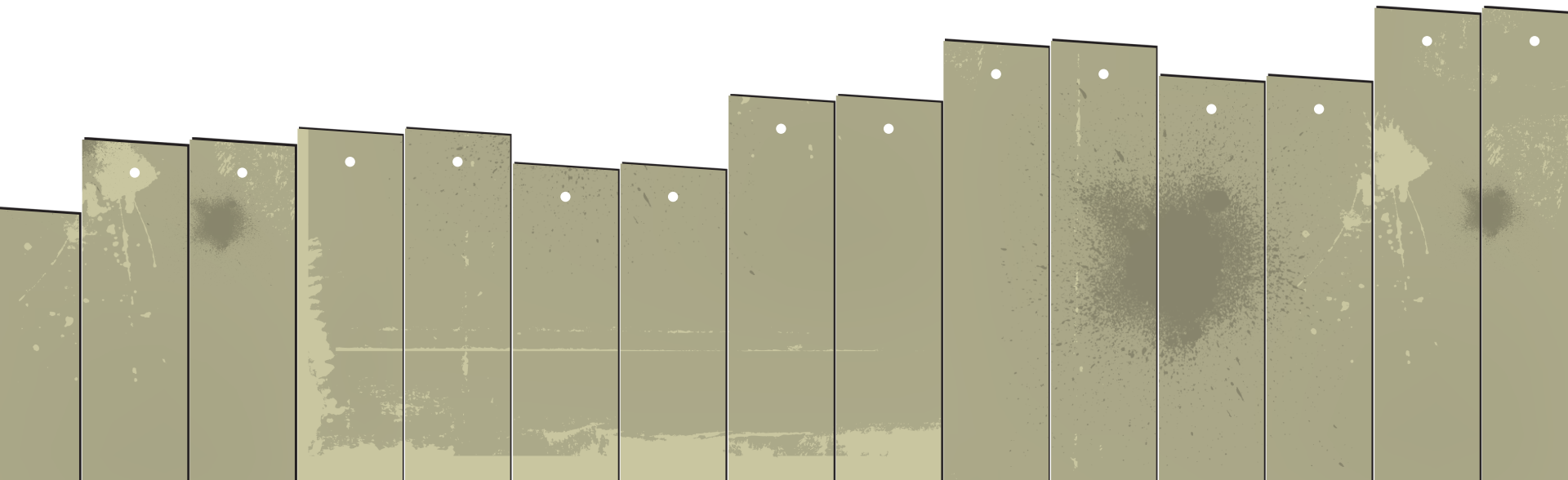


The Burden of the Israeli-Palestinian Conflict 2015

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The Cost of the Conflict

The long-standing conflict between Israel and the Palestinians exacts a very heavy price year after year. And without a political settlement, both sides to the conflict will continue to shoulder high costs.

The highest cost will continue to be borne by the Palestinians: they are subject to Israeli military control that permeates every institution and every home; they are split between “the Hamas state” and “the Fatah state”; they have difficulty creating stable political institutions perceived as legitimate by all Palestinians; they have a hard time promoting economic development and offering their youth a horizon of hope; their daily existence depends on the generosity of Western governments and humanitarian aid organizations; on the individual and family level, they are subject to land expropriations, property destruction, violence, incarceration and deportation, and to humiliation in their homes, on their streets and at checkpoints; many of them are prevented from pursuing their studies; they suffer from high poverty rates, widespread unemployment and food insecurity.

The Cost of the Conflict: The Israeli Side

Despite the fact that it is far richer and developed than the Palestinian Authority or "the Hamas state" in the Gaza Strip, Israel, too, has been paying a heavy price for the continuation of the conflict and for the absence of a political solution.

The conflict hangs like a millstone around Israel's neck: it undermines its economic stability, retards its economic growth, constrains improvement of its standard of living, burdens its budget and limits its possibilities of embarking on a long-term effort to reduce socio-economic disparities.

And that is not all: the non-ending conflict sullies its vision, harms its international standing, exhausts its army, divides it politically, prevents regional economic cooperation and threatens its future as a Jewish state.

The Socioeconomic Cost: Is it Really a Marginal Issue?

This presentation focuses on the socioeconomic cost of the conflict.

The socioeconomic cost of the conflict is not a central subject of public debate in Israel. The public debate concerning the conflict generally focuses on the cost in human lives and on its ramifications in the political sphere.

If the issue of cost should arise, Israel's political leadership hastens to emphasize that the costs are relatively light and that any negative effects on the Israeli economy are short-term ones.

Former Finance Minister Yuval Steinitz:

“We are capable of advancing and developing our economy with or without peace”

According to Dr. Yuval Steinitz, who was formerly Minister of Finance and presently serves as Minister of Strategic Affairs and Intelligence:

“I think that we all want peace, but the contention that there is a dependency between economic growth and the political situation is not grounded in fact. In 2010, with no peace negotiations, we experienced 5% growth. We are capable of advancing and developing our economy with or without peace. Peace – or the absence thereof – does not explain the economic situation or provide the reason for a recession. Our duty is to develop the economy even without peace. Everyone says that if there is peace, the economy will soar; I do not think that this is true.”¹

“Operation 'Protective Edge' Will Not Cause Real Economic Damage”

Finance Ministry officials also tend to underestimate the socioeconomic cost of the conflict. This was demonstrated during Operation “Protective Edge” in summer 2014, when senior Finance Ministry officials claimed that “Protective Edge” would not cause real economic damage. According to them, “up to a deficit of 3% – we don’t have a problem, and the budget reserves are large enough to absorb battle costs of a few billion shekels.”

