal proportions.

Of the $13 billion of long- and medium-term loans, the principal participants were organizations and individuals who purchased approximately $3/5 billion worth of Independence and Development Bonds, a gesture in which American Jews played by far the leading role, accounting for about 85 percent of the total. United States Government loans totaled $4.5 billion, with another billion from EXIM Bank and international lending authorities whose decisions reflected United States governmental support. So far in this accounting, the American participation is of the order of $9 billion. Of the remaining $3.7 billion, the participation of Americans, both profitmaking and nonprofit-making institutions looms large, probably accounting for a minimum of two-thirds and possibly more. We see that the principal lender to the state of Israel for medium- and long-term credits is the United States. American Jews and American corporations also played a large role in the $2.3 billion gross investments.

Of the more than $31 billion gross capital imports into Israel, the United States was the largest contributor, followed by Germany, which transferred about $4 billion, and personal remittances of about $3 billion were brought in by immigrants. When grants and loans are considered together, including loans from international lending agencies, the single largest source of capital assistance has been the United States government, which has transferred a total exceeding $9 billion. About the same sum was raised by American Jewry through UJA and Israel Bonds.

In addition to these totals, the trends are worth looking at. In the early 1970s United States government loans to Israel were at an annual level of $300 million; in 1975 and 1976 they were almost 4 times higher. Even more striking has been the increase in United States government grants. During the last five years these approximated $800 million in 1973, $700 million in both '74 and '75; and about $1.2 billion in '76. The dependence of Israel on United States governmental grants and loans is highlighted by the fact that of its $3.6 billion deficit in balance of payments account in 1976, about two-thirds is covered by the United States government, with most of the remainder underwritten by philanthropic transfers and loans from American Jews. Both of the latter trends are up, but not at nearly so steep a grade as is United States governmental assistance.

Of Israel's $2.7 billion of indebtedness to the United States government at the end of 1976, approximately $2.1 billion represents defense loans which increased from a modest level of under $400 million in 1971.

A related dimension of United States-Israel relations warrants special attention. This pertains to the role of organized Jewish philanthropy in the United States, together with the sizable sums raised through the purchase of Israel Bonds. Since the establishment of the state of Israel in 1948, the Jewish Federation campaign has raised a gross total of $6.3 billion (with about 3 to 5 percent shrinkage in pledges). The ratio between New York City and the rest of the country is approximately 1:2. The single largest beneficiary of this communal fund-raising effort has been the United Jewish Appeal, which has recently received approximately two-thirds of the money raised, up from 55 percent in earlier years.

The level of UJA pledges was in the neighborhood of $250 million in 1971, 1972, and 1973, but this doubled in 1974 in response to the Yom Kippur War. By 1975, the annual level was at $320 million, up about one fifth from the early 1970s. In the first half of the 1970s, the total pledges amounted to $1,560 billion. This is not even counting the Israel Education Fund which, in the decade 1965-75, received over $60 million in pledges. This special campaign was authorized to seek individual donations of $100,000 or more, payable over a five-year period, for capital facilities and scholarships, with the stipulation that these contributions would not adversely affect regular contributions to the Welfare Fund campaign.

In 1971, there were 17 overseas organizations authorized under arrangements with UJA and the Welfare Funds to raise money for Israel in the United States. Hadassah was the largest beneficiary; it raised about

$20 million in 1971 and $27 million in 1974-75. In total, these organizations raise annually about $50 million.

Another aspect of the fund-raising by American Jews on behalf of Israel is the fact that the leadership has sought to increase its remittances by borrowing from banks, insurance companies, and other financial intermediaries. The principal long-term loans of the UJA in 1965 amounted to $50 million from 11 insurance companies, and $65 million in 1972 and 1975 from New York banks, and another $37.5 million from banks in other parts of the country. At the end of 1975, about $87 million of these loans were still outstanding. The collateral for most of these loans are prospective contributions to the UJA. The track record of contributions has been so good over such a long period of time that the banks have been willing to lend on the basis of this.

