

American Aid to the Middle East: A Tragedy of Good Intentions

By Yuval Levin

Aid in U.S. policy

American aid to the Middle East is a tragedy of good intentions on a grand scale. The stated purposes of aid – the service of American interests, the support of allies, and the establishment of peace – are sound, reasonable, and just. The idea of using America’s vast economic power to mold the international arena has been an important element of American foreign policy since the 1920s. And yet, in the Middle East aid has proven to be counterproductive and even dangerous for the United States and for its closest ally in the region: Israel. The story of how aid came to so distort the politics of the region in contradiction to its intended goals tells us much about international politics in our time, and indeed at any time.

Normally, critiques of foreign aid focus on the economic costs of aid to the American taxpayer. The fact is, though, that all foreign assistance makes up only one half of one percent of the federal budget, and if aid achieved its stated goals, it would be a bargain. These goals, however, have not been and could not be achieved by aid. Moreover, the argument presented here is by no means an argument against American support of Israel. Israel is the only democracy in the Middle East, and has historically been a bridgehead of American influence in the region. Israel deserves to survive and deserves the support of the United States. American foreign aid, however, does not “support Israel.” Rather it is as harmful to the Jewish state’s interests as it is to America’s.

Far from strengthening America’s allies and fostering compliance among America’s clients, U.S. aid has harmed the economies of Israel and other allies, while failing to restrain Egyptian and Palestinian misbehavior. Nevertheless, U.S. policy makers are wedded to aid because they hope that the economic “carrot” will lead the Middle East away from clashes between interests and powers, and toward a comprehensive peace. U.S. policy seems to be based on a sense that the old ways of doing things in international affairs are no longer relevant, that history as we have known it is nearing a sort of end, and that we now stand at the threshold of a whole new world. Americans (and Israelis) who think this way ignore the actual behavior of the Arab states in part because the vast sums of American money involved give recipients an incentive to play along and donors a means to justify their commitment. Thus it may be said that Americans pay for the blindfolds that cover their eyes.

Why Foreign Aid?

The practice of subsidizing allies to assure their allegiance and to upgrade their militaries extends to antiquity. Such funding became especially important to the foreign policies of Britain and Prussia in the 18th and 19th centuries, and was an essential component of the

balance of power system in European politics. In the United States this practice began in the aftermath of the First World War, when the U.S. loaned substantial sums to Germany to cover German reparations to America's former allies. These loans in effect became grants when the Germans (and later the Allies) proved unable to repay them. Similar loans of funds and equipment preceded America's entry into the Second World War as well.

But the massive economic aid programs to which we have become accustomed in the past half century were very much a product of Cold War calculations. With Europe reeling from World War II, the United States provided Western European nations with over \$13 billion in aid in an effort largely intended to save Europe from communism. Thus, a new foreign policy tool was institutionalized. Despite its clearly defined political ends, American policymakers have been loath to think of aid in cold-blooded, instrumental terms. Americans have never been comfortable with the notion that aid is a bribe to foreign nations to support American interests. Hence the U.S. has always proffered rationales for aid that minimize the political calculations behind it.

Nevertheless, the formal goals of American foreign aid policy have always been expressly political. Understandably, the Congress would approve aid only on the ground of American self-interest. "The use of the economic power of the United States to achieve broad political ends is no new policy," Undersecretary of State Dean Acheson told an audience in April of 1947, "We have always used our economic power for political ends in the national interest. It is only common sense to do so."¹ Writing in the *New York Times* on May 9, 1947, the well-connected James Reston made it clear that "the administration has not changed its objective: the holding back of Soviet expansionism. It has merely come to believe that reconstruction aid may well be the best barrier against such expansion."² The Marshall Plan and the new foreign assistance policy of the United States, then, were quite clearly to be aimed at advancing American political objectives.

As the threat of communism reached beyond Europe, so did American aid – but always with the same objective. On May 8, 1950, Acheson (by then Secretary of State) announced a policy of economic and military aid to French Indochina (later Vietnam) by saying:

The United States Government, convinced that neither national independence nor democratic evolution exist in any area dominated by Soviet imperialism, considers the situation to be such as to warrant its according economic aid and military equipment to the Associated States of Indochina and to France in order to assist them in restoring stability and permitting these states to pursue their peaceful and democratic development.³

¹ *The Marshall Plan: A Collection of Primary Documents* (Independence, MO: The Harry S. Truman Presidential Library, 1978), microfilm, 3.

² James Reston, "Administration Shifts Its Emphasis," *New York Times*, 5 May 1947.

³ U.S. Senate Committee on Foreign Relations. *Background Information Relating to Southeast Asia and Vietnam*. 90th Cong., 1st sess., 1967.

Throughout the 1950s, as it became clear that the Cold War would involve competition for client states, economic aid became arguably the major tool of American foreign policy. Aid was focused particularly in Asia, with the bulk directed to South Korea, Taiwan and South Vietnam.⁴ In the early 1960s, the justification of foreign aid widened to include a moral and ethical obligation to help developing countries in general. This focus on “development” would come to overtake nearly all other considerations in the public discourse over foreign aid. Nevertheless, the underlying political motivation of the policy remained.

In 1961 Congress passed the Foreign Assistance Act, which set up the United States Agency for International Development (USAID) and that same year President Kennedy created the Peace Corps, an organization of volunteers who perform social and humanitarian services overseas. It is important to note that this shift in focus was at the time almost entirely rhetorical. Kennedy and his advisors understood that foreign aid was to be driven by political purposes. As the president told the Congress in 1963, “these [aid] programs are clearly in our national self-interest, and have proven to be a vital tool in our efforts to hold back communism in Europe and now also in Asia and elsewhere.”⁵ Aid to the Middle East was no different.

The Origins of Aid to the Middle East

The Middle East was not an important focus of American aid policy until the early 1970s. Before that time, Middle Eastern nations including Israel, Egypt, Jordan, Lebanon and others received aid generally in the tens of millions of dollars per year as part of the American food and poverty assistance effort.⁶ The enormous growth of aid in the 1970s was directly linked to the increasing importance of the region in the Cold War.

In the 1970s, the Nixon administration crafted a new approach to Middle Eastern politics by which the United States attempted to simultaneously support its client and ally, Israel, while carefully drawing the most powerful Arab state – Egypt – out of the Soviet camp. American dollars were perhaps the essential tool in this effort, and beginning in the mid-1970s right through the present day, Israel and then Egypt have been the largest recipients of American foreign assistance.⁷

The United States gives many different types of bilateral foreign aid, but from the outset economic aid to Israel and Egypt has been granted as part of the Economic Support Fund

⁴ Vernon Ruttan, *United States Development Assistance Policy* (Baltimore: Johns Hopkins University Press, 1996), 256.

⁵ John F. Kennedy, *Collected Presidential Papers, 1963* (Washington: Government Printing Office, 1963), 317.

⁶ Ruttan, *United States Development Assistance Policy*, 279. According to the General Accounting Office, U.S. aid totaled approximately \$1.4 billion in the years 1950-1970 (combined), while in 1999 alone aid was over \$3 billion.

⁷ According to USAID, Israel became the largest recipient of American aid in 1976 (after aid to South Vietnam – which had held the top spot – was ended with the withdrawal of U.S. forces from Vietnam), and Egypt became the second largest recipient in 1979.

(ESF) operated through the U.S. Agency for International Development.⁸ In fact, Israel and Egypt alone account for over two thirds of all ESF funds granted annually.⁹ ESF, although it is classified as a development fund, exists to aid nations that the U.S. considers important to its strategic interests. The purpose of ESF assistance has been quite clearly articulated by the State Department: “to support U.S. economic, political and security interests and to advance U.S. foreign policy objectives.”¹⁰ These purposes provide the U.S. with criteria against which to measure the results.

