War Profits, Peace Dividends and the Israeli-Palestinian Conflict.

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The unravelling of the Middle East peace process continues to baffle the pundits. The early optimism of the Oslo peace accords has now turned into despair. Prime Minister Rabin was assassinated by a Jewish extremist. The Palestinians have embarked on a new Intifada. Israel has re-occupied much of the West Bank. What brought this reversal? How deep are the fractures? Can they be healed?

Most of those writing on the issue reiterates the language of Huntington's "clash of civilisations." What we see in the Middle East, they tell us, is just another manifestation of "Jihad vs. McDonald's." It is the same old story of "religious fundamentalism" against "the market," of "xenophobic nationalism" against "neoliberalism," of the "third world" against the "first world." There is perhaps some truth to these generalisations.

The idea of a third-world "backlash" against neoliberal globalisation is certainly easy to understand. For most people in the so-called "South" – including the Palestinians – the last decade has brought greater insecurity, deprivation and hopelessness, so their resentfulness could hardly be surprising. What seems less clear is the sudden bellicosity of "Northern" governments, particularly those of the US and the UK. Over the past decade, these governments have tirelessly glorified the "global village." What the world needed, they said, was open borders, free trade and capital mobility. So why the sudden shift to "with-us-or-against-us" patriotism? Do they really expect "war on terrorism" to bring global security? Are rising military budgets and cascading attacks against less developed countries the best way to turn the poor and hungry into "free market" acolytes? If the purpose is peace and stability, why not force Israel to comply with UN resolutions and let the Palestinians finally have their state? Is letting Ariel Sharon smash his way

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back into West Bank a better recipe – or perhaps peace and stability aren't really the goals in this saga? What type of world order do Bush, Blair and Sharon have in mind, and who stand to gain from this "order"?

From "war profits" to "peace dividends"

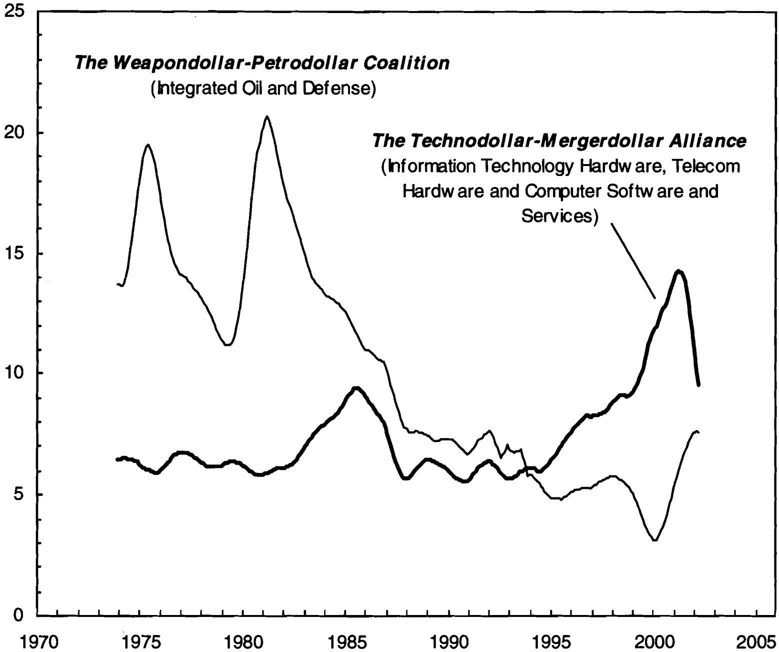
On the surface, these are matters of "foreign policy." But there is a much deeper and often ignored layer here, related to fundamental shifts in the nature of capital accumulation, ownership and intra-capitalist conflict.

In order to understand this broader picture, we need to go back a bit in history. During the 1970s and early 1980s, global accumulation was dominated by an uneasy "Weapondollar-Petrodollar Coalition," made up of large oil companies, armament contractors and OPEC, and backed by the US and several European governments which supplied arms and encouraged high oil prices. The central accumulation "mechanism" of this coalition was the ongoing cycle of Middle East "energy conflicts" and "oil crisis." The logic of the process was relatively simple. Rising petroleum prices brought massive profits for the oil companies. They also generated huge petrodollar revenues for local OPEC governments, who were only too eager to spend them on expensive weaponry in preparation for the next war. As a result, the Middle East became the world's largest market for imported arms, absorbing over 1/3rd of the total. The big arms contractors of course loved this arrangement, and the various US administrations – from Nixon's to Bush Sr.'s – supported it with equal zeal. Indeed, what better way to fight communism, divide and rule the Middle East, and enrich your corporate friends – all in one stroke and without investing a penny?

