REVIEW ARTICLE

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THE ROCKEFELLER BOYS*

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 wherever 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 rebuild the Baptist University of Chicago.

Rockefeller saw Chicago as a religious asset. The philanthropy helped silence his critics in this world and pave his way to heaven in the next. It bought him the loyalty of spiritual shepherds and academic retainers, all eager to sing the praise of Standard Oil and glorify its devout owner. But in the long run the biggest yield came from the university's department of economics.

After the Second World War, Chicago emerged as the bastion of a new religion: neoclassical economics. The key tenets of the faith were laid down already at the end of the 19th century, and it was Chicago — perhaps more

* *The Israeli Economy, 1985–1998: From Government Intervention to Market Economics,* edited by Avi Ben-Bassat. Cambridge, Massachusetts/London: The MIT Press; Jerusalem: The Maurice Falk Institute for Economic Research in Israel, 2002.

than any other university — that helped propagate them. Its 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 pseudo-science, impenetrable to the laity. And they advocated 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.

For these feats, the Chicago Boys were awarded plenty of Nobel Prizes. These included, among others, the prize to Gary Becker for his human capital, to Theodore Schultz for his development economics, to Robert Lucas for his rational expectations, to George Stigler for his attack on regulation, to Ronald Coase for his transaction costs and to Milton Friedman for his anti-Keynesianism.

Subsequent generations of the Rockefellers presented a more moderate image than did their forefather. Theirs was no longer the wild capitalism of John D. The mutual business sabotage and political confrontations that characterized the 19th century gave way in the 20th century to a more stable formation of statism and corporate alliances. The Rockefellers entered high politics where they promoted a mellow hybrid of "liberal Republicanism"; they engaged in imperial philanthropy, and financed an intricate web of research foundations that helped soften the harshness of capitalism.

But the original virus nourished by John D. was unstoppable. Neoclassical ideology — or neoliberalism, as it is now known — continued to spread throughout the globe. It 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.[1]

1 Our emphasis here on the pragmatic outlook of the ruling elite is different from conventional perceptions on the issue. Many academics think of Israeli government intervention and its mixed economy as consequences of the country's social-democratic impulse and the leading political role played by the confederation of labor unions (Histadrut). Those who entertain this view, though, usually are unfamiliar with the evolution of the power structures and institutions of Israeli capitalism (see Nitzan and Bichler, 2002, primarily ch. 3).

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).

Patinkin's was the first academic monograph to describe the Israeli economy from the macro perspective of Keynesianism. It provided the theoretical framework for the nascent Israeli national accounts, and it offered the first systematic empirical mapping of the country's aggregate performance. The attempt, of course, was riddled with anomalies. The first decade of the new country was marked by a tight austerity policy. Consequently, the author had to reconcile official prices that were determined by administrative decree with actual prices that often bore no relation to government stipulations. He had to deal with multiple fixed exchange rates that had little to do with "free" market forces. And he had to work with a highly centralized resource allocation, including in the so-called private sector. But all in all, it must be said that Patinkin managed to subjugate his neoclassical–monetarist instinct to the nationalist Keynesianism of the day.

At the time, both books — Patinkin's and Halevi and Klinov-Malul's — faced a serious problem. Until the late 1960s, Israeli economic development was stirred more or less exclusively by the government and labor-related organizations. And yet, despite this unwarranted 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 breakneck 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 book was written at a historical crossroads, just before the fall of the *ancien régime*. Signs of a *fin de siècle* were everywhere. The Palestinian *Intifada* was already in full swing (although, being irrelevant to the science of economics, it naturally went unmentioned). The Israeli military–financial complex was pulled down by the global unwinding of military spending. And the process of stagflationary redistribution that greatly enriched the big economy was running out of steam. Together, these processes presented a grave threat to the dominant capital groups. These groups prospered through a regime of militarized stagflation and accumulation-through-crisis, and that regime was now coming to an end. There was an urgent need for a new order of "peace dividends," and *Maturing Through Crisis* expressed this need for structural change.[2]

The crisis brightened the outlook for liberalization. "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 distress was blamed on the "global energy crisis and the rising defense 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 . . . " (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

2 On the rise and demise of militarized stagflation and accumulation-through-crisis in Israel, see Bichler and Nitzan, 1996, and Nitzan and Bichler, 1996.

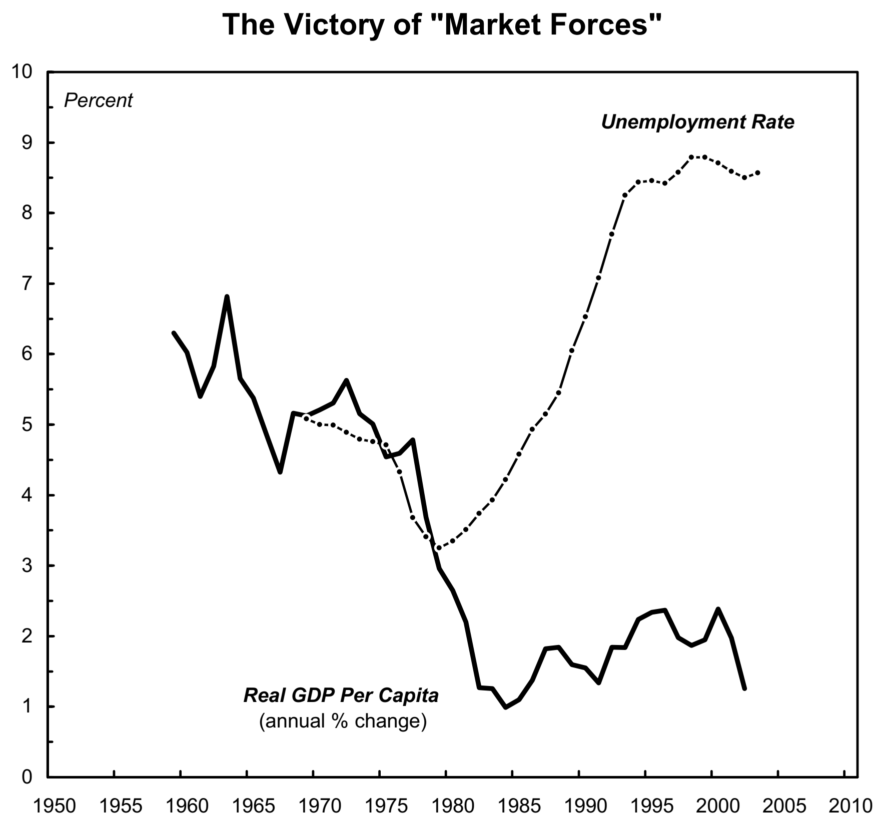
approach of the two large political parties," whose outlook finally embraced the virtues of "market forces" (1).

Reading these lines, it is hard to decide whether to laugh or cry. The so-called 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 agreements 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" (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 accompanying figure, 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%; they further show that during the 1970s and 1980s, after a political turnaround had brought Likud to the government and "liberalization" to the economy, the rate dropped to 2.3%; that in the 1990s, with "neoliberalism" in full swing, per capita growth dropped to 1.9%; and that by the early 2000s, with "market forces" finally in control, per capita income *fell* by 0.2% annually.[3] 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 undeniable success.

But there is no such thing as a 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" (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).

3 The negative growth of the early 2000s cannot be seen in the chart, having been masked by the smoothing of the data.



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

The book is full of 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 "scientific" 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 centered in Israel and their deep penetration into the country's politics. You'll be unaware of the massive money laundering that the country's ruling class tacitly promotes. 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 that 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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