Aid and the Israeli-Egyptian Peace Accords

Starting after the 1973 Yom Kippur War, the United States made clear that it was willing to entice the Egyptians by offering them vast sums of money, essentially on par with the economic (though at first not military) aid received by Israel. Following the Camp David Peace Accords of 1979, Egypt began receiving military aid as well, and this aid became linked with Israel’s in principle and legislation. The Camp David aid package was truly gargantuan: nearly \$5 billion to the two sides. This was a long-term commitment of American resources to fund a new sort of politics – to purchase a new world.

But what exactly was the U.S. purchasing? Ostensibly, the funds were to help both countries deal with the costs of implementing the deal, and to support them as American allies. However, two decades later it is clear that aid at best has been an incentive for the Egyptians to keep up the appearance of playing their new role (though even this has not always been done). And U.S. aid to Israel has undermined both Israel’s economic policy and its strategic self-sufficiency.

Aid to Egypt

U.S. aid to Egypt demonstrates the inadequacy of one of the central assumptions of American aid policy: that aid allows a meaningful measure of control over the behavior of potentially unfriendly regimes. In fact, as we shall see, aid and the politics surrounding it seem to make the U.S. less capable of dealing with such states, not more so. This is both because the amounts of money involved inevitably create interest groups that make their living off the continuation of the aid, and because if the aid were to be stopped the entire structure of American expectations would collapse – along with the reputations of the policymakers. And so, the U.S. is stuck financing regimes that squarely oppose its strategic interests, all the while maintaining that supporting them is an essential American strategic concern.

⁸ ESF has only existed under that title since 1978, but programs which fell under the “Economic Support for Defense” and “Security Supporting Assistance” programs before that time are now generally referred to as ESF aid as well, since the authorizing language of these different programs was essentially identical. Government documents tend to group all three under the title of ESF aid, and I will do the same in the pages to come.

⁹ Ruttan, *United States Development Assistance Policy*, 271.

¹⁰ United States Agency for International Development, *Congressional Presentation for Fiscal Year 1987*, Vol. 99 (Washington: Government Printing Office, 1987), 21.

American aid to Egypt began in 1951, with an agreement between the Truman Administration and the Royal Government that preceded the Officers' Coup that brought Gamal Abdul Nasser to power and created modern Egypt. The agreement committed the U.S. to only very modest levels of support, consisting mainly of credits to buy U.S. equipment and the training of Egyptian personnel in the United States.

When Nasser's revolutionary regime took over, however, the U.S. decided to court it with aid. In May of 1953, the two governments agreed on a new project called the Egyptian-American Rural Improvement Service (EARIS) intended to assist rural Egyptian communities. In fiscal 1954 the Eisenhower Administration, determined to keep Nasser from becoming a Soviet client, increased this program enormously, and made \$10 million available to Egypt in a lump sum. Soon thereafter, however, the U.S. realized that Nasser was turning toward the Soviet camp. Egypt's refusal to join the Middle East Defense Organization (established by the Baghdad Pact of 1955) and Nasser's general resistance to Western influence caused a cooling of relations and a drop-off in aid funds, culminating with the American refusal to fund the Aswan High Dam project in 1956. Following the Suez War of that year, the U.S. completely halted its participation in the EARIS program, and for a short time ended nearly all aid to Egypt. In 1959 and 1960, however, the Eisenhower administration made another effort to buy Nasser's sympathies. The EARIS program was renewed and a March 1960 agreement earmarked \$32.5 million dollars in development aid for Egypt.

Still, through the 1960s, the two nations seemed to be moving in opposite directions. Nasser relied on the Soviets to an ever-greater extent, and the U.S. government, particularly under President Lyndon Johnson, became increasingly dissatisfied with Egypt's role in conflicts in the Congo and Cyprus, and with Egyptian criticism of America's involvement in Vietnam. Only the fear that an economic collapse would turn Egypt toward communism kept any aid flowing at all. Nevertheless, in 1967, Nasser publicly rejected U.S. economic aid and provoked the Six Day War. Aid was not restored until 1974, after Nasser's death and the next (Yom Kippur) war.

Following that war, when Egyptian President Sadat signaled his interest in improving relations with the United States by expelling Soviet advisers, the Nixon and Ford Administrations responded by pledging aid to Egypt roughly equivalent to the economic (though not military) aid provided to Israel (in that year \$700 million).¹¹ This parity established the principle that aid to Egypt is linked to aid to Israel. The Egyptian-Israeli peace agreement of 1979 more or less formalized this parity.

The "Special International Security Assistance Act" of 1979 began the current age of American aid to Egypt, authorizing \$4.8 billion to support the Camp David peace accord. Egypt's package consisted of \$300 million in economic aid and \$1.5 billion in military aid. It has since received, on average, just over \$2.6 billion in total American aid annually – roughly a thousand-fold increase in aid in 25 years.¹²

¹¹ Ruttan, *United States Development Assistance Policy*, 496.

¹² *Ibid.*

Officially, however, the U.S. government's generosity is not blind. American aid to Egypt, unlike aid to Israel, is required by legislation to be aimed at specific projects. According to USAID, approximately 25 percent of the economic assistance program is to be earmarked for public sector reforms, and another 25 percent funds the commodity import program, which essentially facilitates Egyptian imports of American goods. The remaining half of the program is project assistance allocated, at least officially, for specific infrastructure and development projects.¹³ Of course the Egyptians do not always adhere to these allocation requirements (and money is fungible, which means U.S. dollars funding these projects free the government to spend its funds on other things). Nonetheless, there is a far greater measure of restriction on Egypt's use of American money than on Israel's. The purpose of these restrictions is supposed to ensure that the money goes to accomplish things that the U.S. wants accomplished.

Military aid has been a component of American assistance to Egypt since 1978. Military assistance began as a series of relatively small grants (\$200,000 in 1978)¹⁴ but under the Reagan Administration grew to nearly \$1 billion in combined loans and grants (at first 70 percent loans and 30 percent grants).¹⁵ Since fiscal year 1985, all military aid to Egypt has taken the form of grants (the same has been the case for all military aid to Israel since the same year) and the amounts have generally hovered around \$1.2 billion, mostly used to purchase American military equipment. These funds have allowed the Egyptians to modernize and increase the effectiveness of their fighting force.

The Purpose of Aid to Egypt

What is in it for America? What important role does the U.S. expect Egypt to play in the peace process and the new Middle East? While the United States, for strategic as well as domestic political reasons, has sought to strengthen Israel, it has sought mostly to restrain Egypt, to keep the Egyptians out of the way of American policies and to prevent the rise of extreme elements. In the immediate wake of the Camp David Accords, Harold Saunders, Assistant Secretary of State in the Carter administration, told members of the House Appropriations Committee:

Certainly, bringing about a more positive pro-American policy in Cairo is a major goal of the funding we are requesting, it is in the interest of the United States to be supportive of Egypt, and in return to get its support in Arab politics.¹⁶

¹³ United States Agency for International Development, *American Assistance to Egypt: A Briefing Book* (Washington: United States Government Printing Office, 2000), 3.

¹⁴ Ruttan, *United States Development Assistance Policy*, 497.

¹⁵ Many of these loans, however, can now be considered grants since the United States forgave nearly \$7 billion in Egyptian debt as a reward for Egypt's participation in the Gulf War.