The American Jewish fund-raising structure is deeply anchored, well organized, and operates with considerable sophistication. Annual campaigns take place in about 900 communities. Where Welfare Funds exist —as they do in all the larger cities—the national leadership makes arrangements with them. Otherwise, the national organization contacts local leaders who assume responsibility for raising funds and allocating them, according to a pre-existing arrangement, among local needs, national organizations, and for overseas relief, primarily through the UJA.

Jewish life in the United States is organized around three focal centers. The synagogue, for those who attend regularly represents the most intense form of affiliation; communal philanthropic activities center around the annual Welfare Fund campaigns; membership in organizations dedicated to the furtherance of specifically Jewish objectives locally, nationally, or overseas, the last centered primarily in Israel, from Hadassah to the America-Israel Cultural Foundation.

The Israeli-American connection, while based on this strong foundation of annual philanthropic support, has other manifestations, some extant and some potential. Specifically, we must look at Israel Bonds, business investments in Israel, trade relations between Israel and the United States, and the influence on the actions of the United States government of the Jewish community on behalf of Israel. In the twenty-four years between 1951 and 1975, State of Israel Bonds worth $3.2 billion were sold, all but $550 million in the United States. Of these total sales, $1.3 billion were redeemed, at maturity or prior to maturity, for investment, for tourism, and to pay philanthropic pledges. With respect to the last: in the five years 1971-75, of the $1.4 billion of <u>cash</u> collected by the UJA, $125 million or slightly over 8 percent represented redemption of State of Israel Bonds.

For the first decade after the Bonds were first issued, total annual sales in the United States were in the $50 million range. By the mid-1960s they were approaching the $100 million level; by 1970 they exceeded $200 million in annual sales; Bonds worth $417 million were sold in the year following the Yom Kippur War.

The high rate of redemptions suggests that the bonds ar not to be equated with either philanthropic gifts or with investments; they fall between. In recent years, these bonds have found their way into the portfolios of friendly nonprofit organizations including pension funds of trade unions, as well as banks and insurance companies which together now hold $700 million in Israel Bonds. It is calculated that three thousand United States banks hold about $250 million of these bonds.

This brief discussion of one particular form of investment provides a bridge from philanthropic to business relationships. A summary review discloses that, while exports from Israel to the United States have been growing, the cumulative trade deficit (exclusive of military goods) for the period 1948-75 totaled $5 billion! While the United States takes almost 16 percent of all Israeli exports—and is Israel's single largest customer—the fact remains that trade relations between the two countries are out of balance and there is little to suggest that this will be corrected in the near future.

In textiles and ready-to-wear clothes, Israel has experienced a steady decline in exports to the United States between 1971 and 1975. In leather and fur, Israel has had no increase in exports during this period, although 1976 shows substantial improvement. On the other hand, there is some reason to believe that the recently expanding technical sector of the Israeli economy—chemicals, metal products, machinery, electrical goods, transport equipment—has begun to make its way into the United States. The increase in combined sales of these items between 1971 and 1975 is reflected in the following figures: $23 million to $70 million. The smallness of the last figure is less important than the trend. In appraising both the level and the trend of total Israeli exports to the United States, one must be careful to note the large role that cut diamonds play: in 1975, cut diamonds accounted for about half of all exports to the United States ($153 million out of $310 million). In view of the relatively small value added by Israel's import of rough and export of cut diamonds, the strength of Israeli exports to the United States can be easily exaggerated.