Several days later, Yael Andorn, director-general of the Ministry of Finance, was quoted as saying that the 2014 budget could cover the costs of the “Protective Edge” campaign: “We do not anticipate a change in the economic growth forecast for 2015 following the campaign. If there is such an effect, it will not be felt until 2016 and it will be only marginal.”

Referring to the 2014 budget, Ms. Andorn stated that “every budget takes into consideration unexpected expenses. At the moment, the budget can cover the costs [of the “Protective Edge” campaign] and we will of course provide an accounting of the effect when the fighting ends.”²

Bank of Israel: “Following the cessation of combat, the economy resumed growth”

A similar position was taken by the Bank of Israel: In a press release published during the fighting in the Gaza Strip, it claimed that the three previous military conflicts – the Second Lebanon War, “Cast Lead” and “Pillar of Defense” operations – actually did have negative effects on the growth of the economy in the quarter in which they occurred. At the same time, in the quarters following the end of the battles, the economy quickly resumed growth and compensated for the loss of product caused by the days of combat..³

The Problem is Cumulative

Looking at the bare facts, the words of the financial officials are correct: None of the three campaigns mentioned above – the Second Lebanon War, the “Cast Lead” and the “Pillar of Defense” operations – pushed the Israeli economy off track.

However, that is a rather narrow way of viewing the situation.

Firstly, in the recent past, we have seen Israeli-Palestinian confrontations that did cause considerable damage; most notably the Second Intifada: GDP decreased two years in a row and GDP per capita declined three years in a row.

Secondly, when one examines each armed confrontation separately, the damage may seem relatively small; the problem is that the implications of the confrontations are cumulative. They are not singular and separate incidents but part of a non-ending sequence.

Gaza: Six Rounds of Hostilities in Less than a Decade

For example, in the Gaza Strip alone, six rounds of confrontations occurred in the last decade between Israel and Hamas. Some of them were large-scale and memorable, others limited and not as well remembered; the cost of some is known, the cost of others is not:

- “First Rain” – September 2005 (cost unknown)
- “Summer Rains” – June 2006 (cost unknown)
- “Warm Winter” – February 2008 (cost unknown)
- “Cast Lead” – December 2008 (cost to the economy: approximately NIS 5 billion)
- “Pillar of Defense” – November 2012 (cost to the economy: approximately NIS 2 billion)
- “Protective Edge” – July 2014 (cost to the economy: NIS 10-12 billion)

The cumulative cost of the last three confrontations to the economy amounts to about NIS 20 billion, to which one needs to add more costs: Fortifying the localities adjacent to the Gaza Strip – about NIS 1 billion; the cost of the development of the Iron Dome defense system – about NIS 3.5 billion, and maintenance costs – in 2014 alone, about NIS 1 billion.⁴

If the Cost of the Conflict is not High, Then a Political Settlement is Not Urgent

Avoiding the issue of the socioeconomic cost creates an image of reality wherein the Israeli-Palestinian conflict is a minor nuisance, one that does not threaten the long-term functioning of the Israeli economy and therefore does not require a comprehensive solution.

Minister of the Economy Naftali Bennett expressed this in an arrogant yet representative manner: the Palestinian problem is like “a shell fragment in the buttocks” that does not require extraction, as it is possible to live with it.⁵

Long-Term Damage to Israel's Standard of Living

The frequent economic crises, most of them the result of the conflict and some the result of worldwide crises, hinder Israel's possibilities of attaining the same standard of living as that enjoyed by western countries.

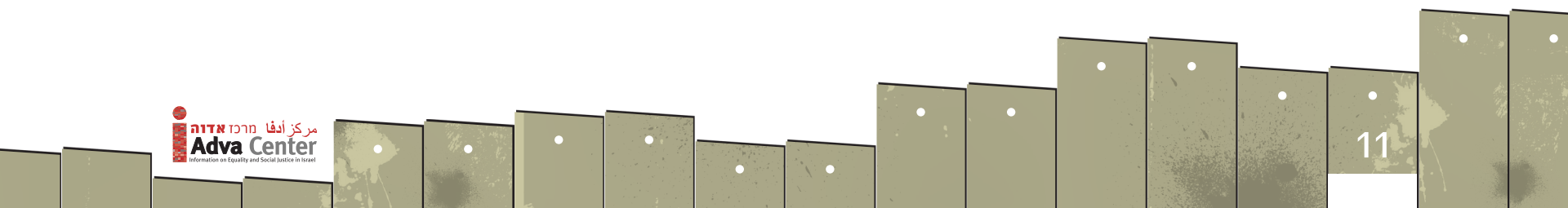
GDP per capita is the accepted index for comparing the standard of living in different countries. In Israel, the GDP per capita has grown over the last decade at a rate similar to that of Germany and the United States (0.7% and 1.2%, respectively). However, this is small consolation, as to begin with, GDP per capita in the United States and Germany is much higher than that in Israel.⁶

In order for Israel to match the standard of living of Western countries, it needs to grow at a higher rate for an extended period of time.