¹⁶ House Committee on Appropriations *Middle East Emergency Package Funding, May 8, 1979*, 96th Cong., 2nd sess., 1979, 779-781.

The Results of Aid to Egypt

From the start, the U.S. has gotten it wrong. Financial incentives have proved insufficient to compel the Egyptian government to run against the grain of Egypt's anti-Western domestic identity and geopolitical outlook. It is true that Egypt has not made war since Israel gave up the entire Sinai Peninsula following the Camp David Accords. But neither has Egypt been a friendly or pro-American force in Arab politics and in the Middle East.

For one thing, Egypt's peace with Israel has been not only cold, but downright hostile. For instance, the Egyptian government allows and at times encourages virulent anti-American, anti-Israeli and anti-Semitic propaganda in the nation's government controlled press. The government daily paper *Al-Akbar* stated in an April, 2000 editorial that "Jews should not be trusted because they are a nation of vagabonds filled with hatred toward the entire world."¹⁷ One writer in Egypt's most highly regarded newspaper, the government-affiliated *Al-Ahram*, asked rhetorically: "What benefit will they [the Jews] derive from the dominion they have achieved in this world, once they leave it? How will they benefit from their riches when they reach absolute poverty [in Hell]? Who will rescue them? There is no America there, and if America were there, it would not be able to help them; rather, it would share their fate, which it also deserves."¹⁸ The government-affiliated *Al-Gumhuriya* daily published an article which argued:

*Zionist propaganda continues, even today, to raise the issue of the Nazi crematoriums for Jews, although the historical evidence, revealed by renowned German, British, and French historians, proved that claims that such crematoriums existed in the Nazi detention camps are jokes.... They were invented and used by the Zionist movement...to terrify the European countries during WWII so that the Jews would flee from Europe to Palestine, because the Zionist movement realized that the Jews ignored its call to immigrate to Palestine.*¹⁹

The most popular Egyptian film of the past few years described the story of a man who has discovered an Israeli plot to poison Egypt's drinking water, and who sets out to turn the plot against the Israelis themselves. The film ends with a scene depicting Hassidic Jews in full garb keeling over as they drink their poisoned water. The bounds of good taste prevent me from reviewing many other examples of the rhetoric of the government controlled (and often state-sponsored) Egyptian media.

Along with this sort of incitement and propaganda, the Egyptians have also taken direct action to prevent the peace with Israel from reaching the depth envisioned by its framers. Indeed, Egypt has often been at the head of Arab diplomatic attacks against the Israelis – and at one point in 1995 it even proposed a resolution to the Arab League to reinstate the

¹⁷ *Al-Akhbar* (Cairo), 12 April 2000.

¹⁸ Mustafa Mahmoud, "Some Words for Our Cousins," *Al Aharam* (Cairo), 1 April 2000.

¹⁹ *Al-Gumhuriya* (Cairo), 4 March 2000.

economic embargo against Israel.²⁰ Asked about this “cold peace” by Barry Satloff of the Washington Institute for Near East Policy, Egyptian President Mubarak said: “Believe me, it will stay cold and it will stay cold for a very long time to come.”²¹

More seriously, Egypt has also engaged in diplomatic maneuvers quite directly opposed to American interests in the region. It has for instance opposed American efforts, including ones with Jordanian support, to unseat Saddam Hussein in Iraq.²² Egypt has also opposed nearly all UN resolutions aimed at eliminating Iraqi weapons of mass destruction.²³ Egypt even supported a failed effort by the UAE to lift the UN sanctions on Iraq. As recently as August of 2000, Egyptian Foreign Minister Amr Moussa said that “the issue of Iraq has to be revisited...maintaining these sanctions is unacceptable to the Arab world.”²⁴ It is, of course, impossible to say whether these American efforts would have met with more success were it not for Egyptian interference, but the interference certainly demonstrates Egypt’s willingness to stand firmly in the way of American policy.

The Egyptians have also sabotaged the Arab-Israeli peace process. Egypt did not take kindly to Israel’s peace treaty with Jordan, certainly the most beneficial and least troublesome element of the peace process. In a speech to the Second Middle East Economic Summit in 1995, Egyptian Foreign Minister Moussa interrupted and insulted Jordan’s King Hussein saying: “Your majesty...our interaction with Israel must be undertaken with the greatest reason, confidence and wisdom, not by showing off or rushing in” – implying that the king was a reckless show off.²⁵ Again and again, the Egyptians took steps behind the scenes to make Hussein’s efforts to normalize relations with Israel more difficult.

The Egyptians also registered strong opposition to the Turkish-Israeli Military Accord of 1996, and in its wake implicitly threatened that they might form an alliance with Syria in response – thus suggesting, in the words of one analyst, that “rather than champion or at least support a pro-Western alliance, Cairo would apparently prefer closer ties with a nation that is on the State Department’s list of supporters of terrorism.”²⁶

Another useful measure of Egypt’s behavior as a client state and recipient of American aid is its willingness to back the United States in international forums. Here, too, we find that Egypt often stands in opposition to American wishes and interests. At the United

²⁰ House Committee on International Relations, *A Hearing Regarding American Policy Toward Egypt*, April 10, 1997, 106th Cong., 1st sess., 1997, 6.

²¹ *Ibid.*, 12.

²² For an extensive discussion of this episode in the mid 1990s, see Paul Remington “Egypt’s (Very Unhelpful) Foreign Policy,” *IASPS Research Papers in Strategy* 3, The Institute for Advanced Strategic & Political Studies (May 1997), 4-6.

²³ Harvey Morris, “Clinton Seeks to Ease Egyptian Tension,” *Financial Times*, 29 August 2000.

²⁴ Dina Ezzat, “A War of Words,” *Al Ahrām* (Cairo), 9 August 2000.

²⁵ *Syrian Arab Republic Radio Network*, October 29, 1995, cited in Foreign Broadcast Information Service (FBIS), October 30, 1995.

²⁶ Remington, “Egypt’s (Very Unhelpful) Foreign Policy,” 10.

Nations in the past several years, Egypt has cast its ballot against the United States 61 percent of the time.²⁷

The Egyptians have also openly opposed and violated the American embargo against Libya, and have opened the way for military, economic and political relations with the Kadhafi regime. In 1997, Republican Senator Mitch McConnell of Kentucky stated on the Senate floor that these improving relations reflected “Egypt’s shift from a partner in peace to an advocate for a terrorist state armed with chemical weapons - a capability which represents a direct threat to U.S. interests.”²⁸ McConnell even proposed cutting American aid in response, but the Clinton Administration blocked his attempt to do so.

Even more alarming than this is Egypt’s relationship with North Korea in the development of missile technology, in direct violation of U.S. laws governing foreign aid. A CIA report to Congress in 1999 stated that: “During the first half of 1998, Egypt continued to obtain ballistic-missile components and associated equipment from North Korea. This activity is part of a long-running program of ballistic missile cooperation between these two countries.”²⁹ An Air Force National Intelligence Center report from October of 1999 states plainly that Cairo “is secretly cooperating with Pyongyang in building Scud missiles.”³⁰ These reports do not state the obvious: Egypt’s cooperation consists mostly of money it pays to North Korea – money that Egypt can spend only because the U.S. itself provides the Egyptians with funds.

