מרכז אדוה مركز أدفا

Adva Center

Information on Equality and Social Justice in Israel

The Occupation: Who Pays the Price?

The Impact of the Occupation on Israeli Society and Economy

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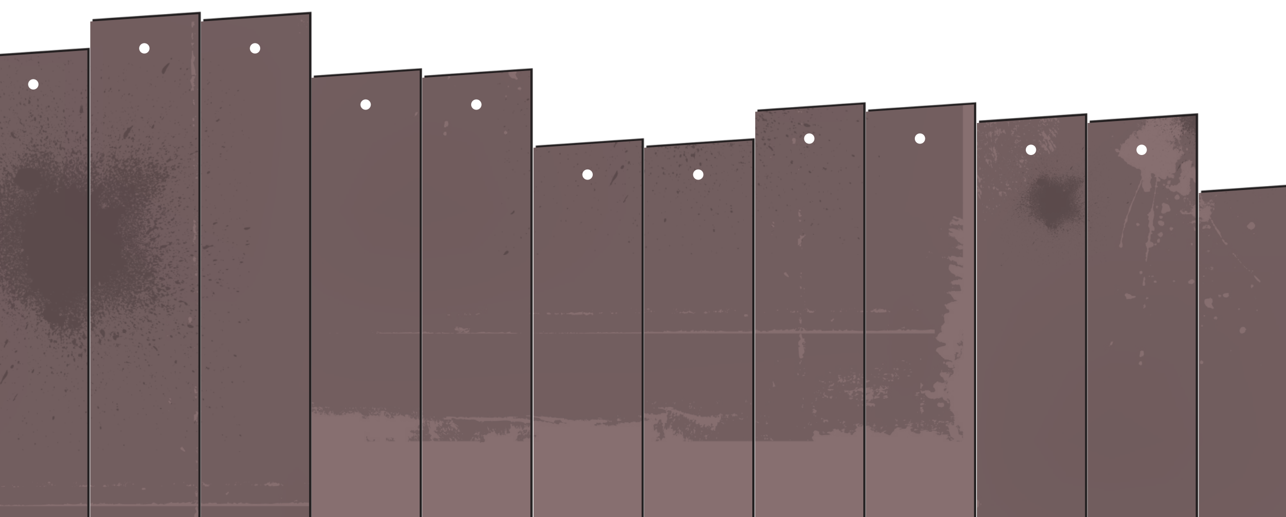
Executive Summary