In January 1976, a complication of American companies with manufacturing subsidiaries or joint ventures in Israel shows 21 in electronics including such leaders as Control Data, GTE, Intel, Itik, Motorola, Teledyne, Zenith; 18 in chemicals, including Baxter Laboratories, Colgate-Palmolive, Miles, Revlon; 15 in metals, including American Can, Continental Can, Inland Steel, TRW; 10 in finance and insurance, including Brinks, Dun and Bradstreet, First Pennsylvania Corporation, Walter E. Heller; 8 in textiles, including Monsanto and United Merchants and Manufacturers; 6 in paper, including Hudson Pulp and Paper; 7 in hotels and transportation, including Avis, Hertz, Hilton, Sheraton, Ramada Inns; and 10 miscellaneous, including IBM, CBS, ITT, Manpower Inc., Seagrams. It is impressive how many of the leading United States corporations have begun to establish links with Israel, not because of religious-ethnic ties, but for economic reasons that are sufficiently powerful to overcome even the threat of being blacklisted by the Arabs. Two related observations should be added: one is the relatively small number of American companies whose owners or managements are strongly identified with Jewish causes. Apparently some of the most generous Jewish supporters of Israel have sought to keep their philanthropic and business interests apart, the principle which was also followed for many years by leading British millionaires with deep involvement in Zionism and Israel. These successful Western businessmen were disinclined to expose themselves to the complexities of operating in a governmentally controlled economy.

The other observation relates to the scale of participation by these American and other foreign companies. The total cumulative gross private investments from abroad since 1950 has been calculated as slightly under $2 billion; the annual figures for the 1970s have fluctuated between an annual low of $110 million to a high of $260 million. One must then conclude that investments of this magnitude for 90 American and other foreign companies point to the small capital stake of foreigners in Israeli business up to the present.

While its export potential is critical for determining Israel's prospects of reducing and eventually eliminating its large balance of payments deficit, Israel's imports from the United States play a role in influencing American public and, more importantly, governmental opinion. In the last five years Israel increased its imports from the United States from about $430 million to about $900 million. About one third has been in agricultural products; another third includes machinery, electrical and transport equipment; the remainder is an admixture of producer and consumer goods in a large number of categories from paper to optical instruments. The importance of Israel as a purchaser of United States products is underscored by the finding that it stands eighteenth in a list of the top 45 markets for American exports.

As a reflection of the considerable role that Israel plays in United States foreign commerce and because of the long-term concern of the United States government with the security and economic viability of Israel, several recent United States governmental actions are worth noting. As an outgrowth of a visit in July 1974 of Secretary of the Treasury William E. Simon to Israel, there was established a United States-Israel Joint Committee for Investment and Trade. This new instrumentality provides a focus for a continuing dialogue and action program aimed at encouraging the growth of the Israeli economy through the greater participation of Americans, particularly private investors. In furtherance of this objective, a treaty was signed which removes the risk of double taxation of American investors in Israel; the United States government has agreed to disseminate more widely information about investment opportunities in Israel, and to provide assistance through such instrumentalities as its Overseas Private Investment Corporation (OPIC); under the Generalized System of Preferences in the multilateral trade negotiations (MTN), Israel has been granted a marked reduction on duties of products exported into the United States; the United States government has taken several other actions aimed at stimulating the Israeli economy by encouraging various federal agencies to look to Israel for certain supplies.

Two important actions have been carried out by the Israeli government: one is the completion of its formal trade negotiations with the European Economic Community which looks forward to the removal of all tariffs between the trading parties, earlier on the part of the advanced countries and by the mid-1980s by Israel. The Israeli government and its representatives believe that the successful completion of these negotiations will make it attractive for American corporations to produce goods in Israel with an eye to expanding sales to the EEC countries. Presumably they will be able to enjoy the lower wage rates characteristic of Israel and still enter the EEC without having to vault over tariff barriers.

As a further inducement for foreign investment, the Israeli government is enacting a new law which will offer attractive financial incentives such as lower cost loans, more rapid depreciation allowances, lower tax rates, and special provisions for the repatriation of profits.

Although the new basis of trading with the EEC countries, the closer trade and investment contacts with the United States, and the new investment law should stimulate foreign private investments in Israel, it remains to be seen whether the handicaps that seem to be endemic to the Israeli economy—disadvantages such as the size of the domestic market, the recurrent realities of devaluation, continuing tension in the area, the distance of Israel from the heartland of Europe and its still further distance from the United States, the embryonic condition of the financial markets, the limited number of experienced managers—will recede before these new encouragements, or whether they will continue to outweigh them. The trend is certainly up—Israel's technological base is being strengthened and its exports are increasing. What remains unresolved is the rate at which this transformation must proceed to reduce the number of years before Israel approaches self-sufficiency.