North Korea is designated a “terrorist state” under section 620A of the Foreign Assistance Act of 1961.³¹ That same law states plainly: “The President shall withhold assistance under this act to the government of any country that provides assistance to the government of any other country for which the secretary of state has made determination under section 620A.”³² A later law also prohibits “the sale or license of export of defense articles or defense services to any country determined by the president, in a fiscal year, to be not cooperating with U.S. Anti-Terrorism efforts.”³³

In other words, U.S. law clearly requires the United States to withhold all economic and military aid from Egypt, and even to stop exporting military equipment to Egypt. Hence aid to Egypt is not only ineffective, but literally illegal. And yet it continues, because of

²⁷ Brian Johnson, *Does Foreign Aid Serve U.S. Interests? Not at the United Nations* (Washington: The Heritage Foundation, 1996), 4. In fact, an analysis of votes at the United Nations demonstrates that 68 percent of recipients of American aid voted against the U.S. in the United Nations most of the time over the past decade.

²⁸ “Senator Proposes Cutting U.S. Aid to Egypt,” *Agence France Presse*, 19 June 1997.

²⁹ “Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions: 1 January through 30 June 1999,” [http://www.odci.gov/cia/publications/bian/bian_feb_2000.html#egypt], November 2000. The Director of Central Intelligence in accordance with Section 721 of the FY 1997 Intelligence Authorization submitted this to Congress.

³⁰ William Gertz, “Korea Continues to Develop Missiles; Sells Technology to Rogue Nations,” *Washington Times*, 28 October 1999.

³¹ *Foreign Relations and Intercourse, U.S. Code*, vol. 22, sec. 2371 (1961).

³² *Ibid.* The law also clearly defines “assistance” to include economic and technical cooperation.

³³ *Foreign Relations and Intercourse, U.S. Code*, vol. 22, sec 2781 (1996).

the insupportable (but unexamined) premise that the U.S. is helping itself by helping Egypt.

In sum, U.S. aid to Egypt is remarkably powerless against Egyptian misbehavior in part because it involves only carrots, and no stick. As Barry Satloff of the Washington Institute for Near East Policy has put it: “While important and fundamental areas of U.S.-Egyptian cooperation remain intact, I fear that they reflect only an episodic convergence of interests, not a pattern of partnership”³⁴ Aid is not changing that.

Alas, aid has brought about the sort of convergence of interests between U.S. and Egyptian officials that is injurious to the United States. The enormous amounts of money involved inevitably created interests inside the U.S. bureaucracy as well as in the body politic, whose prestige and pocketbooks profit from continued aid. Hence their support for Egypt has less to do with any affection for Egypt or for U.S. foreign policy than with a tacit bargain: American officials help Egyptian officials to get rich, and Egyptian officials help their American counterparts to validate their reputations.

U.S. strategy in the region has come to rely on an intricately constructed and well-financed chimera: permanent comprehensive regional peace. This goal requires the suspension of all the normal rules of international politics and diplomacy. Money is the means by which the United States entices the Arab states to play along. Without aid to Egypt, the Egyptians might stray from the U.S. line far more clamorously than they have, and the entire structure of the policy would collapse. Hence American policymakers have committed the nation to continued support of a country they know acts in direct defiance of American interests while using American taxpayers’ money to induce Egyptian officials to help them convince those taxpayers that they are themselves doing a good job.

Egypt is the most prominent and extreme example of this problem, but the problem applies to all of America’s Arab partners in the peace process. In order to support the inherently incredible script of the peace process, the U.S. has had to create a fictional political reality, and the only way to do this is to continue funneling money to the actors. The promise of aid brings the participants to the table, and the power of aid keeps them from openly defying the script, but just beneath the surface, as we have just seen with Egypt, the realities of politics have not disappeared, and the nations involved act in ways which harm U.S. interests and certainly contradict the vision of comprehensive peace.

³⁴ House, *Policy Toward Egypt*, 11. The Committee’s Chairman, Rep. Benjamin Gilman of New York, made the following statement to the members at the conclusion of the hearing: “Egypt has repeatedly called for easing sanctions against Libya and has refused to support even mild antiterrorism resolutions against Sudan. Egypt has opposed U.S. initiatives to compel Iraqi compliance with U.N. resolutions and advocated the reintegration of Iraq into the Arab fold. Egypt has also derailed regional arms reduction talks by insisting on discussing Israel’s purported nuclear arsenal, a move that has prevented progress on the more urgent issue of conventional arms in the region. Moreover, as for the peace process, we hear repeatedly from various sources that until 24 hours before the Hebron accord was signed, Egypt had not been helpful during the negotiations. One might add to this list reports that Egypt’s human rights record has steadily worsened in recent years. Many of our colleagues are also concerned that Egypt has abdicated its leadership role for peace and is gradually adopting a more hostile posture toward Israel.”

American policy and American interests thus come increasingly into conflict with one another, and aid is a principal cause of this growing contradiction.

Finally, aid is positively harmful because it keeps this contradiction hidden from American eyes and makes the United States a victim of its own generosity.

Aid to Israel

The causes and effects of aid to Israel are not entirely dissimilar. There, too, as in the case of Egypt, the powerful distorting influence of aid money has fostered policies that are ultimately disadvantageous to the U.S. There, too, aid has built powerful constituencies for its continuation, regardless of results. But in Israel, the close relationship between the economics of aid and the strategic consequences of aid are clearer and more immediate and dangerous. Much of the confusion and the risk inherent in the current American policy in the Middle East has to do with American aid to Israel.

By any measure, Israel is the largest recipient of American aid. Since 1948, it has received at least \$90 billion in direct aid. This is more than twice the amount of combined U.S. aid to all of Latin America in the same period, and over 2.5 times what all of Africa (excluding Egypt) has received. In fiscal year 2001, even before any special aid to cover prospective peace accords, Israel has been allocated \$2.86 billion, far more than any other recipient, and more than most regions of the world.³⁵

History

For the first 25 years of Israel's life, U.S. aid levels were relatively low. Between 1948 and 1973, the U.S. provided Israel with an average of \$122 million a year, or a total of \$3.1 billion for the entire period. In fact, more than \$1 billion of that amount consisted of loans for military equipment before and during the Yom Kippur War of 1973.³⁶ Prior to 1971, Israel received a total of \$277 million in military aid, and approximately \$700 million in economic aid.³⁷ All military aid took the form of loans as credit sales, and most of the economic aid was also given as American loans, and not grants.

All of that changed following the Yom Kippur War. President Nixon's rationale in sharply increasing aid appears to have been strategic, and not – as some observers have claimed – based on domestic political pressures from powerful Jewish groups. As former Secretary of State Henry Kissinger has written:

When confronted with the realities of power in the Middle East – after much anguish and circuitous maneuvers – he recognized that he must pursue, in the

³⁵ These figures are from the President's Budget Proposal for FY 2001, since a final budget has not yet been approved by the Congress at the time of this writing. The president's proposal is available from the Office of Management and Budget and the Government Printing Office.

³⁶ Mark Clyde, *Israel: U.S. Foreign Assistance* (Washington: Congressional Research Service, 1997-2000).

³⁷ Ruttan, *United States Development Assistance Policy*, 496.

*national interest, the same strategy which others supported for reasons of ethnic politics: to reduce Soviet influence, weaken Arab radicals, encourage Arab moderates and assure Israel's security.*³⁸

The original intention of this aid, in other words, was to advance American interests by strengthening an ally. Since 1973, Israel has received an annual package of approximately \$3 billion in military and economic aid, and four special aid packages.

The first of these special packages was a \$3 billion loan and grant package to fund Israel's withdrawal from the Sinai following the Israel-Egypt peace treaty of 1979. \$2.2 billion of that amount consisted of market rate loans, and the rest was a grant. The second special package was approved in 1985, and consisted of \$1.5 billion to combat a severe economic crisis in Israel. The third, approved in 1996, consisted of \$100 million to help Israel fight terrorism. The fourth, which also included aid to the Palestinian Authority, was a \$1.8 billion package following the Wye River Accords of 1998.