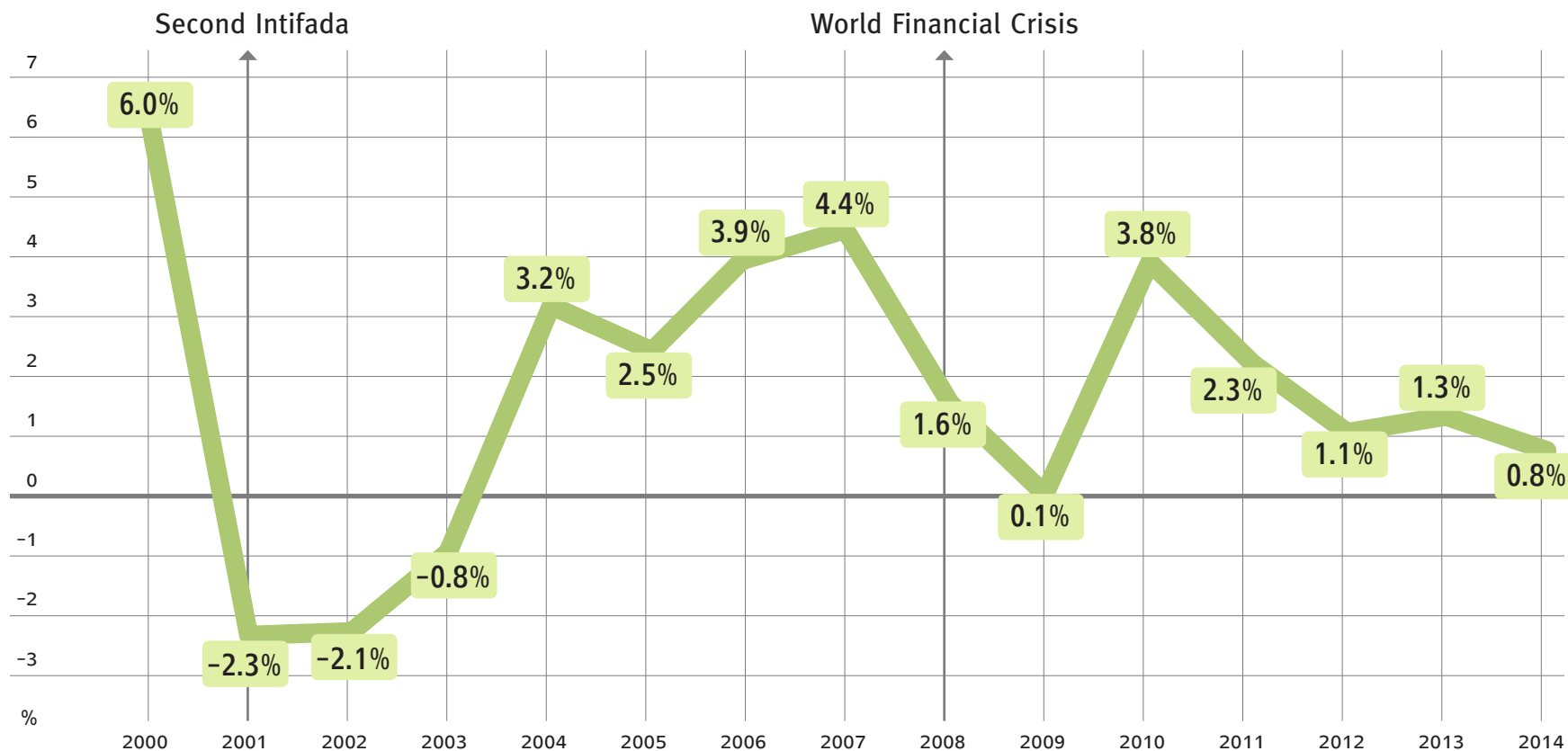
The frequent clashes with the Palestinians render this extremely difficult.

The graph below highlights the fact that Israel's economy is susceptible to two types of crises:

The first, "regular" economic crises to which every country around the world is exposed, such as the high-tech crisis in the year 2000 and the global financial crisis in 2008. The second, economic crises that are an outcome of the Israeli-Palestinian conflict, such as the First Intifada (1987-1989) and the Second Intifada (2001-2003).



Rate of Growth per Capita, 2000-2014 | In Percentages⁷



Tourism: A Faltering Industry

The sector of the economy most sensitive to the Israeli-Palestinian Conflict is tourism.

Israel and the Palestinian Authority are blessed with tourist sites that are no less attractive than those of their neighbors. However, the number of tourists who entered Israel in 2012 – 2.9 million (not including persons who came for one day only) – was significantly lower than the number of tourists visiting Turkey, Morocco and Saudi Arabia the same year. It was even lower than the number of tourists visiting Egypt and Tunisia, countries whose tourism was adversely affected by the “Arab Spring.”

When it comes to tourism, Israel is similar to Lebanon and Algeria, countries suffering from prolonged domestic conflicts.

It should be added that pre-crisis Syria also registered a higher number of tourist arrivals than Israel -- similar to that of Jordan.⁸

The Damage to Tourism Mainly Impacts Workers with Low Wages and Few Employment Alternatives - 1

The Bank of Israel describes in detail the damage to tourism caused in the context of Operation “Protective Edge”:

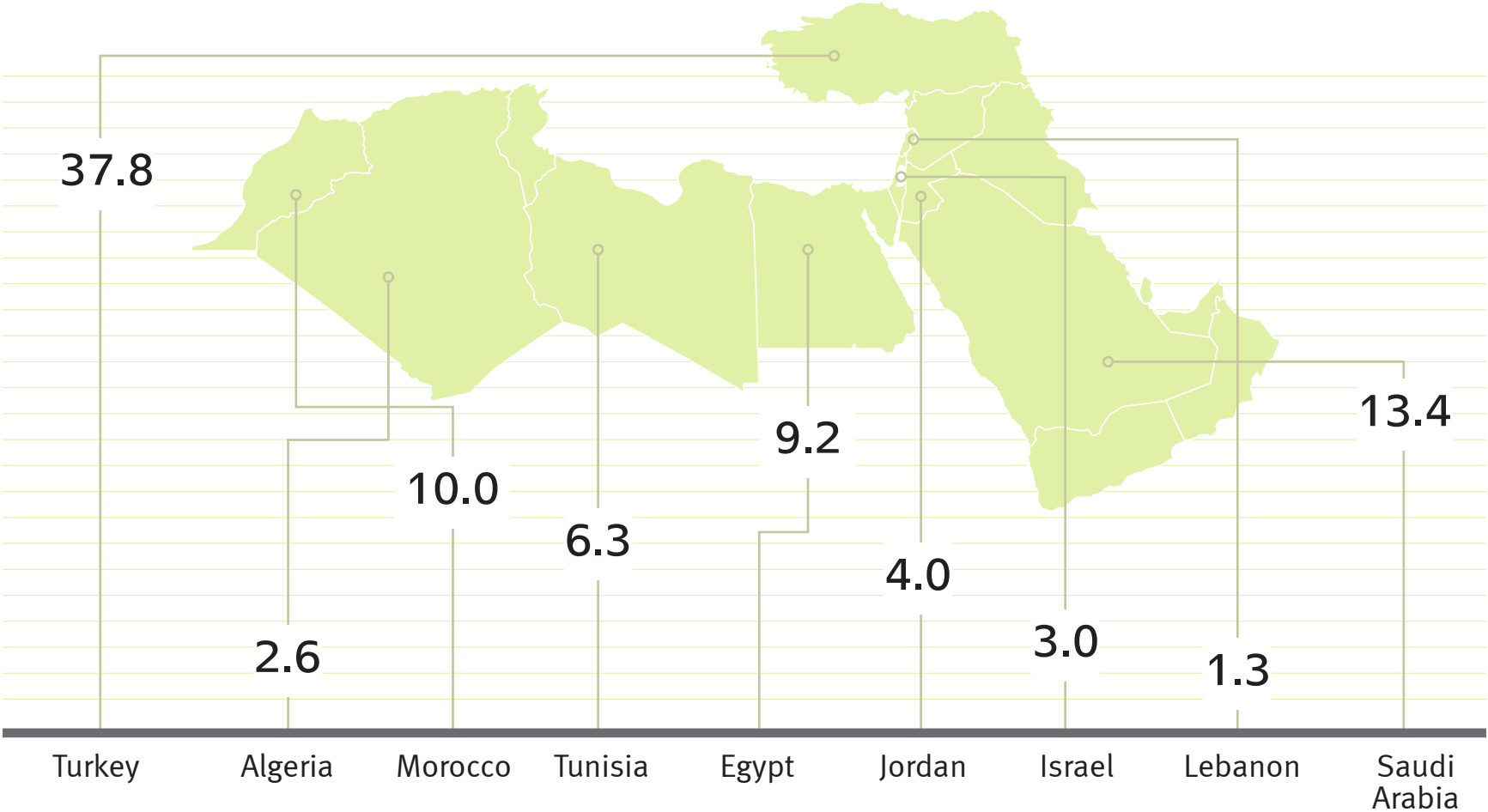
“Tourism is the industry most adversely impacted by military conflicts. All of the conflicts had a clear negative impact on this industry, as manifested by several indicators, including the number of tourist and visitor entries, the number of hotel stays by tourists, the revenue of the food and hospitality services sector and the income of Israeli airlines. The negative impact stems from foreign tourism, as international tourists respond rapidly and acutely to deterioration in the security situation, whereas Israeli tourists are much less sensitive to it. The damage caused to tourism services occurs not only during the days of warfare, but also, and primarily afterwards. The activity does not immediately recover, and it only returns to its prior level, of the period preceding the fighting, after about a year.”⁹

The Damage to Tourism Mainly Impacts Workers with Low Wages and Few Employment Alternatives - 2

It should be noted that the tourism industry (including domestic tourism) generates approximately 2.5% of Israel's GDP (in 2014, some NIS 20 billion) and employs approximately 3.5% of the Israeli workforce (about 110,000 people). According to estimates, the damage caused to tourism services due to Operation "Protective Edge" totalled some NIS 2 billion in 2014, which is approximately 0.2% of the annual product.

But the tourism industry is more significant than its share of the product, as its share of the workforce is greater and it primarily employs workers who earn low wages and do not enjoy many employment alternatives.¹⁰

Tourist Entries to Israel and Neighboring Countries, 2013 | In NIS Millions¹¹



A Relatively Low International Credit Rating - 1

The Israeli-Palestinian conflict hinders the improvement of Israel's credit rating.

According to the United Nation's Human Development Index, which includes social indicators alongside economic ones, Israel is rated (in 2013) 19th among 187 countries – unarguably a respectable position. However, Israel's credit rating is significantly lower: In 2015, Standard and Poor's rated Israel 30th on its credit rating scale.

The credit rating serves investors who seek to review the reliability level of a country (or a corporation) with regard to its monetary commitments; this reliability is in turn influenced by the country's political and military stability. The key reason for Israel's relatively low credit rating is the lack of stability in the region in general and the Israeli-Palestinian conflict in particular.

A low credit rating means a higher interest rate on capital that the Israeli government and corporations recruit overseas, as well as on loans received abroad by Israeli businesspeople.

Israel is highly vulnerable to any development that might influence its credit rating. During the Second Intifada, Israeli finance ministers lobbied credit rating agencies in New York and London so that they would not lower Israel's credit rating. Also, during the Second Lebanon War and Operation "Protective Edge," the government refrained from declaring a state of emergency – a declaration that would have significantly helped Israeli families and businesses who suffered damages – for fear that this would have a negative impact on Israel's credit rating.¹²

A Relatively Low International Credit Rating - 2

The major international credit rating agencies state that they would be able to consider raising Israel's credit rating if a significant improvement were to occur in the security situation.

