

Global Capitalism and Israel

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Jonathan Nitzan and Shimshon Bichler, *The Global Political Economy of Israel* (London and Sterling, Virginia: Pluto Press, 2002), 407 pages, cloth \$75.00, paper \$24.95.

One of the characteristics of much academic writing is an obsession with theory at the expense of empirical investigation. It is rare to find a book that combines genuinely novel theoretical exploration with rigorous empirical study, the more so in fields such as political science where abstraction seems to have become the norm. It is for this reason that *The Global Political Economy of Israel* is such a gripping read. A remarkable investigation into the concrete workings of the Israeli and U.S. economies that avoids the fatuous generalities of much of the globalization literature, it presents a challenging theoretical framework that not only clarifies the past but also seeks to understand the present.

Nitzan and Bichler start by challenging the traditional view of Israel as a "unique case" characterized by a strong state guided by socialist ideology. Their argument instead looks beyond the apparent form and seeks to identify the essence, using as their guiding principles the concepts of capital accumulation, ruling class formation, and Israel's place in the global political economy. In so doing, they attack key premises of neoclassical economics; assumptions such as an economy in equilibrium, full employment, and obsession with so-called neutral aggregates such as GDP and inflation rates. Instead they ask the questions: Who are the winners and losers in the economy and how is power exercised?

In contrast to the standard approaches, Nitzan and Bichler argue that the key issue underlying political economy is that of capital accumulation by groups of dominant capital. The aggregates that we are

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told are “bad for the economy” often obfuscate massive gains for these dominant groups, at the expense of other sections of capital and, of course, those who have nothing to offer but their labor power. This is most clearly demonstrated in the case of stagflation—a period of little or no growth combined with high rates of inflation. The accepted wisdom is that these periods, which emerged as a global phenomenon during the 1970s and early 1980s, were bad for the economy as a whole. Instead, Bichler and Nitzan demonstrate with a rigorous examination of profit rates for dominant capital that these periods were in fact extremely profitable for dominant capital.

In the United States for example, the authors examine inflation figures and profit-per-employee figures for the Fortune 500 companies relative to figures for the economy as a whole. The results are a startling confirmation of their thesis: that the movement of inflation correlates almost precisely with dominant capital doing dramatically better than average capital—i.e. winning a greater share of profits. Inflation is therefore demonstrated to be a powerful redistributive phenomenon.

Between Depth and Breadth

At this point the authors introduce a theoretical framework that sees the political economy of the twentieth century as moving between two alternating regimes of capital accumulation—depth and breadth. A breadth regime is characterized by attempts by capital to increase the size of its workforce through green-field investments or corporate amalgamation. These periods tend to be structurally dynamic and are commonly less conflictual. A depth regime, on the other hand, is marked by attempts to increase the rate of profit per-employee through either cost-cutting measures or stagflation. In the latter case, dominant groups of capital, acting in collusion, use higher prices to offset the loss in reduced volume sold. These periods of depth tend to consolidate rather than change institutions and structures, and are usually more conflictual and often violent.

There are two important points to be made in regards to this framework. Firstly, Nitzan and Bichler argue that accumulation must be seen in a relative context. In other words, it is not the absolute level of accumulation that is important but rather the level of accumulation relative to the average—what the authors term *differential accumulation*. Modern capitalists don't seek to maximize profit, but rather aim to beat the average.

Flowing from this stress on differential rates of accumulation is the second key concept introduced by Nitzan and Bichler. Taking issue with traditional Marxist approaches to capital accumulation, they argue that the differential struggle between different capitals is at heart a struggle for power. As capitalism has developed over the last century—essentially becoming more universal—it has become more and more urgent to integrate the concept of power into an understanding of the nature of capital itself.

This point bears some examination, as it is probably the most novel—and hence controversial—argument that the authors make. Essentially, Bichler and Nitzan argue that traditional Marxist approaches to concepts such as capital, accumulation, and profit have attempted to find a basic unit with which to measure exactly what is being accumulated. To neoclassicists, this basic unit is money, which supposedly expresses a quantitative measure of “well-being.” For Marxists, the authors argue, the basic unit was “abstract labor.”

In contrast, according to the argument of Bichler and Nitzan, the process of accumulation cannot be understood solely in terms of the productive labor process. Instead, accumulation should be understood as an interaction between productivity and power. In the modern capitalist world, accumulation comes to depend not just upon ownership and the inputs into the productive process, but also critically becomes a function of social power. Drawing on the work of Thorstein Veblen and Lewis Mumford, the authors attempt to develop an institutionalist theory of capital that encompasses this aspect of power. They argue that we cannot understand accumulation solely in terms of physical inputs such as land, labor, and machinery but must also ask what enables these quantities to become inputs in the first place.

Following Veblen, the authors argue that under modern capitalism there is a growing separation between “industry” and “business.” The source of capitalist earnings is not only found in the productive process, but in the politics of production. In other words, accumulation increasingly relies upon distribution that in turn derives from power over production. The modern nature of business—characterized by absentee ownership—means that the nature of this power takes the form of the ability of absentee owners to limit production below its full potential. How do the means of this power today differ from that found in the nineteenth century? According to Nitzan and Bichler, “In the twentieth century, these means further expanded to rely on the broader political realm of the state, including aspects of policing, pro-

paganda, taxation, tariffs, subsidies, patent laws and intellectual property rights, as well as on international institutions such as trade zones, regional investment agreements and global, government-backed corporate alliances" p. 35.