In addition, the United States approved \$10 billion in loan guarantees for Israel in 1992, and a variety of other smaller packages, such as refugee resettlement (\$80 million annually from 1992-1998 and then reduced to \$70 million in fiscal year 1999 and \$60 million in fiscal year 2000), and cooperative development programs (\$186 million since 1981). In addition, Israel receives funds directly through the U.S. defense budget for joint military projects, like the Arrow missile (for which Israel has received more than \$628 million in grants since 1986). Israel also receives offsets on Foreign Military Sales (FMS) purchases, by which U.S. contractors agree to offset some of the cost of military equipment that Israel buys from them by purchasing components or materials from Israel.

Israel's annual economic aid package was originally a part of the U.S. Commodity Import Program, which provides funds to foreign governments for the purchase of American products. Since 1979, however, this aid has been provided as a direct cash transfer in a single lump sum each year. Starting in 1985, all of Israel's annual aid (an average of just under \$3 billion annually) has been provided as a grant, rather than a loan. Moreover, Israel receives the full amount at the outset of each fiscal year, so that it may benefit from interest, which accrues on the amount throughout the year. Israel is also nearly unique among U.S. aid recipients in that it is not required to provide an accounting of how its economic aid funds are used. In return for these unusually good terms (Israel is the only U.S. aid recipient given aid in a lump sum in this way) Israel promised that the amount of its non-defense imports from the U.S. would exceed the level of economic assistance granted to it in any given year, thus in principle guaranteeing that U.S. suppliers would not be disadvantaged by the terms of Israel's aid package.³⁹

In 1998, Israel offered to voluntarily reduce its annual economic aid package in return for an increase in military aid. According to an agreement reached with the Clinton Administration and the Congress, the \$1.2 billion economic aid package will be reduced by \$120 million each year, and in principle would be phased out over ten years. Half of

³⁸ Henry Kissinger, *White House Years* (Boston: Little, Brown and Co., 1979), 564.

³⁹ Clyde, *Israel: U.S. Foreign Assistance*, 3.

the annual savings in economic assistance each year (\$60 million) is to be added to Israel's military aid package, which is to grow to some \$2.4 billion annually. In 1999, Israel received \$1.08 billion in economic aid and \$1.86 billion in military aid. In FY 2000, economic aid was reduced to \$949.1 million and military aid increased to \$1.92 billion. The FY 2001 aid package, as approved by the House Appropriations Committee in 2000 provides \$1.98 billion in military assistance and \$840 million in economic assistance.⁴⁰

While this would seem to suggest that total aid to Israel is declining slightly, in fact the Israelis fully expect any progress in peace negotiations to result in far more aid. The total would leap upwards by some \$30 billion if the U.S. carries through with plans to finance a future comprehensive accord between Israel and the Palestinian Authority, and any future deals with Syria or Lebanon would certainly bring further sizeable (and renewable) grants from the U.S. Treasury.

Why Aid To Israel?

Why does the United States provide so much aid to Israel? Surely, Israel's utility for American interests is an important part of the answer, as is a certain natural affinity among Americans for a beleaguered Western democracy in a dangerous neighborhood. As discussed earlier, America's new vision for the Middle East also necessitates sizeable economic support. There is no doubt that pressure and lobbying from Jewish political organizations in the U.S. and the power of the Jewish vote also has a great deal to do with the policy. But all the answers have one theme in common: the U.S. gives aid to Israel because it believes that by doing so it will help Israel and U.S. interests as well. This provides the U.S. with clear-cut criteria by which to assess the policy: Does aid in fact help and strengthen the Jewish state? Does it further U.S. interests?

The Results of Aid to Israel

The answer – counterintuitive as it may first appear – is decidedly no. Even at the most basic level, that of economic performance and growth, aid does not strengthen Israel. Rather, it weakens Israel by exacerbating the most serious source of its weakness: the persistence of a system of institutions and elites that refuse to allow the nation to liberalize and that depend for their existence on the survival of the socialist economy. Moreover, at the level of strategic thinking and defense planning, aid also weakens Israel by distorting its understanding of strategic realities.

Economics

Analysis of the economic consequences of aid must conclude that aid slows growth, stifles economic activity, encourages inefficiency, and keeps alive Israel's socialist system. It is profoundly counterproductive for the Jewish state.

⁴⁰ "House Committee Passes Israel Aid Bill Despite Controversy," [<http://www.menewslines.com>], 28 June 2000.

That Israel lives under a socialist system should be beyond question. The Jewish state suffers from all the usual maladies of a government-dominated economy. The government owns 92 percent of the nation's land, nearly all of its natural resources, and a substantial number of major corporations (including Israel's only electricity and water suppliers, nearly all of its military industries, the nation's major airline, a number of insurance companies and hospitals). The state also has a controlling stake in the nation's only domestic (non-cellular) telephone service provider, the nation's only oil refining firm, and many other key industrial and economic players.

To maintain its control over the allocation of capital and resources and its dominant role in the economy, the government – again following the usual statist pattern – has established an intricate system of transfer payments and benefits to individuals. Public spending in Israel accounts for over 57 percent of the nation's GDP⁴¹ (compared with 33 percent in the United States at all levels of government combined). Of course, what the government gives it must first take away, and so tax revenues constitute nearly 54 percent of GDP.⁴² The top marginal income tax rate is over 60 percent, and all purchases are subject to a value added tax. Such massive government spending, taxation, and ownership of capital and resources is highly detrimental to growth and prosperity. Government officials and their cronies utterly dominate the nation's economic life. Government activities and the rules that support them, the non-corrupt ones as well as the corrupt, hamper the development of Israel's private sphere, and provide a serious disincentive to entry for potential investors and entrepreneurs.⁴³

Over the past 25 years, American aid and other lesser forms of “free money” have made this bad situation worse and have created an attitude of dependence which permeates the thinking of Israeli policy makers. Israel has come to conceive of itself as a charity case, and to live off the kindness of strangers, without in truth needing to do so. Figures made available by Israel's own Central Bureau of Statistics reveal that the era of aid has been a dark age for the Israeli economy. Between 1950 and 1973, the pre-aid age for Israel, per capita GDP grew at an average annual rate of 5.59 percent -- a healthy rate indeed for a new nation developing in difficult circumstances. But between 1974 (when sizeable U.S. aid began) and 1999, Israel's per capita GDP grew at an average annual rate of only 1.51 percent.

⁴¹ “Statistical Abstract of Israel 2000,” 20.13, [http://www.cbs.gov.il/shnaton51/st20_08a.pdf]. Table 20.8a notes that in order to properly compare expenditure with revenue, the figure used here for expenditure excludes repayments (or rollover) of existing debts (approximately NIS 42 billion in 1998), and thus includes only net new borrowing (approximately NIS 17 billion) as a form of spending. Government spending thus amounts to NIS 166 billion, or some 57.12 percent of GDP

⁴² *Ibid.*, 20.12. Table 20.7 notes that for proper accounting and comparison, this figure also includes that portion of capital receipts which may be considered genuine revenue (NIS 11 billion in 1998) along with straightforward tax revenue (NIS 145.6 billion). Revenue thus amounts to NIS 156.6 billion, or some 53.8 percent of GDP.

⁴³ For more on this picture of the Israeli economy the reader is invited to examine 15 years worth of rigorous analysis and commentary by the Division for Economic Policy Research of the Institute for Advanced Strategic & Political Studies, and the writings of Alvin Rabushka and the Institute's Koret Fellows.