At the time of writing, the credit rating agency Fitch affirmed Israel's credit rating:

“A” with a “stable” outlook. The agency noted that the damper on Israel's credit rating is the geopolitical risks, first and foremost the Israeli-Palestinian conflict:

“The rating agency expects little development in the peace process under the new government. The Palestinian Authority joining the International Criminal Court in March brings with it new risks. Some of Israel's neighboring countries do not formally acknowledge its existence, and there are also intermittent conflicts with military groups in surrounding countries and territories.”¹³

Credit Rating According to Standard and Poor's | May 2015¹⁴

Country	Credit Rating
Australia	AAA
Canada	AAA
Denmark	AAA
Germany	AAA
Hong Kong	AAA
Lichtenstein	AAA
Luxembourg	AAA
Norway	AAA
Singapore	AAA
Sweden	AAA

Country	Credit Rating
Switzerland	AAA
Great Britain	AAA
Austria	AA+
Finland	AA+
Holland	AA+
United States	AA+
Abu Dhabi	AA
Belgium	AA
France	AA
Kuwait	AA

Country	Credit Rating
New Zealand	AA
Katar	AA
Chile	AA-
China	AA-
Czech Republic	AA-
Estonia	AA-
Japan	AA-
Saudi Arabia	AA-
Taiwan	AA-
Israel	A+

An International BDS Movement - 1

Another price borne by Israel is the threat manifested in public movements in Western countries that call to boycott Israel as a whole, the settlements or Israeli corporations.

In July 2005, several Palestinian organizations initiated a campaign calling on countries, organizations and individuals to implement boycott, divestment and sanction measures (BDS) against Israel. The BDS campaign seeks to compel Israel to “end its occupation and colonization of all Arab lands occupied in June 1967 and dismantle the Wall; recognize the fundamental rights of the Arab-Palestinian citizens of Israel to full equality; and respect, protect and promote the rights of Palestinian refugees to return to their homes and properties as stipulated in UN Resolution 194.”

Boycott campaigns by European organizations began to appear even earlier. In 2002, a Norwegian retail chainstore decided to boycott agricultural produce from Israel. In 2003, when the trade agreement between Israel and the European Union was signed, the Minister of Trade and Commerce at the time, Ehud Olmert, had to accept the European demand to exclude products made in settlements from the list of products entitled to tax exemption in Europe. The trade agreement stipulated that European customs authorities would determine the place of production according to the manufacturer's address and impose an import tax on products manufactured beyond the Green Line. In the 2007 budget, the Israeli government included compensation in the sum of NIS 26 million for farmers and manufacturers operating in the territories who suffered losses by being excluded from the trade agreement.¹⁵

An International BDS Movement - 2

Israel officials tend to downplay the risks of the BDS movement. The most notable statement made thus far by an Israeli politician about the possible negative ramifications was by former Finance Minister Yair Lapid, in January 2014. His statement was made during a special discussion convened by Prime Minister Benjamin Netanyahu, following warnings sounded by the Ministry of Foreign Affairs and the National Security Council concerning the dangers of an ongoing boycott campaign. The Minister of Finance stated:

“If negotiations with the Palestinians freeze or explode, and we enter the reality of a European boycott, even a very limited one, Israel’s economy will recede, every Israeli citizen will directly feel it in their pocket, the cost of living will rise, the education, health, welfare and defense budgets will be slashed and many international markets will be closed to us.”

Lapid’s statement was based on research conducted by the Chief Economist of the Finance Ministry, which indicated that in a “reasonable” scenario, in which 20% of imports are hurt and direct foreign investments from the European Union are halted, Israeli imports will decline by some NIS 20 billion per year, the damage to the GDP will amount to approximately 1.1% and nearly 10,000 workers will lose their jobs. In response to those downplaying the significance of the boycott, Lapid added: “This is a real process, which has a real economic impact. The direction is clear, but we still have a chance to stop it.”¹⁶

In May 2015, the BDS threat received formal government acknowledgment, when Prime Minister Benjamin Netanyahu put minister Gilad Erdan in charge of addressing the danger posed by the BDS movement.¹⁷

The Budgetary Cost of the Conflict - 1

The continuous confrontations usually necessitate increases in the defense budget above and beyond the original plan – often at the expense of the social service budgets.

During the Second Intifada, the defense budget received a large increase, while the social service budgets were slashed.

After the Second Intifada, the defense budget experienced a downward trend, while the social service budgets experienced an upward trend.

Operation “Protective Edge” changed this: Even before the military campaign, the Defense Ministry announced that it needed a budget hike of NIS 5 billion in 2014 and a similar hike in 2015.