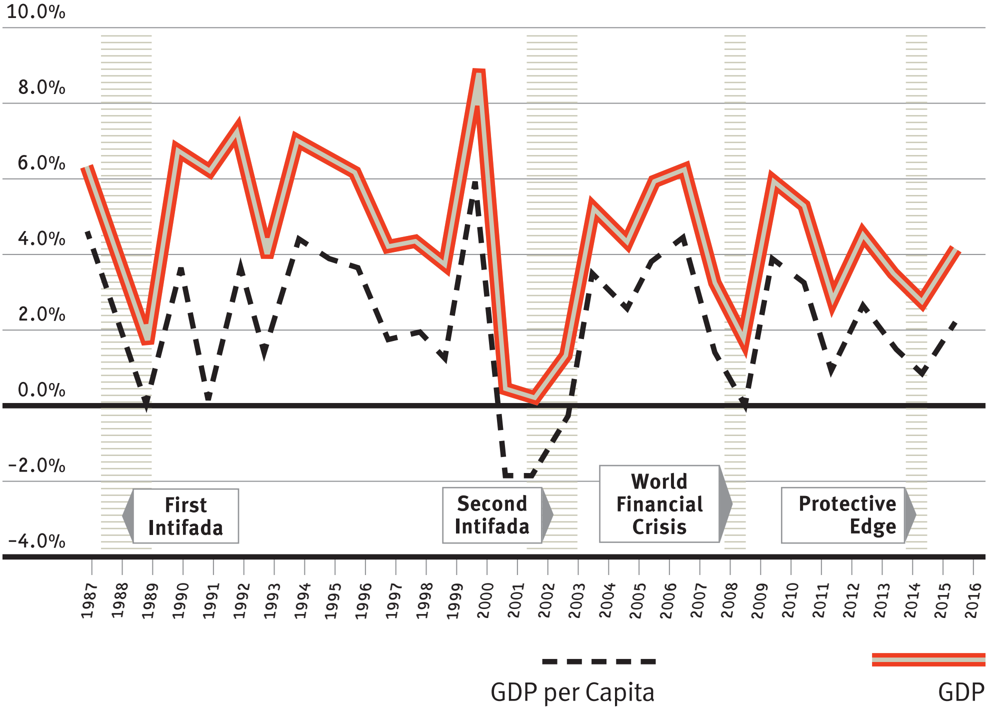


Many Israelis, perhaps the majority, relate to the occupation and the ongoing Palestinian resistance as a political or security issue unrelated to internal social and economic matters. This is an unfortunate misconception: the "maintenance" of the occupation is a very expensive enterprise, one that undermines economic growth and hampers the state's ability to invest in development of the periphery, upgrade educational services, and raise the standard of living of the majority of Israelis.

The occupation negatively affects the stability of Israel's economy and produces an unstable line of growth, especially during times of prolonged confrontations such as the two Intifadas and operation Protective Edge. The following graph shows the consequence: Israel's economic growth line resembles a roller-coaster. The graph also allows us to compare the damage of the two intifadas with that caused by the global financial crisis of 2008. Clearly, the impact of the Second Intifada was much greater.

Decrease in GDP = Decrease in Standard of Living

GDP and GDP per Capita, 1995–2016 • Percentage change



The 2nd Intifada and the economic crisis it helped to bring about must appear to most Israelis, especially the young ones, as a distant event. But lacking a political Israeli–Palestinian settlement, such an event can always recur. Let us recall that ever since that Intifada we have experienced smaller–scale violent clashes, amongst them "Protective Edge" and "Pillar of Defense," each of which was accompanied by a short economic downturn, especially in the south of the country.

The most direct cost of the occupation is the military one: between 1988 and 2010, the Israel Ministry of Defense received, in addition to ever–increasing annual budgets, supplementary funding in the sum of around 57 billion shekels earmarked for confronting the Palestinians. The sum is equivalent to one year's Ministry of Education budget.

The industry that is most sensitive to the Israeli–Palestinian conflict is tourism. Tourism has a huge economic potential, but every violent clash is accompanied by a sharp decrease in tourism.

Another negative effect of the occupation concerns Israel's credit rating, as credit rating agencies assign considerable weight to stability. Lower credit ratings mean higher interest payments – and less money for social services.

In order to keep Israel's credit rating high, Israel adopted a policy of fiscal austerity similar to that imposed by the European Central Bank in the aftermath of the 2008 financial crisis. The policy of fiscal austerity was first inaugurated during the 1985 neo–liberal economic stabilization program, but it was reinvigorated during the 2nd Intifada. Until then, no administration had taken such drastic measures – and it is doubtful that without the shock of that uprising, such measures, brought to a Knesset on short notice, and with a sense of emergency, could have passed. In 2001, at the start of the Intifada, Israel's budget was equivalent to 44% of GDP. By 2016, it had decreased to 35% of GDP.

Economic instability negatively affects not only low–income Israelis but also corporations and high income individuals. These, however, enjoy generous government protection. One example: during the 2nd Intifada, the government could have avoided cuts in social services by raising individual and corporate taxes. It did the opposite and cut both, especially individual taxes. In other words, the cost of the occupation fell mostly upon low income Israelis.

The combined effect of the lowering of social expenditures and of tax benefits to the rich was a rise in poverty to around 20%, a level at which it remains, almost 15 years after the 2nd Intifada. In 2002, social expenditures helped to reduce poverty by 31.5%; in 2014 that figure was down to 22.3%.

The Israeli–Palestinian conflict in all its manifestations has not stopped the rise of an Israeli top 1%. This is a stratum of some 85,000 people (one percent of the population of 8.5 million) who became exceedingly wealthy in the previous generation, outstripping other Israelis.

But Israel, unlike the United States, has another top one percent, and this group is political – the so–called "ideological" settlers who reside on the hills of Samaria and Judea. The political leadership of these settlers is a powerful pressure group able to impose a political veto on any evacuation of Israeli settlements and, indeed, any political accommodation that includes an independent Palestinian state.