The causes of this sharp decline in growth have much to do with the habits of dependency that have developed around the unearned infusions of funds that flow into Israel by the billions of dollars each year. Under their influence, the Israeli economy ceased even to strive for self-sufficiency, and the nation ceased to depend on its own productivity to support its standard of living. The costs – in real terms and in lost potential income – have been enormous.

Figure after figure and statistic after statistic demonstrate that Israel is not economically self-sufficient, and that the Israeli government seems untroubled by this fact. In 1998 the government spent some \$2.3 billion more than it took in through taxes.⁴⁴ In the same year, even more remarkably, the nation imported nearly \$6 billion more in goods and services than it exported.⁴⁵ This massive trade deficit amounted to over 8 percent of Israel's GDP.

Such gross imbalances have persisted in Israel for decades, but the Israeli government's response has not been to reduce spending or rein in consumption. Quite the contrary, government spending has increased by at least 5 percent annually through the past decade, despite staggering disparities between revenues and outlays.⁴⁶ Private consumption growth has meanwhile steadily outpaced GDP growth.⁴⁷ Israel is clearly living well beyond its means.

How has this situation continued over so many years? Why has Israel not taken action to end these gaping disparities? The answer is that Israel does not pay for these gaping disparities out of its own pocket. Outsiders cover the costs, or at least a very substantial portion of them. Israeli citizens receive what they perceive as the benefits of the services and transfer payments provided by an omnipresent welfare state, while at the same time importing far more than they export, purchasing far more than they make, and not paying for it all.

The costs are covered by a combination of government borrowing and unilateral transfers from abroad. Domestic borrowing consists mainly of domestic currency bonds issued by the government; while foreign borrowing includes the sale of Israel Bonds, the exercise of U.S. loan guarantees, bond sales in Europe, and a variety of other loans. Net new borrowing in 1998 amounted to approximately \$4.1 billion,⁴⁸ though the figure had been substantially higher earlier in the 1990s, as Israel made use of \$10 billion in American loan guarantees granted in 1992. It should also be noted that a fairly substantial portion of

⁴⁴ "Statistical Abstract of Israel 2000," 20.11, [http://www.cbs.gov.il/shnaton51/st20_07a.pdf]. See Table 20.7a for revenue figures, and Table 20.8a, 20.13 (for spending figures) [http://www.cbs.gov.il/shnaton51/st20_08a.pdf]. See the two previous notes above for explanations of the calculations used to derive this deficit figure.

⁴⁵ *Ibid.*, 8.5. See Table 8.1, [http://www.cbs.gov.il/shnaton51/st08_01.pdf].

⁴⁶ "Israeli State Budget, Fiscal Year 2000," [<http://www.mof.gov.il/budget2000/part25.htm>]. This text is in Hebrew.

⁴⁷ *Israel in Figures* (Jerusalem: Israeli Central Bureau of Statistics, 2000), 14.

⁴⁸ "Statistical Abstract of Israel 2000," 20.12, [http://www.cbs.gov.il/shnaton51/st20_07b.pdf]. See Table 20.7b.

the money raised through the sale of bonds abroad is never redeemed by the generous owners, and thus becomes a grant.

More importantly, and most amazingly, unilateral transfers – essentially free money – added up to well over \$6 billion in 1998. Along with U.S. aid in all its many forms, this figure includes personal restitutions from Germany and other remittances to individuals as well as assorted minor institutional remittances, but the great bulk of it, 64 percent of the whole, is direct aid from the government of the United States to the government of Israel.⁴⁹ In sum, the Israeli government is able to spend approximately \$10 billion more each year than it takes in through taxes, and the great bulk of that amount is in the form of aid funds that never have to be repaid.

This flow of free money creates a set of perverse incentives that distort Israeli government policy in countless ways. Confronted by the difficulties that sometimes beset nations – a negative balance of payments, a government deficit, – the Israeli government looks for a solution not to better policy or stronger growth but to outside aid. This prevents the source of the problems from being addressed, and ensures even greater reliance on aid in the future. The quick and easy fix of aid has become a sort of narcotic for the Israeli political system, and Israel's elites have convinced themselves that the nation cannot live without it. Under this mindset, aid becomes the overarching goal of policymakers. The purpose of the nation's economic policies is no longer growth but rather aid; the purpose of its foreign policy is no longer strength but rather aid; the purpose of its defense policy is no longer security but rather aid; and in the end the motivations driving policymakers are not calculations of national interest but the desire for continued and expanded aid.

Israel's governing elites have been particularly prone to this distorted frame of mind because a cessation of aid would necessarily undermine – indeed it would dismantle – the socialist system, which nourishes the bureaucrats and politicians who now run the country. Aid, therefore, is not only a way to avoid paying the bills, it is a way (in truth the only way) to keep Israel's socialist system alive, and with it the power and positions of Israel's elites.

Aid from abroad has both harmed the Israeli economy and put up barriers to repairing the damage. Israel is not only unproductive; it does not strive for productivity. It not only lacks economic freedom, it has no desire for such freedom. It desires only aid, and it constructs its policies accordingly.

Of course, such a course is bound to end in painful failure. While aid may cover this year's deficit and next year's trade imbalance it is no long-term substitute for sound economic policy. And yet, each year as Israel's troubles grow, the clamor for aid grows only more desperate, and the likelihood of genuine reform dims further. As we shall see

⁴⁹ "Statistical Abstract of Israel 2000," 7.6, [http://www.cbs.gov.il/shnaton50/st07-02ab_e.shtml]. Table 7.2 notes the breakdown as follows: personal restitutions from Germany \$788 million; other personal remittances \$1 billion; Institutional remittances \$367 million; intergovernmental remittances \$3.95 billion.

more clearly in the coming pages, Israel's desperate desire for aid has much to do with its commitment to foreign policies that weaken it even further.

In the end, the United States is not strengthening its ally with aid, but rather it is contributing to its growing weakness and blindness. The weakening of Israel is certainly bad for America's strategic interests, both directly and (by the effect of a weakened Israel on the calculations of other American allies like Turkey) indirectly. Yet the United States pays for Israel's internal and external weakening, as if it were doing good for itself and for its Israeli allies. Tragedy is not too strong a word.

Military Aid

Israel's defense needs are of course often cited in response to calls for an end to American aid. The bulk of U.S. assistance to Israel is labeled as defense aid, and is targeted toward Israel's military and defense procurements. Proponents of continued aid often argue that Israel could not maintain its strategic advantage if such aid were halted.

These claims, however, do not stand up to scrutiny. The first and foremost point to grasp about military aid is that, because money is fungible, military aid is in fact a form of economic aid, and must therefore be considered in light of the conclusions reached in our discussion above. One dollar of aid, regardless of where it is spent, allows the government to allocate a dollar of its budget to another purpose. It is true that military aid comes with a number of strings – it must be spent on defense needs, and approximately 75 percent of it must be spent in the United States – but these needs are ones on which the Israeli government would spend money in any case. Most likely, it would spend much of that money in the United States. By providing money for these purposes, the U.S. allows the Israeli government to have more funds for other uses.

With a current annual budget of \$43 billion, how badly does Israel really need the roughly \$2 billion in military aid?⁵⁰ The government could easily make up for the loss of these \$2 billion by reducing the tax burden on the Israeli taxpayer (thus encouraging growth and increasing government revenue) and focusing on its truly essential tasks like defense.