4. Resolutions

The primary purpose of this paper is to help formulate an agenda for discussions between Israeli and American Jewish leaders on how to promote better economic relations between their two countries. I will therefore resort to formulating strong propositions in the hope that they will help to draw the participants into a constructive dialogue. For didactic purposes I will address the first set of issues to the Israeli group, the second to the American Jewish participants.

It seems appropriate to raise the following issues for discussion with the Israelis, not because answers will come easily but because unless these issues are confronted, no long term resolutions will be forthcoming.

A first proposition raises the question of who in Israel speaks for the business sector? Clearly it cannot be the Minister of Finance or the Minister of Commerce and Industry who hold key posts in a governmental structure which has, from the first days of the state, through its multiple rules and regulations and financial incentives and contraints, exercised a life-and-death control over the profitability and survival of every business undertaking in the country. While the official spokesman for employers has long been the Manufacturers' Association, the fact that the members of the organization have survived and prospered for the most part under the protection of tariffs, export allowances, and other governmental assistance raises the question of whether such a body is likely to take the lead in advocating the strengthening of market forces so that efficiency rather than the exploitation of governmental contacts be the determining criteria of industry.

When allowances are made, as they should be, for Koor, which has demonstrated considerable potential for growth and diversification, including a steady growth in exports, the future is made even more unsure. But Koor is an integral part of the labor sector whose first concern has been and must continue to be the welfare of its members, with protecting their jobs and raising their incomes. It is no accident that the head of Koor had to put his resignation on the table before he was permitted to streamline operations at the Acre steel works, where productivity has been a source of concern for the last quarter-century. The priority of party and trade union loyalties over efficiency have also taken a heavy toll in the management of many other public and quasi-public enterprises. On the Israeli political arena it is hard to find any group with the wish and the capability to speak for business interests. Even with Likud in power it is hard to imagine that the basic relations between government and business will be basically altered.

One must recognize, however, that over the last years, the government has taken a series of actions to divest itself of direct responsibility for managing many larger enterprises; it has sold part or all of its shares in many public companies. Further, as noted above, through its recently concluded negotiations with the EEC, it is now committed to removing all tariffs over the next decade. Clearly, this represents a major move towards liberalization which can have far-reaching consequences.

There is no way to answer the rhetorical question that has been raised about who talks for Israeli businessmen except to point out that at present business has no authoritative spokesman. A decade hence, possibly earlier, a clearly defined business interest may be firmly ensconced, but at present it does not exist. This is a fact of life that must be taken into account when seeking to establish a serious economic dialogue between American Jews and Israelis.

A second agenda item is to explore the establishment of a joint working party of economic specialists who would be charged with developing a plan whereby American Jews could assist the Israeli community to achieve early economic independence. The combination of large balance of payments deficits, accelerating inflation, reduced rates of growth, restrictive labor practices, excessively large governmental payrolls, and other serious barriers to economic independence suggest that such planning, with an input by concerned outsiders, might help Israelis to focus on the stark realities which they confront and which must be attacked and resolved.

The record of recent years shows that the Israeli government has not been able to exercise the necessary political leverage to take a large number of necessary but unpleasant actions on its own. The involvement of American Jews might contribute to the development of a more conducive environment for energetic and constructive action towards economic independence.

A third agenda item must be an inquiry into the conditions under which Israel has welcomed foreign investment in the past, and that should govern its efforts in the future. Israel has given repeated evidence of its interest in foreign investment and has offered special incentives for this purpose. It is my belief, however, that the real nature of this economic procedure has been appreciated neither by the Israeli government authorities nor by business enterprises. israel has lacked access to technical know-how, management skills, and marketing channels, and not to capital. But the former will be forthcoming only if Israeli enterprises can offer foreign companies matching assets. Until recently these have been unavailable because of the embryonic stage of Israeli industry, the fears felt by government and business of being exploited by foreigners and, most significantly, because of the Israelis' lack of appreciation of the importance of their gaining access to marketing channels. There is urgent need for the United States-Israeli leadership to discover the successive actions required to turn the prospect of joint undertakings into profitable realities. Unless this subject is addressed seriously and alternative solutions explored, the hope that Israel will be transformed into a major manufacturing base for expanded penetration of the EEC countries—as well as those in the Middle East in the event of peace—will not be realized.

