

Israel and American Aid: Continue Forward or Reverse Course

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In early March 2007, a high level Israeli delegation arrived in Washington in order to open negotiations about a new long term agreement on American financial aid to Israel. According to the previous agreement signed in 1998, next year will see the culmination of a ten year process that gradually reduced American annual assistance by 20 percent, from 3 to 2.4 billion dollars, by eliminating all economic aid. The Israeli delegation requested to reverse this process, and to restore American aid back to its 1998 annual level for military procurement, without reinstating economic aid. This is not necessarily a wise course.

Facts and Figures

The United States has been providing Israel with financial assistance since 1949.¹ This aid began with small *economic* loans and grants for various purposes (trade, food, refugees), and only in 1959 was a *military* loan first provided. Until 1966 combined aid never exceeded \$100 million. The first significant leap occurred in 1971 with a military loan of more than half a billion dollars (needed to offset heightened risks due to Egypt's violations of the 1970 ceasefire), followed in 1974 when combined assistance amounted to more than \$2.5 billion (after the Yom Kippur War). The peak, \$4.9 billion, was in 1979 following the Camp David accords, which required relocation of IDF bases from the Sinai Peninsula to the Negev. From 1983, all economic aid was provided solely through grants, and since 1985 the same was done regarding military aid.

By 1987 a routine had set in: Israel requested and the United States approved annual financial assistance to the tune of \$3 billion – \$1.8 billion in military aid and \$1.2 billion in economic aid. On top of this regular aid, the United States provided Israel with special assistance, for example, during the 1991 Gulf War and the 2003 Iraq War. On other occasions Israel was given hundreds of millions of dollars worth of surplus equipment. Regular military aid also does not include additional funds for special R&D projects, such as \$1.3 billion extended thus far for the joint anti-missile Arrow system, which are provided through the defense budget.² Equipment pre-positioned in Israel for potential use by the American military saves Israel significant costs of emergency supplies. In the economic sphere, the United States extended

guarantees for billions of dollars of commercial loans, thus enabling Israel to save hundreds of millions of dollars on interest (with no cost to the Americans, since Israel always pays back on time).

Israel receives American financial assistance on more favorable terms than any other aid recipient. All aid is transferred to the Israeli government rather than allocated to specific programs, and the government is not required to provide an account of the allocations. Money is transferred in a lump sum at the beginning of the fiscal year rather than in quarterly installments, which allows Israel to invest the money in American bonds and earn interest (in some years up to \$100 million). Twenty-six percent of American military aid is defined as Off-Shore Procurement (OSP), meaning that it may be spent in Israel for local procurement. Israel also receives partial offsets for its military purchases in the United States, through American contractors obligated to reciprocal procurement. On the other hand, there are strings attached to this generosity, the most troublesome of which is that all purchases in the United States must be approved by the Pentagon and conform to American priorities.³

Back to the basic numbers. In 1996 Prime Minister Binyamin Netanyahu decided to reduce Israel's dependence on American assistance by 20 percent by eliminating the economic assistance that was no longer justified. A 1998 agreement stipulated a gradual reduction of \$120 million in economic aid each year, half of which would be transferred to military aid. This process ends in 2008, when Israel will receive no economic aid and \$2.4 billion in military aid.⁴ The intent was that this would be the fixed annual sum for the foreseeable future. This apparently is not to be.

Increase the Aid

The Israeli delegation arrived in Washington with a request to increase the annual aid sum gradually (\$50 million each year spread over ten years) to \$2.9 billion, thus reversing the process initiated in 1998 but without reinstating economic aid. The underlying rationale for this request is to take advantage of the final two years of the firmly pro-Israel Bush administration.⁵ The initial American response did not disappoint the Israelis. A joint declaration stated: "These talks reflect the deep historical and security ties between the United States and Israel, based on shared values and common interests. The meeting today is another manifestation of the unshakable commitment by the United States to Israel's security and a step towards

fortifying and enhancing the strategic relationship between our two countries."⁶ Negotiations are to continue until the end of the year, when the administration will likely integrate the agreement into its 2009 budget proposal.

Israel's main reason for increased aid is fairly obvious: financial need. Security threats are multiplying. Twenty years ago Israel faced "only" a conventional threat; nowadays there are three additional ones: asymmetric (terror and guerilla-militia), long range missiles, and nuclear. Costs of sophisticated weapon systems are ballooning, and with them, the budget required to maintain Israel's qualitative edge (a stated American goal). The F-15 costs \$50 million; the F-22 – \$150 million. Oil-rich Arab countries will always outstrip Israel's financial resources (and while these countries do not pose an immediate threat to Israel per se, there is a risk that sale of state-of-the-art weapons to Gulf states would serve as a precedent for sales to Egypt.) In addition to this permanent predicament is the immediate need to replenish military stocks depleted during the Second Lebanon War and to prepare more urgently for the next conflagration.