In fact, many Israelis have come to oppose American military aid, and to believe that Israel does not require cash transfers to maintain its strategic edge. "If we absolutely needed aid for our defense," says Uzi Landau, a Likud member of the Knesset, "it would be worth the associated headaches, but we do not."⁵¹ Israel should, according to Landau, "wean itself of U.S. aid. It will be a painful process, I'm sure, but ultimately our economy and our national security will benefit."⁵²

Former Israeli Defense Minister Moshe Arens has expressed similar sentiments. For these Israelis, the main argument against defense aid has to do with the constraints it places on

⁵⁰ "Israel," in *World Factbook* (Washington: Central Intelligence Agency, 2000).

⁵¹ Barbara Opall-Rome, "Military Aid Hot Issue," *Defense News*, 10 July 2000, 19.

⁵² *Ibid.*

Israel's own weapons industries, but their opposition goes to demonstrate that Israel does not absolutely require the aid for its security, and that even Israelis who have served at the highest levels of the defense establishment believe it can do without it. The money, Arens says, "is certainly not as crucial today as it was in the past to Israel's well being since the \$1.9 billion is only 2 percent of GDP...it is not something that is going to make or break Israel."⁵³

Strategic cooperation between the two nations (including joint military development projects and access to weapons and intelligence data) is in the interest of both the U.S. and Israel. But direct grant aid does not serve the interests of either.

The Strategic Consequences of Aid

American aid also contributes to arguably the Jewish state's most dangerous problem: the Israeli elites' profound confusion about Israel's strategic problems as well as the growing conflict between their personal interests with the interests of the state as a whole. Substantial numbers of Israeli elites in fact accept the vision of the new Middle East that drives American policy. Like their American counterparts, Israeli officials, too, state passionately that a whole new era is upon us, and that the realities of the past have lost all relevance. "The international political setting is no longer conducive to war,"⁵⁴ writes former Israeli Prime Minister Shimon Peres, and in the future "national goals will no longer be based on control or territory."⁵⁵ He continues, echoing the views of many elites in Israel, Europe and the United States, that "national political organizations can no longer fulfill the purpose for which they were established...the modern era offers no fool-proof means of national defense other than a wide-ranging regional arrangement."⁵⁶ But although these views are very much in line with U.S. policy, they are very much out of line with the understanding of regional politics that Israel requires to survive. And yet, just as aid has driven these elites to accept and champion the peace process, it has also allowed them to argue that any dangers to which their policies expose Israel are more than made up for by American support.

U.S. aid, then, creates the strategic equivalent of what investors call "moral hazard" – that is, an inducement to irresponsibility caused by the belief that someone else will bear eventual losses. In foreign policy as in economic policy, then, aid masks the effects of the Israeli elites' defects. The cycle of error is circular and self-intensifying. Israel's elites do not wish harm on their people or their nation, but the combination of economic and political interests with a crude idealism in international politics has made them heedless of the consequences of their actions. The violence which began in September 2000 is the starkest example and most direct result of this cycle of errors.

⁵³ Arieh O'Sullivan, "Waiting for Israel to Blink," *Jerusalem Post*, 11 July 2000.

⁵⁴ Shimon Peres, *The New Middle East* (New York: Henry Holt and Co., 1993), 80.

⁵⁵ *Ibid.*, 156.

⁵⁶ *Ibid.*, 83.

Aid and the Peace Process

The peace process of the past decade has exacerbated the contradictions inherent in American aid policy. It has put more Arab states in Egypt's position (profiting from American largesse while working against U.S. interests), and has deepened Israel's acceptance of and dependence on this line of policy. It has placed American policymakers in the position of paying to maintain a fiction that masks a disastrous policy.

Following the American decision to pay most of the costs related to the implementation of the Camp David Accords and to place the signatories on a program of sustained massive aid, it became clear that American dollars would be a major prize for any Arab state willing to even recognize Israel's existence. The Palestinian Authority and Syria have both sought (and the Palestinians have indeed begun to obtain) the same sort of American assistance that the Egyptians have received. Upon receiving it, they have appeared equally unlikely to act in accordance with American interests. That is because the interests of the parties involved, particularly of the Palestinians and Syrians, are not always what they appear and are nearly never those of the United States. Hence American money cannot buy genuine change.

The Palestinian Authority

The Palestinian case very much resembles that of Egypt. The peace process has committed the U.S. to supporting a regime that has proven to be undemocratic, inhumane, and anti-American in nearly all respects.

The United States has mustered great resources to reviving the Palestinian Liberation Organization and to building it up into the Palestinian Authority. Each year since 1993, the U.S. Congress has allocated several hundred million dollars to the Palestinian Authority, mostly under the auspices of the USAID.⁵⁷ The benefits for the United States are, presumably, an end to the conflict in the Middle East and enhanced stability in the region. If there really were a process leading to real peace, these American dollars might be well spent. But the notion that the corrupt thugs who run the Palestinian Authority are interested in peace and participation in America's "globalized" world is a fiction difficult to maintain.

Following the pattern of Egypt, the Palestinian press, including the official mouthpieces of the Palestinian Authority, regularly revile and malign the United States as much as Israel. "The actions taken by the United States in the name of international legitimacy in recent years," wrote the PA paper *Al-Hayat Al-Jadida* in 1998, "are the worst sort of contemporary barbarism, worse than what we have seen in this century from the Nazis, the Fascists, the Jews, the Cambodians, the Serbs, and the Rwandans."⁵⁸ Such statements,

⁵⁷ The allocation request for FY 2001 currently stands at \$100 million, though of course any new agreement with Israel is likely to bring the PA far greater sums, if the patterns of the past are any indication.

⁵⁸ *Al-Hayat Al-Jadida* (Gaza), 2 December 1998.

and school textbooks in the same vein, are standard fare. Official PA statements about Israelis and Jews go further, much further.

Moreover, the Palestinian Authority openly opposes American policy in the Middle East, including most prominently the American stance on Iraq (Arafat and the PLO, it must be remembered, supported Saddam Hussein during the Gulf War, and official Palestinian spokesmen have continued to speak out in support of the Iraqi leader ever since). Despite the fact that Saddam's invasion of Kuwait and the PA's support for it caused tens of thousands of Palestinians to be expelled from good jobs in the Gulf and into poverty, the Palestinian leadership regularly and successfully uses support for Iraq to rile up its people, as when Palestinian Ministry of Justice official Sheikh Mahmoud Salameh called on Palestinians to take up arms in the cause of Iraq. "Islam obliges us to wage *jihad*," he told PA television, "the Arab nation is a Muslim nation and Iraq is a Muslim nation that is under attack."⁵⁹ Guess by whom!

The PA is anti-American to its core. There is not a shred of evidence for the notion that this regime will turn pro-Western in the foreseeable future. Conceivably the death of the entire current leadership might do the job. But paying and empowering that very leadership certainly cannot. There is no doubt that the PA leadership's policies, from the Gulf War to the Rosh Hashanah 2000 War, plus its own corruption – all abetted *de facto* by U.S. aid – have impoverished Palestinians. Unfortunately, there is even less doubt that the PA leadership has succeeded in turning popular anger at misery toward the U.S. and Israel.

Any future final status agreement between Israel and the Palestinians would certainly transfer many more American dollars to the Palestinian regime. In late July of 2000, sources in the Congress told the *Washington Post* that they believe a new Israeli-Palestinian deal "could cost U.S. taxpayers as much as \$15 billion--and possibly much more--over the next few years."⁶⁰ Moreover, Palestinian officials have floated a figure of \$40 billion for the cost of relocating refugees – an expense the U.S. has said it will cover with the help of EU and Persian Gulf allies.⁶¹ "Whatever it takes will be astronomical," Rep. Nancy Pelosi, a Democrat from California, recently told the *Washington Post*, "but it will be worth it to have peace."⁶²

If money could buy genuine peace, it might indeed be worth it, but that is not what American money has so far bought, and no one has suggested how America might get its money's worth in the future.