On 10 August 2014, it was published that the director-general of the Defense Ministry demanded a supplement of NIS 7 billion in 2014 and NIS 11 billion in 2015.¹⁸

The Defense Ministry Budget, 2000-2014: Budget Originally Approved by the Knesset Relative to Actual Implementation | In Billions of Shekels, 2014 Prices¹⁹

Year	Defense Ministry Budget	Actual Outlay - State Auditor's Report	Increase
2000	52.9	48.1	4.7
2001	48.7	55.7	7.0
2002	51.6	59.5	7.9
2003	50.8	55.7	4.9
2004	52.0	56.3	4.4
2005	51.6	58.7	7.2
2006	50.5	61.4	11.0
2007	56.7	63.2	6.5

Year	Defense Ministry Budget	Actual Outlay - State Auditor's Report	Increase
2008	54.8	60.3	5.5
2009	50.7	60.7	9.9
2010	52.5	60.4	8.0
2011	51.0	59.0	8.1
2012	51.4	61.2	9.8
2013	52.6	62.2	9.7
2014	50.9	--	--

The Budgetary Cost of the Conflict - 2

The most recent budgetary outcome is demonstrated in the latest annual report published by the Bank of Israel:

“The composition of government spending in 2014 was influenced by “Protective Edge”... While overall public expenditure (nominal) increased this year at a rate lower than recent years (3.2%), defense expenditure swelled by 6.9% – the fastest rate registered since 2006 [Second Lebanon War]. The government funded all the defense expenditures that resulted from the fighting (NIS 7 billion) in 2014, by using budget reserves and budget surpluses generated by a reduction in interest payments and in the rate of inflation. In addition, the government dropped planned civilian expenditures in order to divert resources to fund the fighting; this is particularly pertinent with regard to spending on transportation infrastructure...”²⁰

The Budgetary Cost of the Conflict - 3

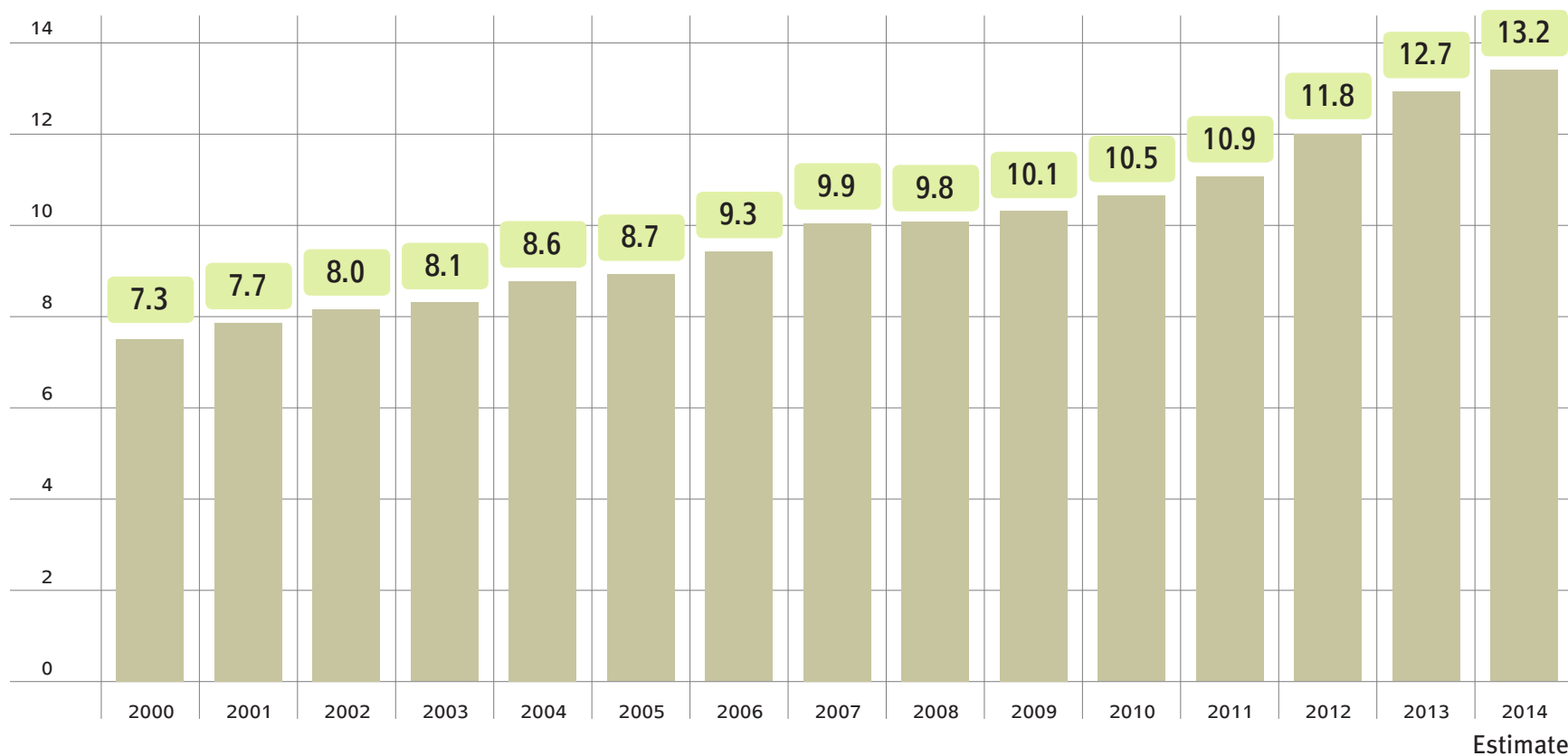
When discussing the defense costs of the Israeli-Palestinian conflict, the attention is usually placed on the defense budget. Yet, the Ministry of Public Security also dedicates a significant part of its budget and human resources to addressing the conflict. It is the only government ministry whose budget nearly doubled since the Second Intifada. This ministry, formerly titled the Ministry of Police, includes:

The Israel Police, which defines public security as the first of its three missions, with eight of its nine public security objectives related to the conflict: preventing and thwarting terrorist attacks, inspecting suspicious objects, guarding educational institutions and public transportation, promoting security in the Jerusalem envelope area and more.

The Border Police, whose activities are mainly related to the conflict, is comprised of 19% of career officers and 45% of conscripts who serve under IDF command and carry out IDF activities, the majority of which are likely conducted in the Palestinian territories.