In connection with this agenda item, we must explore possible shifts in stretegy on the part of both Israeli and American Jewish leaders if investment is to grow in proportion to the ratio of philanthropy in the years ahead. New inputs for business expansion in Israel can come from abroad primarily from two sources: American Jews and American corporations. Let us briefly consider each in turn. In a good year, that is, in a year when philanthropic contributions and sales of Israel Bonds are at a high level, the total amount raised in the United States approximates to three-quarters of a billion dollars, and we can anticipate that, a few years hence, the sum may exceed a billion dollars annually. Private investment by American interests in a good year hardly ever exceeded $100 million and has usually been much below that fiture. In short, more than ten times as much money is given to philanthropic and semi-philanthropic causes than is put into private investment.

In light of this reality, how much energy should the Israeli leadership devote to improving the investment climate if—and this is the important not minor contributions. Often they can make the difference between success and failure. If this approach could be developed, it would contribute much more than immediate material assistance to the Israeli economy. It would provide a palpable new link to the all too tenuous chain existing between American Jews and the state of Israel, and this would enable specific individuals and constituencies (industries perhaps) to take on and carry through long term commitments.

To recapitulate: we have raised these important agenda items addressed in the first instance to the Israelis:

---- Who talks for business in Israel?

---- The need for a joint working party of United States-Israeli economic specialists to formulate plans aimed at the early economic independence of Israel.

---- Steps to speed ecooperation between Israeli and foreign enterprises, including shifts in strategy which may be required if investment is to expand without jeopardizing the flow of philanthropic funds.

We shift focus now to a limited number of items that should engage the attention of the American participants in the dialogue. Each of the following should help to establish a more realistic basis for strengthened relations between American Jews and Israelis in matters that start with economics but go far beyond them.

The first issue relates to the likelihood that American Jews will continue to raise sums of money for Israel equal to, or even greater than at present, not only during the next few years but for a more extended period. A related question bears on the extent to which American Jews are likely to seek a greater influence over the disposition of the monies which are transferred.

With respect to money-raising potential, any forecast is problematic. However, certain parameters can be identified. The number of committed American Jews continues to decline; the number of affiliated American Jews is also declining. If these trends continue, they must be seen as a warning that, in the absence of countervailing developments, the good-will backed by dollars will begin to erode. Among the important potential developments that might counteract this trend are continuing crises which endanger the security of Israel or a new vulnerability in the position of American Jews. The first is more likely than the second. But if the Near East should move, however slowly, to some degree of political stability, such a development might prove counter-productive with respect to philanthropic fund-raising. We must remember that, during all of the past years, the UJA has relied heavily on large donations from a relatively small number of givers. Since American Jews found it difficult to organize mass giving in a period of optimal synagogal affiliation when the future of Israel was in balance, it will be much more difficult to broaden the philanthropic base if congregational affiliation of American Jews continues to decline and the security of the state of Israel is substantially enhanced.

If, as I believe, the long term commitment to Jewish tradition in the United States is based on a value foundation that is vulnerable to attrition, the only alternative to the threat approach for Jewish giving must be a deepening of emotional and cultural ties. More and more American Jews at different times in their lives must journey to Jerusalem and participate at first hand in the Israeli experience. Only in this way will they be able to respond in terms of values shared with fellow Jews and with Israelis. A de-Judaized affluent American polity will not indefinitely remain strong backers of Israel. The building of values is not a task for a fund-raising bureaucracy. The challenge exceeds its capability. It can be met, if at all, only by leaders and institutions that address the basic cultural, social, and educational experiences out of which values are shaped ans reshaped.