The consequences of this process were nothing short of dramatic. Rising oil prices threw much of the world into a deep 'stagflationary' crisis (stag-nation combined with inflation), conflict bloomed everywhere and there was even the occasional flirt with nuclear exchange. The Weapondollar-Petrodollar Coalition, however, thrived. As Figure 1 shows, oil and armament companies became the world's most profitable firms, seeing their earnings rise to 19% of the world total after the 1973 Arab-Israeli war, and to 21% after the 1980 onset of the Iran-Iraq war. "War profits" were clearly the way to go. [See figure 1]

All of this changed in the 1990s. The cold war ended, the world opened up for business and the Weapondollar-Petrodollar Coalition disintegrated. In its place, a different "Technodollar-Mergerdollar Alliance," based on civilian high-tech and corporate takeover rose to prominence. Instead of "war profits,"

FIGURE 1
Share of Global Net Corporate Profit (%)



NOTE: Series denote monthly data smoothed as 12-month moving averages.
SOURCE: *Thomson Financial Datastream.*

nationalism and conflict, it marshalled a new rhetoric of "peace dividends," foreign investment and emerging markets. Capital controls gave way to deregulation, protectionism to privatisation and bloody wars to peace deals. And indeed, by end of 2000, the Technodollar-Mergerdollar Alliance seemed victorious. As Figure 1 illustrates, its global profit share soared to 15%, while that of the oil and armament companies sank to a meagre 3%.

Israeli capitalism goes global

Israel's U-turn of the 1990s, from a welfare-warfare state to liberalism and regional reconciliation, is part of this global shift. Until the late 1980s, private business and national security went hand in hand. Israel served the Weapondollar-Petrodollar Coalition by engaging in seasonal wars and various clandestine operations, this in return for massive US military assistance, a tacit acceptance of Israel's nuclear build-up and a license to run a closed war economy. During the mid-1970s, Israel's military expenditure soared to 33%

of GDP – with roughly 15% imported from U.S. and the remaining 18% spent locally. The large local firms lunched at the military procurement table while benefiting handsomely from the resulting inflation which ravaged much of the economy, but fuelled the stock market which they helped rig. The social cohesion necessary for sustaining this war economy was cemented by welfare spending, Zionist nationalism and frequent armed conflict. The Palestinians provided the cheap labour force in this equation and were pacified by a combination of relatively higher standards of living and a large dose of force.

By the early 1990s, though, the arithmetic changed. Following George Bush's announcement of a "new world order," Israeli military spending came under the axe falling to 10% of GDP by the mid-1990s, weapon exports went into a tailspin and pressures to open up the domestic economy mounted. To complicate things further, the Palestinians revolted and the mounting cost of squelching their *Intifada* now seemed huge compared with rapidly vanishing war profits. It was clearly time to shift gears. The loss-making welfare-warfare state was ceremonially dumped, replaced by the new and more lucrative alternative of transnational neoliberalism.

The political front window of the process was of course the Oslo peace accords, but there was more here than meets the eye. Normalising relations with the Palestinians paved the way to peace agreements with other Arab countries. These agreements brought an end to the Arab boycott and with conflict quickly receding, Israel was able to remove capital controls – the main barrier to globalisation. During the earlier period of strife, capital controls were necessary to prevent capital from flying out of the country en masse. When conflict receded, these controls could be removed, the currency floated and the globalisation of ownership begin in earnest.

And sure enough, within a few years the local business elite has shifted its attention outside the country, increasingly aligning itself with and integrating into an emerging transnational business class. The evidence of this integration is overwhelming. Foreign institutional investors now own 10-15% of the Tel-Aviv stock market. Many of the country's largest corporations have been taken over by non-resident "Israelis" – such as the Arison family of Carnival Cruise who bought the leading Bank Hapoalim and the Bronfman family of Vivendi-Seagram, who control the conglomerate Koor.

Most of Israel's leading high-tech firms, such as Comverse, Check Point, Amdocs and Teva, are Israeli mostly by name, having their shares listed in New York and much of their activity carried outside the country. The vast majority of the country's start-up companies have been driven by "inverted cannibalism," desperately looking for a global giant to take them over. Indeed, the whole outlook of the Israeli business sector is pointing overseas. Until the late 1980s this was mostly reflected in rising exports which have recently reached 1/3 of GDP, but since the early 1990s capital too has began moving out, with outflowing investment accounting for roughly 1-2% of GDP and growing.

