

The Rockefeller Boys

Review of Ben Bassat (ed.) *The Israeli Economy, 1985-1998*¹

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This review was commissioned in August 2003 by the *Journal of Cold War Studies*. Following our explicit inquiry, the journal confirmed that our text would be published “as is.” With this assurance, we submitted the paper in January 2004. The paper was longer than the journal’s standard review. We drew attention to the extra length and explained why it was necessary given the subject matter. The journal accepted the review and scheduled its publication to the Fall of 2004.

But then the editor, Mark Kramer, had a change of heart. Having read our paper, he must have realized he had made a big mistake. This type of criticism had no place in his respectable journal. He began evasive actions. Without notice, our paper was postponed to the next issue, and then to the following one. We protested the censorship. Kramer assured us there was none. There was simply a long backlog of reviews, he said. Our paper would be published, and without editorial intervention.

Finally, in April 2005, the truth came out. We were notified that the paper could not be published as is.

It was simply too long.

We could, if we wanted to, cut it half. . . . Or, alternatively, we could enlarge it into a review essay and re-submit it to the journal’s referees. . . . Then they would re-consider it. . . .

¹ Avi Ben-Bassat (ed.) (2002) *The Israeli Economy, 1985-1998. From Government Intervention to Market Economics* (Cambridge, Mass. and London: The MIT Press; Jerusalem: The Maurice Falk Institute for Economic Research in Israel).

John D. Rockefeller knew a thing or two about power. His Standard Oil of New Jersey became a blueprint for corporate centralization. He pioneered new methods of stock rigging and financial mischief. He destroyed competition where ever he could and set new standards for industrial sabotage and union busting. He manipulated the tastes of 'rational consumers' and made 'policymakers' dance to his tune. He used violence to expropriate from indigenous Americans their resource-rich lands and religion to pacify their resistance. He harnessed the U.S. military to impose American 'free trade' on the rest of the world.

Raw power made Rockefeller and his family enormously rich. And yet, to the end of his life, John D. insisted that his best investment ever was the \$45 million he donated to build the University of Chicago.

Under Rockefeller's tutelage, Chicago became the bastion of 'neoclassical' economics. Its economic professors, nicknamed the 'Chicago Boys,' spread the gospel of 'perfect competition' and 'free trade.' They insisted that consumers were 'sovereign' and economic actors 'rational.' They called for the separation of 'politics' from 'economics.' They preached monetarism and demanded 'small government' and 'sound finance.' They made economics a mathematical 'science,' impenetrable for the laity. And they invented the 'production function' and the 'marginal productivity of capital' – an ingenious model that justified the political rule of capital while making capitalists such as Rockefeller perfectly invisible.

Neoclassical ideology – or 'neoliberalism,' as it is now known – programmed the technocrats from Santiago to Moscow. It placated the populace from China to South Africa. It reduced 'risk' far better than any other organized religion. It helped open the world for business.

Although the neoclassicists assailed Israel early on, initially their success was limited. During the 1950s, with the memory of the Great Depression still fresh, the promise of American 'free competition' seemed dubious. Local planning initiatives proved rather successful and the Israeli elites preferred to stick with the European model of 'government intervention' in a 'mixed economy.'

The neoclassical missionaries, though, were undeterred. In the 1950s, they established their first bridgehead – the Maurice Falk Institute for Economic Research, funded by an American donor. The first head of the Institute was Don Patinkin, a young PhD from the University of Chicago. Patinkin put the institute to good use, setting it up to train cadres of local neoclassicists, later known as the 'Patinkin Boys.'

These cadres started their ascent in the late 1950s. The Israeli elite, busy with its day-to-day activities, had never bothered to turn its practical experience into a systematic theory of planning. And as the Cold War gathered momentum, there was little intellectual opposition to stand in the way of 'free market' ideology. The Patinkin Boys moved quickly and soon enough started to fill the halls of academia and the offices of the civil service.