The related issue is concerned with the conditions of a continuing philanthropic relationship. During the past decades, American Jews have had little hesitation about transferring the funds which they raised to authorized bodies in Israel for disposition in accordance with locally determined priorities, subject only to the assurance that they would be spent in a matter consistent with United States laws governing charitable deductions. As long as the "biggest" givers predominate, I see no reason to believe that they will be interested in increasing their leverage. This would be inconsistent with the nature of their involvement or the satisfactions that they seek.

Moreover, we must postulate that the Israeli leadership, no matter who happens to be in power, would look askance at a more active involvement in their affairs by American Jewish contributors. Israeli decision-making is complicated enough without the incursion of a new powerful voice from abroad. Nevertheless, there is a distinct weakness in the present arrangement. Over a long period of time, givers will become and remain more involved if they have a role to play in the disposition of the resources which they raise. Further, as noted above, it would not necessarily be bad for Israelis to have the advantage of a concerned partner who would bring an outside perspective to bear on the limited horizon faced by the local leadership.

The second agenda item addressed to the American Jews derives from the earlier analysis which disclosed the dominant role of the United States government in assisting the state of Israel at various points in its development, and its crucial contribution since the Yom Kippur War in shoring up the vulnerable Israeli economy. The contribution of American Jews to Israel has always been both direct and oblique. Direct in terms of the resources which they have made available; oblique by the influence which they continue to exert on Congress and successive Administrations. The government of Israel has its own channels in Washington. On many fronts, but especially with respect to the military and intelligence communities, it deals largely on a country-to-country basis with the United States. But it would be unrealistic to deny the overlay of American Jewish influence on all relationships between Israel and the United States.

Any significant economic dialogue between American Jews and Israel should contribute to a deeper understanding of the forces which shape United States governmental actions with respect to economic and economic-related (defense) matters. The issues on such an agenda, again from a long-term perspective, are, first, the inevitalbe restiveness that will show up in American governmental circles about the United States taxpayer's being asked to cover large Israeli deficits. The present largesse cannot long continue.

Second, the evidence is overwhelming that the United States will be heavily dependent on oil imports for many years to come. This underscores the efforts that American statesmen will make to maintain good relations with all major oil-exporting countries, including those in the Middle East. Clearly, despite the promises made by politicians running for office, no Israeli official can seriously question that this will be the United States position.

Thirdly, Israelis must reckon, as they have in the past, with the continuing powerful voice of American business on United States foreign economic policy. The major banks and corporations that are now engaged in fierce competition to see everything from new cities to the most sophisticated weaponry to the Croesus-rich states of the Middle East will use their considerable power to fend off governmental actions aimed at restricting their freedom to buy and sell. True, these American enterprises will not want to be accused in the press, much less in the courts or before Congressional Committees, of collaborating with the Arab League in enforcing its boycott; nevertheless they are likely to work hard for the big profits that are within their reach. On the other hand it is encouraging to note that every year leaders of other large American corporations by speech and action attest to the fact that they are willing, even eager, to enter into economic relations with Israel.

Israelis should also hear from American Jews that the claims of the Arabs to sovereignty over the Moslem holy places in Jerusalem, for self-determination of the West Bank, for restitution to Palestinian refugees are not dismissed in the United States as idel propaganda, but are given considerable weight by millions who are friendly, or at least neutral, with respect to Israel.

Although United States policy has long been friendly to Israel, it places an increasingly high value on world peace, on low levels of foreign aid, on broad scope for American business to pursue profits, on its inevitable dependence on Middle Eastern oil during the next decade. These are important parameters that a continuing dialogue should probe.

The third item on an economic agenda is the exploration of new iniitatives invovling American Jews. Some clues can be extracted from recent developments. Several United States theological institutions have developed outposts in Israel to which their students repair for one or more years to study. Many Jewish organizations hold special convocations, assemblies, conferences in Israel which result in a significant rise in the number of American tourists. There have been a few efforts by Americans to produce movies in Israel. Government research agencies in Washington have for a long time been making grants and letting contracts to Israel. A serious dialogue would start with a careful listing of these collaborative efforts with the aim of exploring how they could be increased and strengthened.

