

Aid for Development or Foreign Policy: Objectives behind US Foreign Aid Allocations to Israel

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Abstract

Focusing on historical as well as contemporary US foreign aid policies towards Israel, the paper examines the primary motivations behind the allocation of economic assistance from the United States (US) to Israel. The study explores that beginning with a modest amount in the early 1950s, US economic aid to Israel increased substantially in the late 1960s and 70s. Factors such as the Arab-Israeli Wars of 1967 and 1973 and victories of Israel as significant stimuli for US foreign aid to Israel are examined. The paper argues that if given purely for humanitarian and poverty concerns, Israel was not even eligible for US assistance. This is due to the fact that based on several development indicators such as life expectancy at birth and Gross Domestic Product (GDP) per capita, Israel is among the richest countries of the world. Despite this, Israel has remained one of the largest recipients of US economic aid over time. The analysis of US foreign aid to Israel indicates that to be eligible for US assistance, a country needs not to be really very poor or in need of foreign assistance. Rather, if a country is even among the richest in the world but has got security and geostrategic significance for the US, it is likely to attract more US economic aid on account of these attributes.

Keywords: United States, Israel, Foreign aid, Development, Foreign policy

Introduction: The Genesis of Foreign Assistance

Foreign economic assistance or Overseas Development Assistance (ODA) formally and officially started in the post-World War II period. Following the destruction caused by the Second World War, the US Secretary of State General George Marshall elaborated a detailed programme for the reconstruction of war-ravaged Europe. Became known as the Marshall Plan, the US provided \$13 billion assistance to Europe to rebuild its war-battered economy. According to Raffer and Singer, “after approval by Congress in 1948, the US spent 2-3 per cent (excluding military aid) of its GNP under this initiative during the six years”.¹ The success of the Marshall Plan in the restoration of the European economy

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convinced US President Truman to announce a similar programme for the development of the underdeveloped countries.² Consequently, President Truman's 'Point Four Programme' that he outlined in his historic inaugural address in 1949 laid the foundation for it. President Truman stated, "fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas".³ The US President also specified that more than half of the world population was suffering from hunger, disease and poverty and stressed that other wealthy nations of the world should also assist the US in helping develop the underdeveloped regions that lack enough resources. Thus, the Marshall Plan and President Truman's Point Four Programme led to the beginning of foreign assistance.

However, both the above programmes were not motivated solely by humanitarian and developmental considerations. There was also a dominant element of self-interest, particularly when seen in the background of the prevalent global political landscape characterised by an intense rivalry between the US and the Union of Soviet Socialist Republics (USSR). Thus, if on the one hand this period witnessed the beginning of the process of decolonisation and the emergence of new states, on the other hand it also saw the onset of the Cold War between the US and the USSR. Regarding decolonisation, between 1945 and 1970, about 60 countries achieved independence throughout Africa, Asia, the Pacific and the Near East. As a result of rapid decolonisation, according to McMichael, "from 1945 to 1981, 105 new states joined the United Nations (UN) ... swelling UN ranks from 51 to 156".⁴ Thus, both the superpowers of the time were making covert and overt attempts win over the newly independent states for joining their blocs. To this end, foreign aid was used as a foreign policy tool by donors to achieve their respective interests. Depicting the Cold War scenario as a competition between two main competitors: the US and the Communist Bloc, Beim asserts that each player was trying its best to enhance and expand its influence over those who were not an active part of the game, such as those new states who had won independence during the 1950s and 1960s in Asia, the Middle East, Africa and Latin America.⁵ Hence it is argued that throughout this period, "development aid was inseparably connected to the policies of the bi-polar world".⁶ One superpower was vying to increase its sphere of influence, the other was trying to contain the former's and enhance its own influence through different means including foreign aid.