Beyond the obvious financial need, there is also an important diplomatic aspect to the issue. American aid to Israel is a powerful public symbol of American support. Increased aid, agreed upon smoothly with administration officials and supported by customary bipartisan consensus in Congress, will send a strong message about the robustness of American-Israeli relations. This might be especially important given ever-growing Arab demands for the United States to pressure Israel on the Palestinian issue, and after Israel's dismal performance against Hizbollah set off rumors about American disenchantment with Israel as a strategic asset. "Put your money where your mouth is," is a quintessential American maxim, claims an Israeli observer. If both Israel and the United States want to make sure that the extent of American support for Israel is not misread in the Middle East with unintended consequences, the purse is the best proof for it.⁷

There are also political factors in both countries, unmentioned in polite society. Three quarters of the military assistance is spent in the United States. More than a thousand contractors in forty-seven states benefit from Israeli procurement.⁸ This translates into political support, not only specifically for aid but also for Israel in general, by relevant business sectors as well as by district and state representatives in both chambers of Congress. There is likewise a need for Jews and politicians to show support for Israel by endorsing aid. In Israel, success in increasing American aid

improves the reputation of those involved. In the defense establishment American financial aid is correctly perceived as the only long term constant in budget planning, immune to political interference and therefore better left untouched. Thus, there are strong financial, diplomatic, and political reasons to maintain aid at its present level, or better yet, to increase it.

Decrease the Aid

Then again, as usual in such matters, there are also reasons to continue the process of decreasing aid, perhaps leading to an eventual elimination of it. The first of these reasons has less to do with strategy, diplomacy, economics, or politics and more to do with morality and honor.

"Since 1976, Israel has been the largest annual recipient of US foreign assistance, and is the largest cumulative recipient since World War II."⁹ In the past fifty-five years, Israel has received more than \$84 billion in grants alone.¹⁰ Annual *American* aid to Israel per capita is more than \$340, which is by far the highest in the world. Average *global* aid per capita is only \$22!¹¹ This comparison becomes all the more glaring given that according to all international indices the recipient is a relatively rich country. True, Israel is not yet a member of the OECD, but its annual Gross National Income (GNI) per capita of \$25,000 puts it at the thirty-seventh place in the world, and its Gross Domestic Product (GDP) per capita of \$23,000 at the twenty-seventh place.¹² A country so ranked that on a permanent basis receives fifteen times the average amount of foreign aid per capita worldwide yet neither acts nor plans to act to decrease its dependence cannot be defined as anything but voluntarily addicted to it.

From a moral point of view, Israel's place at the top of the list of aid recipients, ahead of all poor and sick and malnourished Third World countries is, to say the least, problematic. True, aid not provided to Israel might not be diverted by the United States to other countries, but that should be left to the representatives of American taxpayers. Furthermore, problematic moral comparisons aside, there is, or should be, a matter of national honor. It was only a generation ago that the goal of "economic independence" was still mentioned in Israel, if only as a distant aspiration. The process initiated by Netanyahu inched Israel toward that goal; freezing the process, let alone reversing it, means forsaking this dream.

Economic independence highlights a second reason for decreasing aid. Israel's financial dependence on the United States is a diplomatic drawback. True, this leverage has not been used by the United States since the extreme 1956 American pressure to withdraw from the Sinai Peninsula. It has not even been mentioned. But that is only because there is no need for anything explicit to be said. Both sides are aware of the implications of this dependence. Israel's involuntary choice of Boeing over Airbus was a case in point, as was the need to gain Washington's approval for certain economic steps during the 1985 and 2003 economic crises. More painful for Israel was the 1975 "reassessment," when Secretary of State Henry Kissinger initiated a freeze on all scheduled arms deliveries and hinted at starker measures. Had President George Bush Sr. and Prime Minister Yitzhak Shamir won their respective elections in 1992, it is reasonable to imagine American aid used to pressure Israel on the Palestinian issue. (Secretary of State James Baker might have actually relished it.) Above all, the American leverage over Israel, *inter alia* due to financial dependency, is manifested by the ever-present question: "What will the United States say?" True, even if Israel were economically independent, it would still depend on crucial American support in other areas (technology, diplomacy). That, however, does not negate the importance of diminishing Israel's dependence on the United States as much as possible.

A third reason for decreasing aid is maintaining long term political support in the United States. At some point, despite – or perhaps because of – the influence of the pro-Israeli lobby, Americans may grow weary of the burden. It is already possible to detect potential warning signs. In 2003, against the wishes of the pro-Israeli lobby, Congress included aid to Israel in an across-the-board cut in all foreign aid. On top of that, Congress rejected the administration's request for an extra \$200 million to help Israel fight terrorism. In 2005, both the administration and Congress cold-shouldered an Israeli request for extra assistance to offset the costs of the disengagement from Gaza. (This very request is a symptom of the way Israel takes American aid for granted. Requesting money for relocation of settlements, which Israel had initially built and developed over American objections and disapproval, should be viewed as a sign of Israeli hubris.)