The Israel Prison Service, which oversees the incarceration of thousands of Palestinian prisoners and detainees.

Budget of the Ministry of Public Security 2000-2013 and Estimates for 2014 | In Billions of Shekels, 2014 Prices²¹



The Financial Burden of Defense: A Future Outlook

Without a political accord, the budgetary cost of the conflict will continue to remain high. In this context, it is worth quoting the seemingly prophetic statements made by the Committee for Reviewing the Defense Budget, headed by David Brodt, in May 2007:

“The Palestinian front demands immense resources, which confine a large part of the inputs into routine security as well as into intelligence... It appears that neither the political branch nor the military branch have internalized the high alternative cost of a permanent diversion of resources for the benefit of this arena... The current defense perspective indicates that this arena will continue to be paramount and of even greater weight in the future... And the IDF will continue to invest great resources in this arena in the coming years, as well.

“Moreover, it appears that an uncontrollable process of increase in these costs is taking place, as terrorist sources are determined to continue a kind of asymmetrical arms race (or balance of terror). For example, suicide bomber terror required the establishment of the Security Fence, the cost of which is estimated at more than NIS 13 billion. This is an exorbitant sum in and of itself and certainly in relation to the Palestinian arena. The fence has been proving effective, but terror sources in Gaza partially neutralize the effectiveness of the Gaza-Israel Barrier by employing high-trajectory weapons and tunnels. The military industry is developing means to address these threats, but the cost of defensive and offensive means is very high. As for ground offensive options, these too are becoming more expensive in light of the availability to terrorist organizations of advanced anti-tank weapons. The important point is that the conflict with the Palestinians is becoming much more ‘expensive,’ particularly in terms of the diversion of limited military resources, such as manpower and attention, and this in a ceaseless manner and without any meaningful prospect on the horizon. This is one of the most significant developments that have taken place... This development was not adequately internalized, among other reasons because a large part of the costs was not fully and explicitly manifested in the defense budget itself...”²²

The Frequent Clashes Displace Social Issues

Another steep price we pay for the continuation of the conflict is that the public agenda itself is controlled by the frequent clashes. For example, prior to Operation “Protective Edge,” the discussion concerning the budget focused on the question of how to finance government commitments for social ends costing billions of shekels, as follows:

- Holocaust survivor benefits – NIS 1 billion
- Compensation to laid off employees of the Israel Military Industries (IMI) – NIS 1 billion
- Compensation to laid off employees of the Israel Broadcasting Authority – NIS 1 billion
- Reopening the Israel Broadcasting Authority – NIS 0.5 billion
- Special grant to the Hadassah hospital – NIS 1 billion
- Implementation of the recommendations of the Public Health Committee – About NIS 1 billion
- Implementation of the recommendations of the committee to combat poverty – NIS 6.2 to 6.9 billion per year
- Public Sector Collective Wage Agreement – about NIS 1 billion
- VAT exemption for new apartment purchases from contractors – NIS 3 billion

Then along came the “Protective Edge” campaign and changed the whole picture, followed by the Knesset elections that changed the picture even more .²³

Alleviation of Poverty Will Have to Wait

Prior to the “Protective Edge” campaign, one of the topics at the center of public debate was implementation of the recommendations of the Elalouf Committee to Combat Poverty.

We will recall that nearly 20% of families in Israel live below the poverty line.

About two weeks into the “Protective Edge” campaign, it was announced that “the discussions scheduled with the Minister of Finance on financing the committee's recommendations, whose implementation requires between NIS 6.2 and NIS 6.9 billion each year beginning in 2015, were cancelled due to the situation.”

It was later announced that “the recommendations of the Committee to Combat Poverty, planned to be implemented in the 2015 budget – are expected to be postponed.”

In the coalition agreement signed between the Kulanu and Likud parties in April 2015, there is a reference to the Elalouf Committee. The agreement stipulates that “in order to reduce the scope of poverty, the committee’s recommendations shall be implemented over a period of 10 years.”²⁴

Operation “Protective Edge” Postponed Discussions on the 2015 Budget – Later the Discussions Were Postponed Due to the Elections

In ordinary circumstances, the Israeli Cabinet begins discussing the budget proposal for the coming year in June and July. It holds three meetings at which the Finance Ministry presents its budget proposal, first to the Prime Minister and then to the Cabinet.

Just before the “Protective Edge” campaign, Ministry of Finance officials had finished formulating their budget proposal. The proposal remained in the drawer.

Discussions of the 2015 budget were subsequently further postponed due to the disbandment of the Knesset and the declaration of general elections.

Social Change Efforts Encounter a Double Obstacle: The Burden of the Conflict and the Burden of Neoliberal Policies

Israeli society needs a fundamental overhaul. We need to address inequality, growth that is mostly concentrated in the country's center, the trickling of the benefits of growth upwards instead of downwards, the privatization of the education, healthcare and welfare systems, housing that is becoming increasingly unaffordable and more.

The protracted conflict with the Palestinians is making it difficult to address these issues, both because of its economic cost and its domination of the public agenda.

However, we should not succumb to the illusion that a political settlement is all that is required in order to address the aforementioned issues. We must also internally confront the neoliberal ideology that has taken over the socioeconomic debate and the neoliberal policies that are responsible for many of the problems. At present, the debate has been pushed to the sidelines, due to the prominence of the occupation agenda.

Neoliberalism Stops at the Green Line – 1

Neoliberal policies were not similarly implemented on both sides of the Green Line.