The two one–percent groups are not identical, of course: One owns a great deal of property within and outside Israel, and can relocate in times of trouble; the other squats on hills, claiming divine title to the land, and will wage battle when threatened. One has been out of touch for years with the 99 percent staggering under a mortgage and the high cost of living, and feels at home in global financial circles; the other has been out of touch for years with the 99 percent who want a normal life without a national conflict or military reserve duty, and sees itself as the advance guard in a never–ending national–religious conflict. One benefits from the fact that the government chooses to cope with the crises engendered by the occupation with measures taken from the neoliberal toolbox, the other sees the Palestinian uprisings as justification for its claim that "there is no partner for peace."

The state tries to remain in the good graces of both groups. It curries favor with one by offering cheap credit, cheap labor, low taxes, and toothless regulation; while it panders to the other by providing the comprehensive, daily protection of the strongest army in the Middle East. One is praised as the standard bearer of growth;

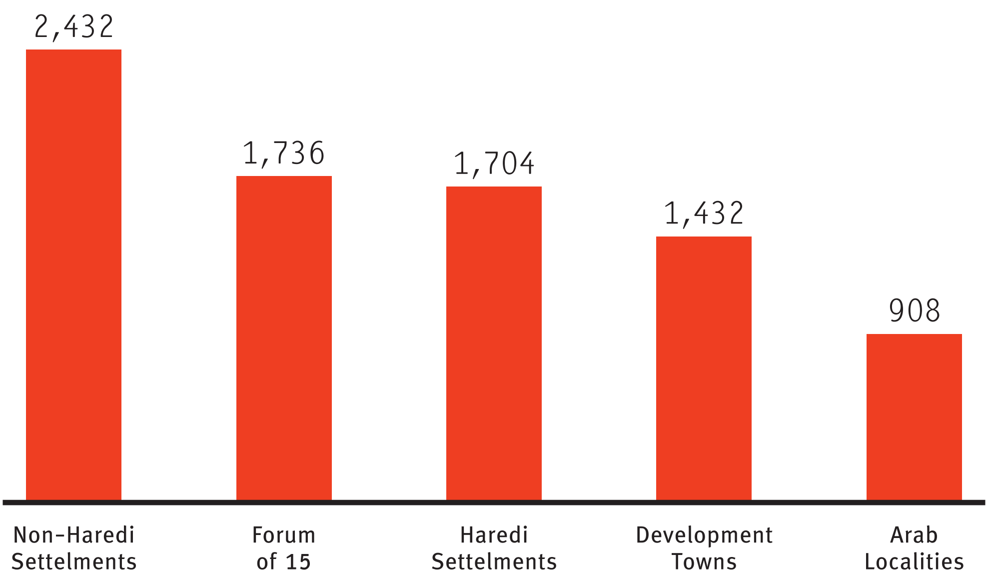
the other is embraced as the latest incarnation of the Zionist pioneer spirit.

Needless to say, both one percent groups remain distant from each other, socially and politically. During the Rabin government, most of the economic one percenters were avid supporters of the Oslo Accords, which the political one percenters fought and incited against, until an unknown emerged from that camp to assassinate the prime minister, Yitzhak Rabin.

One manifestation of the political weight of the political top 1% is the preferential fiscal treatment enjoyed by the settlements. They have more money per capita to spend on development than Jewish development towns, Arab villages within Israel, and the relatively affluent urban communities known as the "Forum of 15."

Settlements Get More = Arab and Jewish Towns Get Less

Municipal Expenditures on Development, per capita, 2015 • In Shekels, 2015 Prices



The answer to the question why is there such a big gap between what has been portrayed as the Start–Up Nation and the rest of Israel lies in the ability of both top one percent groups, the economic and the political, to shape the national agenda and to prevent steps that could decrease inequality and enable the rest of Israelis to become part of the Start–Up Nation.

It is pure folly to think that it is possible to maintain military occupation over millions of Palestinians without this negatively affecting life within Israel. Israeli discourse on the occupation centers on issues of morality and democracy. This paper proposes to add the fact that the conflict hurts our standard of living and contributes to the deepening of inequality among us.

The morning after many will ask: how could we have done this to ourselves for so long?

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