For the American participants, then, there are three principal agenda items:

---- An appraisal of the potential for long-term philanthropic support of Israel, and of the conditions that must underlie it.

---- An assessment of the changing contours of United States policy with respect to foreign economic relations, including prospects of long-term governmental support for Israel.

---- The prospects of American Jews taking the lead to open up new opportunities for increasing their economic investment in Israel.

5. Concluding Observations

We stipulated at the outset that an understanding of the Israeli economy requires that close condieration be paid to the special factors governing the new state's development. In the first quarter century of its existence, Israel demonstrated great capacity for growth and adaptation, witness its large-scale absorption of impoverished immigrants, its outstanding agricultural success, and the foundation it laid for a diversified technical industry. This is a record of accomplishment that commands respect and augurs well for the future.

But it would be a disservice to Israel—and to all who are concerned about its future—to ignore its present and potential economic vulnerability. Mounting foreign indebtedness, an unchecked inflation, cost of living indexing, slow growth, serious sectorial imbalances (a swollen government bureaucracy), and entrepreneurial efforts directed more at speculation than investment present a challenge that must be met.

Renewed economic growth based on the rapid expansion of a scientifically streamlined expert industry and making use of Israel's richest resource, its trained manpower, require that the present economic difficulties be attacked and solved. A failure to act now will only raise the cost of working out solutions in the future.

It is clear that if Israel becomes increasingly dependent on loans and grants from the United States its capacity to shape its political future will be in jeopardy. No nation that cherishes its political independence can afford to lose control of its economy.

General Eisenhower once remarked that, whatever the limitations of the planning process, he believed that it is better to plan than not to plan. There is no evidence that a dialogue between American Jewish and Israeli leaders will prove constructive to either or both. However, the presumption favors initiating such a dialogue in the hope that, with the enriched understanding of each group, improved policies will be formulated and implemented.

The state of Israel came into being because of an idea and a commitment to an ideal. In matters affecting Jewish survival, ideas and commitments always have overwhelming importance. It would also be helpful to recall that the relatively cavalier attitude towards economic matters that was characteristic of the Yishuv and the young state cannot be a sound foundation for continuing development.

[31]Louis Shub, op. cit., and Eliezer Schweid, Israel At The Crossroads (Philadelphia: Jewish Publication Society, 1973), p. 220.

[32]A far more critical assessment of Israel is to be found in Leonard Schroeter, The Last Exodus (Jerusalem: Weidenfeld and Nicolson, 1974).

[33]Ibid. See also William Korey, "The Story of the Jackson Amendment, 1973-1975," Midstream, 21 (March 1975), pp. 7-36.

[34]On this point see Charles S. Liebman, "Religion and Political Integration in Israel," The Jewish Journal of Sociology, 17 (June 1975), pp. 17-27.

[35]When questions are really of a purely technical nature, such as El-Al's public relations, they are turned over to an advertising agency which did a very professional if not superlative job in the case of the latter.

[36]William Frankel, "The State of World Jewry," Address to the Annual Meeting of the American Jewish Committee, Waldorf Astoria, New York, May 16, 1971. (I am indebted to Mr. Frankel for a copy of the text of his address.)

[37]I am grateful to Professor Vital for the text of his address which was widely reported at the time in the Anglo-Jewish press. It will appear in expanded form in a future issue of Midstream.

[38]Ha'Olam (August 26, 1948), p. 669.

[39]Ha'Aretz (December 3, 1975), p. 8. This was later confirmed by the Prime Minister himself. Ibid. (December 7, 1975), p. 1. The disastrous effect of the bombing on American public opinion was related to Israelis in a story from Ha'Aretz's American correspondent. Ibid. (December 5, 1975), p. 13.

[40]Ibid. (January 18, 1973), p. 12.