⁵⁹ *Palestinian Authority Television, 18 December 1998*, (in Arabic) (Washington: Middle East Media Research Institute, 1998).

⁶⁰ John Lancaster, "Congress Alerted To Price Of Peace," *Washington Post*, 16 July 2000.

⁶¹ *Ibid.*

⁶² *Ibid.*

Syria

American money has also had much to do with Syria's calculations in the peace process. Most sources suggest the Syrians would receive tens of billions of dollars if a Syrian-Israeli deal followed the pattern of earlier peace agreements.⁶³

The track record of the Assad regime under the current president's father suggests that these funds would be used for ends that squarely contradict American interests. Syria's decision to open discussions on a deal with Israel led some in the U.S. and Israel to argue that the late Hafez el Assad had made a "strategic choice for peace," and that this meant he had rejected his earlier anti-American policy goals, but an examination of Assad's strategic considerations suggests otherwise. Indeed, a peace strategy is very much in line with those long held anti-American objectives.

Peace with Israel would put America's stamp of approval on Syria's occupation of Lebanon, and would allow the Syrians to eradicate any remnants of Lebanese independence without fear of negative reactions in the West. Israel has already signaled its willingness to accept such a Syrian move if a peace deal were achieved, and the U.S. has suggested it would support it as well.⁶⁴

Such a deal would also free the new Syrian leader to renew Syria's longstanding confrontation with Turkey – a vital American ally. Once the American and Israeli governments have committed themselves to the preservation of Bashar Assad's regime by signing an accord with him, they would be hesitant to risk the hard-bought pretense of peace on an intervention on behalf of the Turks, should Syria take action against them. Assad would be bound to gain some leeway in his treatment of Turkey, and some leverage against it. The Turks depend on American diplomatic and military support. What would Turkey do without it? And what would the U.S. be doing to itself by exchanging the allegiance of the friendly Turkish regime for the deceptive half smiles of Syria's dictators?

The Syrian regime also houses and aids international terrorists of all stripes, and serves as a hub of the regional trade in illegal narcotics. An American sponsored Israeli-Syrian deal would make it far more difficult, rather than easier, for the United States to speak up or take action against these activities.

⁶³ John Broder, "Israel and Syria Resuming Search for Major Accord," *New York Times*, 4 January 2000. On January 4th, 2000, the *New York Times* reported that Clinton Administration officials were prepared to ask Congress for "between \$10 billion and \$100 billion over the next several years" to fund an Israeli-Syrian accord. The upper end of that figure is certainly an effort to overestimate in order to soften the blow when the true request comes, but it suggests that the eventual amount may be in the tens of billions of dollars. The deal that was expected in early 2000 never came, but any future deal would likely carry a similar price tag.

⁶⁴ Lally Weymouth, "Q & A: 'We Have To Act, Not Just Talk,'" *Washington Post*, 31 October 1999, B1. "Syria has had a say in Lebanon for a long time," Israeli Prime Minister Barak told the *Washington Post* late last year, "and will have a say in Lebanon in the future – even once an agreement is achieved."

Along with all this, as stated above, a deal with Israel would bring enormous amounts of American dollars into the Syrian treasury. Thus, as with Egypt and the Palestinians, a peace deal would simultaneously allow the Syrians to finance direct opposition to American interests. Again, the U.S. would be placing its policy in opposition to its interests, and paying the bill to boot.

Aid as a consequence of deals stemming from the peace process would exacerbate the problems which aid policy has caused for Israel. In early 2000, Israeli Prime Minister Barak made it clear to the United States that he expected any deal with the Syrians to bring over 17 billion American dollars to his country. One report paraphrased Barak's message to the Administration as stating, "without knowing what Israel might get in new U.S. commitments, he cannot sign away control over the Golan Heights and convince Israelis that they will remain secure."⁶⁵ Again, aid has the effect of convincing Israelis that otherwise unthinkable dangerous strategic moves are safe and profitable because the U.S. backs them. Yet the scenario envisaged by the architects of American aid, in which the Arab states obligingly play their role on the stage of the comprehensive peace drama is belied by the fact that the Arab states continue to act on their long-held objectives behind the scenes – objectives that have nothing in common with what American policymakers assume are their interests. Dangerous deals become particularly attractive to Israeli elites because, though it is unclear what good or harm they may bring to Israel, they will surely bring American money to help sustain these very elites and their statist system.

In the end, this is not only bad for Israel but for the United States as well.

Conclusion: Aid and American Interests

America's aid policy as currently structured is not and cannot be good for American interests. But is there not danger in changing it?

That danger is generally seen to involve the relative disarmament of Israel (to which most Americans are rightly opposed), the danger to regional stability, a loss of American leverage, and a decline in the allegiance of the states involved.

As this paper has tried to show, these objections are largely unfounded, and the problems which might be caused by the ending of aid, are of a smaller magnitude than those caused by its continuation. Aid does not help Israel or strengthen it. Aid does not ensure stability, it does not provide real leverage, and it does not by any means guarantee the allegiance of recipient nations.

The ending of the current situation, in which any Arab country that deigns to acknowledge Israel's mere existence in Aesopian language while training its people to

⁶⁵ Barbara Slavin, "Israel Wants \$17B Military Package as Part of Peace Deal," *USA Today*, 24 March 2000, A13.

kill Jews, automatically receives American taxpayer dollars, would in fact enhance America's ability to use aid selectively, as it should properly be used in international affairs.

The question then arises: what would happen if the United States ceased to support the regimes in question? The question itself demonstrates the degree to which the current policy has done real damage to America's geostrategic position. If the U.S. has reached a point at which it appears to have no choice but to fund unfriendly regimes that stand opposed to American interests, then we are truly in great trouble. But of course, this is not the situation. It is simply not true that the traditional balance of power approach to global politics is no longer relevant, and that nations now respond only to financial incentives and the logic of idealist cooperation. The problem is fundamentally an intellectual one. The problem is that some U.S. policymakers assume that America can buy its way out of the balance-of-power approach to international politics and into a new Middle East, and that official Israel, too, shares this notion.

As presently articulated, a number of rationales build upon each other to support the current aid policy. First, aid is essential for Israel's survival and strength. Second, aid to the Arab states cannot be separated from aid to Israel – the link between them is an important component of America's role as an arbiter in the peace process. Without aid on par with Israel's, the Arab states would not come to the table. Third, by coming to the table, the Arab states become more pro-American, and accept the American and Israeli conception of the new Middle East. This, in turn, enhances American power and leverage and is good for the United States.

In reverse order, we find that aid to the Arab states in fact does not make them inherently pro-American, but rather it often allows them to act more freely in opposition to American interests. Next, while it is true that aid to these states cannot easily be cut off without also cutting off aid to Israel, we now see that aid to Israel does more harm than good for Israel, and therefore should be cut off.

In other words, both of the major assumptions that underlie the current policy are in fact false. By recognizing this, the United States could greatly enhance its influence, leverage and prestige. Aid could serve the interests of the U.S., and perhaps those of the peoples in recipient countries, only if it is conceived of in realistic terms. A stick at least as large its carrot would allow the United States to act in support of its interests and to see more clearly the strategic realities that now shape the politics of the Middle East.

Foreign aid will only work to America's advantage if the nation is willing to use it as a political tool whose function is defined by a realistic conception of international affairs. If it is not, then aid becomes not only a waste of money, but also an outright detriment to American interests and objectives. Currently, it is precisely that.