Inside Israel, since 1985 consecutive governments have been implementing a consistent neoliberal agenda of downsizing the government and cutting its budget. This agenda is manifested in numerous ways, including the privatization of social services and cuts in government budgets allocated to social services.

However, this agenda stops at the Green Line. Throughout all the years of Israeli control over the Palestinian territories, the state has been a dominant player in leading development and construction processes in Jewish settlements in the territories. With regard to settlements, Israeli governments have been very actively involved, from providing infrastructure and roads and establishing industrial zones, to providing surplus funding to social services to ensure a high standard of living.

This policy has been dubbed “the welfare state in the territories,” meaning that the generous budgetary policy in the settlements stands in stark contrast to the neoliberal policy that dominates the Israeli side of the Separation Wall.

Neoliberalism Stops at the Green Line – 2

One clear example of the different government conduct on each side of the Separation Wall is the amount of government subsidies allocated to the budgets of local authorities.

The government contributes to the budgets of local authorities in Israel in two ways:

- A. Through service grants, which are used to fund state services provided by local authorities, primarily education and welfare services;
- B. Through balance grants, which are used to lower the accumulated deficit of low-income local authorities. The cities included in Forum 15, which are Israel's most affluent local authorities, do not receive balance grants.

Between 1991 and 2012, the highest service grants, per capita, were registered in the settlements. In 2012, the service grants for settlements were NIS 2,695 per capita, on average, compared with NIS 2,277 for Arab localities, NIS 1,892 for development towns and NIS 1,684 for Forum 15 cities.

In 2012, balance grants per capita stood at NIS 1,015 for settlements, compared with NIS 886 for Arab localities within the Green Line and NIS 671 for development towns.²⁵

Neoliberalism Stops at the Green Line – 3

Another example of how the neoliberal economic ideology stops at the Green Line is government-initiated home construction.

For at least two decades, Israeli governments have been shirking their responsibility for housing. In the past, governments initiated the construction of apartments, neighborhoods and towns; but today, the budget of the Ministry of Construction and Housing is much reduced and the government has transferred its authority in this area to the business sector.

In recent decades, the scope of housing starts initiated by the Ministry of Construction and Housing has been in constant decline. Whereas in 1995, the rate stood at 38% of all construction, in the years 2008-2010 this rate declined to 12%. Starting in 2011, a moderate rise was registered in construction by public initiative, and in 2014 it reached 22%.²⁶

However, the above is true primarily for Israel within the Green Line. Beyond it, the state remains actively involved, as is evident in the rate of apartments constructed by public initiative. In the Judea and Samaria district (which until 2005 also included the Gaza Strip), the rate of construction by public initiative stands at a much higher percentage; during the 1990s this rate exceeded 50%. The 2000s decade marked a decline, but the weight of publicly initiated construction in the settlements remains higher than inside the Green Line. Even today, barring specific years in which the Israeli government decided to freeze construction in settlements as part of its commitments to the US government, construction by public initiative remains quite dominant in settlements.

Construction by Public Initiative as a Percentage of All Housing Starts, by District | 1995-2014 | As a Percentage of Each District in the Relevant Year²⁷

Year	Judea and Samaria	Southern District	Tel Aviv District	Central District	Haifa District	Northern District	Jerusalem District	Total
1995	69	56	4	42	16	30	47	38
1996	59	56	11	19	17	32	65	33
1997	47	45	1	27	10	32	46	30
1998	47	39	3	19	9	21	13	23
1999	59	44	12	14	16	21	31	26
2000	60	52	1	29	17	25	51	33
2001	49	47	-	24	4	27	4	23
2002	64	41	6	22	10	17	30	24
2003	62	33	-	24	14	23	25	24
2004	53	26	1	22	8	23	4	19
2005	44	39	-	16	9	15	26	18
2006	38	27	-	15	1	16	28	15
2007	41	24	-	11	7	15	24	14
2008	34	24	-	11	3	12	22	12
2009	31	17	-	9	6	16	13	12
2010	16	17	-	12	11	16	10	12
2011	8	41	-	13	9	13	20	16
2012	11	27	-	13	8	21	32	15
2013	43	39	1	21	18	20	19	21
2014	33	31	-	18	34	20	33	22

Awakening from the Illusion of Normalcy

We opened this presentation with quotes from Cabinet and Bank of Israel officials, who ensure the Israeli public that the socioeconomic cost of the conflict is negligible and that the Israeli economy is a “normal” economy that suffers from occasional mild disturbances.

This is a misleading image. In practice, Israel proceeds from one round of hostilities to the next.

In practice, Israel pays a heavy price for the continuance of the Israeli-Palestinian conflict and the occupation of Palestinian territories. Each “round” ends with a bill in the amount of billions of shekels. Settlement security demands a high budget expenditure and the employment of large military forces. The costly services provided by the government to settlements also entail a high budget expenditure.

The conflict has taken over the Israeli political agenda. It effectively sidelines the direction of social and economic development. It is also splitting the Israeli public: the position regarding the conflict defines the political stance of individuals and parties more than their position regarding social and economic issues.

It is time to jettison the illusion that “everything is normal.”

Endnotes

- 1 "We are Capable of Advancing and Developing our Economy With or Without Peace", <http://www.globes.co.il/news/article.aspx?did=1000991736>.
- 2 Meirav Arlozorov, "Protective Edge Will Not Cause Real Economic Damage," *TheMarker*, 24 July 2014; Avital Lahav, "Ministry of Finance Director-General: The Budget Can Absorb the Operation, No Change Expected in the Ministry's Forecast," *TheMarker*, 30 July 2014.
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