Starring effortlessly at the top of the list of aid recipients far into the future should not be taken for granted. American officials and politicians claim that aid to Israel offers "the best return on the investment;" since Israel is a democracy and has

consistently been a strategic asset, first during the Cold War and now in the War on Terror.¹³ It is certainly true that unlike its Arab neighbors, including American-leaning ones, Israel is the only country in the Middle East that will *always* stand by the United States in any regional crisis. Generous and qualitative military aid is perhaps the most important component in "the special relationship" between the two countries. However, important voices calling to engage more seriously in the Israeli-Palestinian conflict (a euphemism for pressuring Israel) indicate a growing willingness to acknowledge that Israel is also a diplomatic liability. Israel would do well to limit the negative aspects of its image and not be regarded an eternal financial burden as well. This might be all the more relevant given that both parties in Congress as well as most presidential candidates are leaning toward balancing the federal budget by cutting expenses.

Furthermore, if it is correct to assume that at some point and for some reason the United States would wish to decrease aid, it is important that Israel preempt this by initiating the process itself. Since aid to Israel is a powerful public symbol of American support, any American-initiated decrease, even for purely budgetary reasons, would be perceived as weakening support. Not so if the initiative is Israel's, as proven by the Netanyahu process.

A fourth and final reason for decreasing aid is the economic advantage this step will bring. American aid comes with strings, some of which shackle the Israeli defense industry. Decreasing or eliminating American aid will help this sector in four ways. One, the IDF will buy more in Israel, meaning more money will be invested in the local economy. Two, purchases by the IDF bolster the reputations of firms and thus their sales. Replacing American firms in doing business with the IDF will strengthen marketing efforts of Israeli firms abroad. Three, Israel's defense exports will be at least partly freed of American restrictions. Four, paying with Israeli money for procurement in the United States will increase the volume of reciprocal purchases by American firms in Israel. Thus, while decreasing aid means giving up cash-in-hand, it also means boosting the Israeli defense industry and thereby offsetting some of the financial loss.¹⁴

Conclusion

Israel's military needs are many and expensive, and the United States is generous. However, American aid amounts to only 4 percent of Israel's annual budget. Israel can

and should change its budgetary priorities in order to gradually decrease American regular aid (as distinct from emergency aid during crises or special funding for joint ventures such as the Arrow). Two factors might mitigate the negative effects of such a move. First, Israeli shekels will not have to compensate for 100 percent of vanishing dollars. According to knowledgeable officials, between \$250 and \$500 million dollars could be saved by extricating Israeli procurement from American restrictions, mainly from the obligation to buy American products that are sometimes more expensive than equivalent items manufactured elsewhere.¹⁵ Second, American aid to Egypt was unofficially linked to the aid to Israel after the 1979 Camp David agreement. Egypt is not under any external threats. Israel might therefore be able to persuade the United States to simultaneously decrease its military aid to Egypt, thus somewhat alleviating the problem of maintaining a qualitative edge. Spreading the process over a long period of time would preclude the impression of diminishing American support for Israel.

Israel should initiate a decrease in American aid, because it is morally wrong for a rich country to lock itself in perpetuity into the international list of recipients (let alone to head it); because it behooves Israel, for the sake of its national pride and international reputation, to strive for economic independence; because economic dependency is a diplomatic hazard and will, in time, jeopardize American goodwill; and because it is better that Israel initiate the process itself rather than wait for the United States to do so, seemingly implying diminishing support. Instead of asking for a 25 percent increase over ten years, Israel should suggest a weaning process: a 100 percent decrease over twenty-five years.

American Financial Aid to Israel (millions of dollars)

Year	Military		Economic	
	Grant	Loan	Grant	Loan
1949				100
1950				
1951			0.1	35
1952			86.4	
1953			73.6	
1954			74.7	
1955			21.9	30.8
1956			15.6	35.2
1957			19.1	21.8
1958			11.3	74.1
1959		0.4	10.9	42
1960		0.5	13.4	42.3
1961			18.3	59.6
1962		13.2	7.2	73
1963		13.3	6	68.6
1964			4.8	32.2
1965		12.9	4.9	47.3
1966		90	0.9	35.9
1967		7	3.2	15.1
1968		25	6.5	75
1969		85	0.6	74.7
1970		30	12.9	50.7
1971		545	2.8	86.5
1972		300	106	24.9
1973		307.5	104.8	80.5
1974	1,500.00	982.7	116.3	22.3
1975	100	200	432	46
1976	750	750	518.6	319.1
TQ	100	100	51.3	31.2
1977	500	500	534.6	227.9
1978	500	500	550.4	272.2
1979	1,300.00	2,700.00	579.2	308.8
1980	500	500	579.1	541.9