The results of this transnationalisation are evident in Figure 2, which charts the increasing correlation between the Tel-Aviv stock market and the Nasdaq. Over the past five years this correlation has reached 0.8, up from a negative 0.3 in the early 1980s. This suggests that 80% of "Israeli" accumulation depends not on what happens locally but in the global high-tech market. Israeli capitalists have finally realised their American dream of a 'New Middle East:' local by denomination, global by accumulation. [See figure 2 on next page]

Abandoning the domestic population

And yet, this transition wasn't as easy as the elite assumed it would be. With the capitalist elite increasingly focused on the Nasdaq, the high-tech business and markets in the rest of the world, domestic and regional "details" were seen as less and less important. Somehow, these details were expected to take care of themselves; and if they didn't – well, that was no longer a matter of great concern. After all, accumulation was now global, not local.

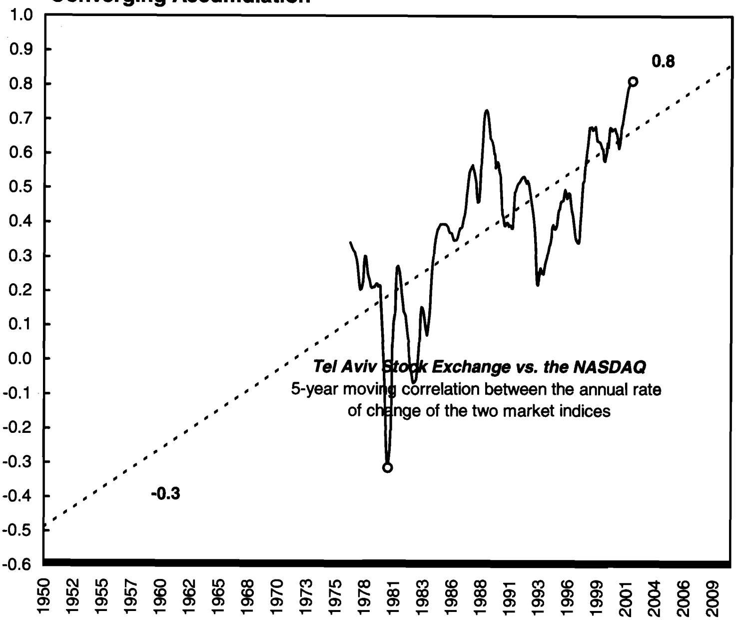
As it turned out, however, the details hardly "fixed themselves," and were certainly far from unimportant. To begin with, the Israeli elite seemed to have confused corporate peace dividends with real peace. Its intention was to replicate the apartheid arrangement by making Arafat head of a "Palustan," a semi-autonomous entity with only half its original territories, no army, no fiscal and monetary sovereignty, limited access to water and complete dependence on Israeli infrastructure. Most importantly, it left the Jewish settlements intact, making the resulting Palestinian entity look like Swiss cheese with holes full of ethnic and religious time-bombs. If there was a recipe for another *Intifada*, this was clearly it.

More broadly, despite its peace treaties with Egypt and Jordan and normalised relations with other neighbours, Israel remained regionally isolated – only a negligible proportion of its trade and investment flows were with surrounding countries and beyond diplomacy, there was really little cultural and intellectual interchange. In the absence of such secular ties, religious hostility toward Israel continued to build up pretty much unopposed.

Corporate peace dividends have also aggravated domestic disparities. Over the past decade, Israel has become one of the less egalitarian countries in the industrial world. Its high-tech boom only smiled on a minority, causing the income ratio between the top and bottom 20% of the population to rise to 21.3, compared to 10.6 in the US*. With unemployment approaching 10% and rising, it was clear that peace had failed to bring prosperity for most Israelis.

Perhaps the most important detail, however, is the demographic basis of Zionism, which the Israeli elite allowed, almost haphazardly, to erode beyond reversal. Out of a total population of 6 million, 15% are now Muslims, 4% Christian and Druze Arabs, 15% are immigrants who arrived during the 1990s from the former Soviet Union (some with only remote connection to Judaism and most with little Zionist socialisation), and 4-6% are foreign workers imported in recent years to replace the Palestinians. *Roughly 40% of the population therefore have either limited or no affinity to the Zionist project.*

FIGURE 2
Converging Accumulation



SOURCE: The Tel-Aviv Index is based on splicing of IMF data (till Dec. 1976), the General Index (Jan. 1977- Mar. 1993) and the Mishtanim Index (Apr. 1993 onward). Both indices are expressed in US$. Data are from the IMF *International Financial Statistics,* Tel-Aviv Stock Exchange and DRI.