The Israeli Case

Turning to Israel, this understanding of the nexus between power and capital accumulation is clear. The early Israeli state played a critical role in creating the institutional context for the development of favored capital groups in Israel. The state directed external "gifts" (initially from German reparation payments and then later aid from the U.S. government) to the five key conglomerates that dominated the Israeli economy. The state also established the framework that permitted these groups rapidly to expand at the differential expense of lesser capital, through policies such as encouraging joint investment with the government, permitting the manipulation of banking shares that precipitated a collapse of the banking system in 1983, granting special development assistance, and directing the process of proletarianization of Jewish immigrants from Arab and African countries who were to become the core of the industrial working class.

It is this obsession with the apparent dominance of the state in Israeli society that has led the majority of observers to label Israel as embracing some form of socialism up until the recent decade. In contrast, the *Global Political Economy of Israel* presents an analysis that reads like a breath fresh air in a stultified body of literature so obviously at odds with reality. Bichler and Nitzan demonstrate beyond a shadow of a doubt that the Israeli economy has always been about capitalism and enabling accumulation by the dominant conglomerates. They painstakingly document how this process happened historically with an array of sources ranging from dense economic literature to mainstream Israeli daily newspapers. Indeed, one of the most delightful aspects of this book is the almost gossipy way in which the authors deal with some of Israel's most "respected" business leaders.

Oil and Arms

Returning to the notion of dominant capital, the authors identify what they term the weapondollar-petrodollar coalition as a key component of global dominant capital as a whole. They show an increasing interaction between the major oil companies and arms manufacturers and examine how the pursuit of differential accumula-

tion by this coalition is linked with so-called energy conflicts in the Middle East.

In a remarkable series of graphs, the authors plot the rate of return of the major oil companies (dubbed the petro-core) in comparison with dominant capital as a whole. They then show that each sustained period of negative differential accumulation for this sector (i.e., where dominant capital has outpaced the petro-core in terms of differential profits) has been immediately followed by an “energy-conflict” such as the 1967 and 1973 wars, the Iran-Iraq war, and the 1990–1991 Gulf War.

Turning once more to an analysis of the concrete, the authors take each of these conflicts in turn and trace an increasing interaction between arms exporters and the oil companies over time. Around the 1973 War, the arms business became more commercialized (expressed by the Nixon Doctrine) and in conjunction with the petro-core began to exert a greater influence on U.S. foreign policy.

The increasing confluence between the interests of the oil-arms coalition and foreign policy continued until just after the 1990–1991 Gulf War. At this point, the global regime of accumulation moved from depth back towards one of breadth. Dominant capital was able to take advantage of the collapse of the Soviet Union, reduction of tariffs and dismantling of barriers to capital mobility, and the opening up of “green-field” investments in the South. This new stage of breadth marked the onset of globalization, characterized by the rise of a new section of dominant capital, the *technodollar-mergerdollar* coalition. This group sought differential accumulation through absorbing technological innovation through mergers and acquisitions, expanding into new areas that became known as “emerging markets” and benefiting from the privatization of government-owned enterprises.

It is this shift towards a breadth regime, according to Nitzan and Bichler, that explains the so-called peace process in the Middle East. Profits were to come from open markets in both goods and people instead of war and conflict. One of the consequences of this process for Israel was the increasing transnational ownership of the Israeli economy—the key conglomerates that had dominated the economy under the shelter of the state were taken over by capital from the core, particularly the United States.

Although the reason underlying the shifts between different regimes of breadth and depth is somewhat unsatisfactorily dealt with by the authors, they stress that these shifts should not be understood mechanically but rather as an outcome of the interactions of real peo-

ple with real choices in front of them. In a certain sense they argue that the economy tends to follow a path of least resistance, with different sections of dominant capital taking advantage of different regimes of accumulation (although all sections of dominant capital benefit relative to capital as a whole).

A New Regime of Depth?

The 1990s shift to breadth had important implications for both the Middle East and the global economy. Globalization, marked by an expansion of markets and investment, set in train a process of excess capacity and this began to eat into the large differential profits. At first this hit the periphery of the global economy—precipitating a series of financial crises in Asia, Russia, Mexico, and Argentina. But it increasingly seems to be attacking the very core of global capitalism.

The authors end with a speculation that has perhaps been answered as this review goes to press. They raise the open question of whether we are now seeing a shift back towards a global regime of accumulation through depth, with its attendant features of war and conflict. The analysis offered by Nitzan and Bichler offers a powerful conceptual framework for understanding this latest crisis in the global political economy. It also points to a way out of the crisis by asking the simple question: Who really gains?

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[Dombey and Son] conveyed the one idea of Mr. Dombey's life. The world was made for Mr. Dombey and Son to trade in, and the sun and moon were made to give them light. Rivers and seas were formed to float their ships; rainbows gave them promise of fair weather; winds blew for or against their enterprises; stars and planets circled in their orbits, to preserve inviolate a system of which they were the centre.

—Charles Dickens, *Dombey and Son*