Year	Military		Economic	
	Grant	Loan	Grant	Loan
1981	500	900	796	217.4
1982	550	850	939	24
1983	750	950	792.6	
1984	850	850	1081	
1985	1,400.00		1,976.70	
1986	1,722.60		1,925.90	
1987	1,800.00		1,240.20	
1988	1,800.00		1,233.40	
1989	1,800.00		1,245.60	
1990	1,792.30		1,242.60	
1991	1,800.00		1,912.30	
1992	1,800.00		1,300.00	
1993	1,800.00		1,301.40	
1994	1,800.00		1,241.50	
1995	1,800.00		1,302.40	
1996	1,800.00		1,347.30	
1997	1,800.00		1,330.10	
1998	1,800.00		1,280.00	
1999	1,860.00		1,150.00	
2000	3,120.00		1009.1	
2001	1,975.60		900.5	
2002	2,068.00		780	
2003	3,086.40		655.7	
2004	2,147.30		540	
2005	2,202.20		407.1	
2006	2,280.00		290	
Total	51,354.4	11,212.5	33,187.8	3116.0

* Economic aid includes the regular aid and allocations from the following programs: Food for Peace, Export-Import Bank, Jewish Refugee Resettlement, American Schools and Hospitals, Cooperative Development.

Source: The American-Israeli Cooperative Enterprise, Jewish Virtual Library, 2007,
http://www.jewishvirtuallibrary.org/jsource/US-Israel/U.S._Assistance_to_Israel1.html.

¹ My thanks to Limor Simhony and Nizan Feldman for assisting with the research and data for this article.

² For comprehensive data on American aid, see attached table. For funding of the Arrow project, see J. Sharp, "U.S. Foreign Aid to Israel," *CRS Report for Congress RL33222*, January 5, 2006, p. 12, http://www.opencrs.com/rpts/RL33222_20060105.pdf.

³ For example, Israel is permitted to buy only items purchased also by the American military (in order to lower overall prices). The American military naturally enjoys preference in schedule of delivery.

⁴ American foreign aid in 2008, according to the as yet unapproved budget proposal, will total \$20 billion. This is a 12 percent increase from 2007, but less than a mere percent of the overall federal budget of \$2.9 trillion. Other Middle East recipients include: Egypt – \$1.7 billion; Jordan – \$464 million; Palestinian Authority – \$63 million (frozen); Lebanon – \$52 million.

⁵ Shmuel Rosner and Aluf Ben, "What Else Can Be Asked of Bush," *Haaretz*, March 2, 2007, <http://www.haaretz.co.il/hasite/spages/829337.html>.

⁶ "U.S.-Israel Meeting on Assistance," <http://www.state.gov/r/pa/prs/ps/2007/mar/81250.htm>.

⁷ Shmuel Rosner, "The Proof is in the Purse," *Haaretz*, February 14, 2007.

⁸ Mitchell Bard, "U.S. Aid to Israel," Jewish Virtual Library, 2007, http://www.jewishvirtuallibrary.org/jsourc/US-Israel/foreign_aid.html.

⁹ Mark Clyde, "Israel: U.S. Foreign Assistance," *Issue Brief # IB85066*, Congressional Research Service, April 26, 2005.

¹⁰ See appended table.

¹¹ The actual figure published by the World Bank is \$14, but this refers to the entire global population; \$22 is the average per capita when calculating only the population of receiving nations. Due to lack of readily accessible data, this global figure includes American military aid but does not include military aid from other countries. However, adding this missing data would produce merely a marginal change. Adapted from World Bank data, <http://www.oecd.org/dataoecd/52/12/1893167.xls>.

¹² Both figures in purchase power parity dollars. For GNI, see World Bank Outlook Database, April 2007, <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>; and <http://www.imf.org/external/pubs/ft/weo/2007/01/data/weoselgr.aspx>.

¹³ For the American rationale and bipartisan support for aid to Israel, see "U.S. Aid to Israel," *AIPAC Briefing Book*, 2007, http://www.aipac.org/Publications/AIPACAnalysesIssueBriefs/U.S._Aid_to_Israel.pdf.

¹⁴ See Erez Rephaeli, "American Military Aid: Discussion and Reassessment," unpublished paper, 2005, pp. 31-46. While Rephaeli's precise figures are debatable, there is no doubt that decreasing American military aid will benefit Israel's defense industry and affiliated sectors (and governmental tax revenues).

¹⁵ For in-depth analysis of this point, see Rephaeli, pp. 10-14.