The remaining 60% are also split by two deep cleavages – an ethnic one between Ashkenazi (European) and Sepharadi (Middle-Eastern) Jews, and a religious one between orthodox and secular Jews. The orthodox population is commonly poorer and although supportive of a hawkish stance against the Arabs, many of its members do not serve in the army. The secular segment is often more conciliatory, although its increasingly individualistic outlook limits its willingness to kill and be killed for anachronistic nationalist goals. The increasing individualism of this majority, however, undermines its group cohesion, thus making it more difficult to act in unison against the xenophobic minority.

And so just as Israel's business elite become transnational, it also lost the domestic stability on which to base itself. At the same time, the elite lacked any clear ideas on what to do about it. Globalised business ties required peace, yet globalisation itself was contributing to the conditions that undermined the prospects for such peace.

The real issue is neither Sharon nor Arafat

When the second Palestinian *Intifada* broke out in October 2000, - Prime Minister Barak, representing an elite torn between its Zionist allegiances and transnational aspiration, seemed unsure as to what to do. Alarmed by the Palestinians loss of fear, anxious that his army may be unable to win a guerrilla war (let alone a fully-fledged one), and aware that conflict would shatter the hard-won business confidence, he hesitated, tending to respond rather than initiate. At the same time, his apprehension about disintegrating "Jewish" cohesion made it impossible for him to accept a democratic, non-ethnic solution to the conflict. His successor in the job, though, had no such hesitations. Once in power, Ariel Sharon immediately escalated both the rhetoric and military pressure, eventually all but re-conquering the West Bank. Many have attributed this shift to personality and ideology. Sharon never wanted peace, they pointed out. On the contrary, his plan was always to kick out the Palestinians in order to establish a "Greater Israel" west of the River Jordan, and now was his last chance to do it.

Perhaps. But, again, there is a far bigger picture to consider here.

When Sharon came to power, the neoliberal high-tech order was already on its last legs. The first signs of trouble appeared several years earlier in the global periphery, with excess production triggering a series of crises which spread from Asia in 1997, to Russia, South Africa, Brazil and the rest of the developing world. Then, the price of oil shot up, soaring from $10 in 1999 to

$30 in 2000, and throwing a monkey wrench into the longest post-war economic expansion. The Nasdaq and other high-tech markets, having already reached valuation extremes, were punctured, going into a nose-dive, and in early 2001 a hawkish administration with deep ties to oil and armament interests took over the White House. In short, everything seemed ready for a reversal of fortunes. And indeed, as the new century took off, high-tech profits dropped like a stone while the earnings of oil and armament companies soared (Figure 1).

Seen from this broader perspective, the escalating conflict in the Middle East – much like "September 11" and the attack on Afghanistan – may well be part of yet another global shift in accumulation. Central to this process is the renewed struggle between the two massive business formations. The Weapondollar-Petrodollar Coalition, having been in decline for more than a decade, is now once more trying to stir up conflict and stagflation; and so far, the political backwind is clearly on its side. But the jury on this contest is still out. The Technodollar-Mergerdollar Alliance, whose fortune rest with open-border neoliberalism, high-tech growth and cross-border mergers, stands to loose big time from such developments. And having recovered from the September 11 shock its representatives, both in Europe and the US, are beginning to voice their objection to further escalation, including Washington's plan to attack Iraq.

The real issue, then, is neither Sharon nor Arafat, but the pattern of global accumulation. With religion winning the heart and minds of the underlying population, time may be running out. And if the oil and arms interests prevail, conflict and violence could prove devastating for Israel and the region. However, the neoliberal accumulators haven't given up the fight, at least not yet. Peace dividends require political stability, and those who wish to earn these dividends – in Israel and elsewhere – would need to calm things down. Perhaps the most effective way of achieving this goal is to remove all Israeli settlements from the occupied territories and establish an independent Palestinian state. By eliminating the main justification for continued conflict in the region, such a move would seriously undermine both the Petrodollar-Weapondollar Coalition and religious fundamentalism, opening a window for a more sane alternative.

*Note that during the early 1950s, 'socialist' Israel was still one of the most egalitarian countries in the world, with the top 20% of the population earning only 3.3 times the income of the bottom 20%. This achievement was certainly impressive, particularly relative to the 'free market' countries such as the United States, where the comparable ratio was as high as 9.5. But Israel learned fast and after two generations of 'Americanisation' it had already outperformed its tutor.