The first major output of the Falk Institute were two monographs on the Israeli economy: *The Israeli Economy in the First Decade*, written by Patinkin himself (1960b in Hebrew; 1960a in English), and *The Economic Development of Israel*, written by Halevi and Klinov-Malul (1968). At the time, both books faced a serious problem. Until the late 1960s, Israeli economic development was stirred more or less exclusively by the government and labour-related organizations. And yet, despite this ‘intervention’ in the allocation of resources, the country’s economic performance was among the best in the world. GDP and per capita income grew at a neck-breaking pace. Moreover – and in open defiance of conventional growth theory – the distribution of income remained relatively equal, with the top quintile earning roughly three times more than the bottom quintile. This reality forced the Falk authors to tread carefully. They agreed that economic performance was impressive; but that performance, they suggested, would have been even *more* impressive if only markets had been ‘liberalized.’ Israel’s ‘socialist tradition,’ they argued, created numerous ‘distortions’ whose removal was bound to lead to far greater ‘efficiency.’

The third book in the Falk series, titled *The Israeli Economy: Maturing Through Crisis* and edited by a student of Patinkin, was much more upbeat (Ben-Porath 1986 in English; 1989 in Hebrew). The outlook for ‘liberalization’ had brightened considerably. ‘Israel,’ wrote Ben Porath, was ‘in the midst of attempting to overcome severe economic distress shown by galloping inflation, stunted growth and a larger national debt’ (1989: 1). The reasons for the distress were blamed on the ‘global energy crisis and the rising defence burden following the Yom Kippur War’ (1989: 7), but there was clearly a ‘need for structural reforms and for changing the rules of the game. . . .’ (p. 1).

Another decade passed and the battle was finally won. At last, Israel was a ‘reformed’ country. The subtitle of the fourth Falk book – edited by Ben Bassat (2001 in Hebrew; 2002 in English) – announced the victory: *From Government Intervention to Market Economics*. And indeed, much of the text reads like a victory album, Rockefeller style.

According to the authors, Israel’s economic history could be divided into two periods: before and after the 1985 Stabilization Program. During the first period, the economy apparently was mired in chaos. Besieged by a rigid ‘bureaucracy,’ ‘government intervention,’ a ‘labyrinth of regulation’ and numerous ‘distortions,’ Israel was repeatedly thrown from crisis to inflation to recession. Then came the Stabilization Program, which, together with ‘the downsizing of government, the structural reforms, and the peace process have helped to accelerate economic growth, particularly in the business sector’ (2002: 1). The heroes of the saga were the architects of the Stabilization Program – that is, the Patinkin Boys of the Falk Institute. Their program, we are told, brought a ‘profound change in the economic thinking of policymakers’; it not only ‘restored stability in the economy and extricated it from the crisis,’ but also ‘marked a turning point in the economic

approach of the two large political parties' whose outlook finally embraced the virtues of 'market forces.' (p. 1).

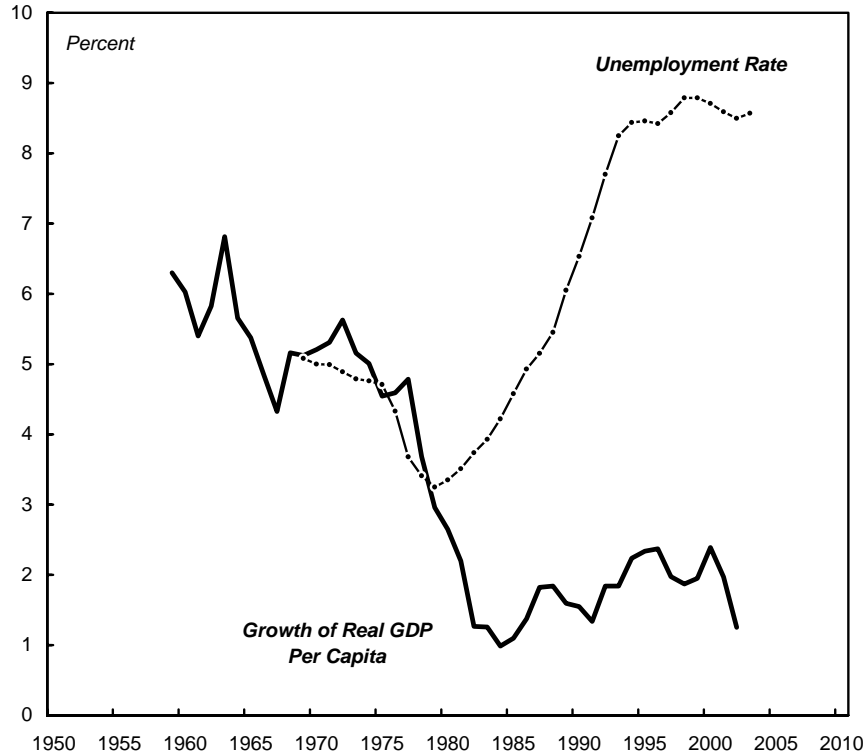
Reading these lines, it is hard to decide whether to laugh or cry. The 'neoliberal' transformation of the 1990s was part of a global change in the nature of capital accumulation. In country after country this transformation involved the dismantling of the welfare state, the downsizing of public services and the decline of government investment. In many cases it included geopolitical realignment, 'peace processes' and foreign capital inflow sponsored by the Washington Consensus. And practically everywhere it was used for massive privatization at bargain prices, thinly veiled as 'structural reforms.' And yet, in Israel the process was different. Here, we are told, it was a matter not of global capital accumulation, but of local 'policymakers' who suddenly saw the light.

The authors also seem to count on their readers' short memory. 'The new economic approach,' declares Ben Bassat 'has achieved a success worth imitating' (p. 48). And indeed, relative to the abyss of 1985, macroeconomic performance has 'improved.' But then, if you put this 'success' in historical context, you begin to wonder whether the authors themselves have forgotten the facts. And the facts, illustrated in the enclosed [chart](#), tell a rather different story. The data show that during the 'socialist' 1950s and 1960s, income per capita grew at an average annual rate of 5.7 percent; they further show that during the 1970s and 1980s, after a political 'earthquake' had brought Likud to the government and 'liberalization' to the economy, the rate dropped to 2.3 percent; that in the 1990s, with 'neoliberalism' in full swing, per capita growth dropped to 1.9 percent; and that by the early 2000s, with 'market forces' finally in control, per capita income *fell* by 0.2 percent annually. The chart also shows the path of unemployment, whose surge to an all-time high during the 1990s provides further evidence of the program's 'success.'

Unfortunately, there is no free lunch. Success is always costly. And indeed, 'Growth and the rise in standard of living,' we are informed, 'have come at a price – greater inequality in income distribution' (p. 4). Precisely who *pays* this 'collective' price – and who may *benefit* from it – are questions the authors never bother to pose. Based on their econometric research, though, they know enough to tell us that the inequality has grown partly because of . . . 'excess demand' for 'human capital' (Ch. 15 by Dahan). Another revelation, backed by equally scientific regressions, is that the fall in government expenditure was influenced by lower military spending, which in turn was affected by . . . the 'decline of the intensity of the Israeli-Arab conflict' (Ch. 2 by Strawczynski and Zeira).

The book is full with such insights. Economists who read it may feel comfortable with its familiar jargon, numerous regressions and endless neoclassical platitudes. But they will learn nothing of what *really* happened in Israel. Indeed, there is nothing new in this volume. Thousands of such trite monographs are published year after year, in country after country. Together, they provide the 'scien-

The Victory of "Market Forces"



NOTE: series are shown as 10-year moving averages.
 SOURCE: Israel Central Bureau of Statistics.

tific' backing for the rule of capital and the smokescreen to hide the rulers themselves.

Reading this particular book, you'll learn nothing on the conflictual nature of Israel's capitalist development, its ruling class and its dominant capital groups (who, incidentally, sponsored its publication). You'll remain ignorant of the enormous boost to accumulation provided by regional wars and domestic inflation during the 1970s and 1980s. You'll know nothing of the 'high-tech' redistribution of the 1990s, in which transnational firms and local operators made fortunes by eviscerating Israeli society. You'll be blind to the global criminal networks centred in Israel and to the massive money laundering that the country's ruling class actively espouses. You'll hear scarcely a word about the Palestinians, the political economy of occupation and the cost of settlements. You won't know that under the guidance of the 'invisible hand' and its rightwing government, many Israelis now suffer from hunger and homelessness, conditions which until

recently were reserved only for the Palestinians. And you certainly won't suspect that much of Israel is now owned by a small oligarchy of local-global 'investors.'

But then, that is part of the victory of capital, and the victors always rewrite history. Rockefeller certainly knew what to invest in. His boys have done their job well.

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