Table-I: US Economic aid to Israel

| Year | US Economic aid (Constant 2008 US\$) | Year | US Economic aid (Constant 2008 US\$) |
|-------|---|------|---|
| 1948 | 0.00 | 1978 | 2,147.92 |
| 1949 | 0.00 | 1979 | 1,983.50 |
| 1950 | 0.00 | 1980 | 1,814.05 |
| 1951 | 0.71 | 1981 | 1,606.10 |
| 1952 | 590.91 | 1982 | 1,585.86 |
| 1953 | 494.28 | 1983 | 1,479.24 |
| 1954 | 495.95 | 1984 | 1,653.76 |
| 1955 | 346.88 | 1985 | 3,432.40 |
| 1956 | 325.8 | 1986 | 3,265.51 |
| 1957 | 252.78 | 1987 | 2,011.65 |
| 1958 | 367.14 | 1988 | 1,950.30 |
| 1959 | 294.73 | 1989 | 1,877.36 |
| 1960 | 322.16 | 1990 | 1,802.33 |
| 1961 | 276.77 | 1991 | 2,689.63 |
| 1962 | 402.27 | 1992 | 1,708.92 |
| 1963 | 356.27 | 1993 | 1,664.09 |
| 1964 | 205.47 | 1994 | 1,629.07 |
| 1965 | 266.41 | 1995 | 1,598.81 |
| 1966 | 196.69 | 1996 | 1,735.02 |
| 1967 | 31.58 | 1997 | 1,756.54 |
| 1968 | 259.02 | 1998 | 1,621.47 |
| 1969 | 175.5 | 1999 | 1,437.91 |
| 1970 | 186.36 | 2000 | 1,252.63 |
| 1971 | 240.97 | 2001 | 1,018.27 |
| 1972 | 429.7 | 2002 | 853.73 |
| 1973 | 433.68 | 2003 | 737.08 |
| 1974 | 189.72 | 2004 | 625.04 |
| 1975 | 1,178.22 | 2005 | 524.34 |
| 1976 | 2,223.39 | 2006 | 300.57 |
| 1976 | 237.1 | 2007 | 172.03 |
| 1977 | 2,148.35 | 2008 | 44.11 |
| Total | | | 60,908.05 |

Figure-I: A graphical presentation of US Economic aid to Israel



Source: Author, based on data obtained from USAID.⁷

US Aid to Israel: The First Period (1949-1970)

Recognised by US President Truman within minutes after Israel's Declaration of Independence in 1948,⁸ the US has remained the closest ally of Israel since then. Within just ten days of its independence, Israel's first president Chaim Weizmann visited the US and met US President Truman.⁹ The meeting between the two heads of the states laid the foundation of a lasting relationship as President Truman fulfilled his promise of support for the newly established Jewish state. As a result, the US started providing economic assistance to Israel in the form of small grants. Over the next decade, the aid programme was expanded considerably and included Export-Import Bank loans, Food for Peace aid and concessional economic loans.¹⁰ According to Fraser, during the preliminary years of Israel's establishment, the US aid plan "proved to be the start of financial connexion between the two countries which was to become a vital part of Israel's security and prosperity".¹¹

The US aid trends are clearly visible in Figure 1, which is based on the USAID data in constant 2010 US\$ value. The graph reveals that although the US allocated considerable economic aid to Israel during these years, it appears negligible when compared to the amount of US aid in the latter years. There is one argument: although the US started providing economic aid to the Jewish state, it was cautious not to provide too much aid to get openly involved in the Middle East controversy and alienate Arab states hostile to Israel.¹² To this end, the US also did not

give any military aid or arms to Israel as France was a key arms' supplier to Israel during this period.¹³ Although Israel was occasionally able to secure US military arms and security assistance, Mark has observed that up until 1962 most US aid to Israel was limited to economic assistance.¹⁴ Regarding the US stance not to supply arms to Israel during this period, Slonim argues that the US policy "stands in stark contrast to the general diplomatic support that President Truman extended to the nascent and fledgling Jewish state".¹⁵ There was also a wide perception among US policy-makers that getting too close to Israel would push the Arab states towards the Soviet Union.¹⁶ Hence, there is no doubt that the US provided considerable civilian aid to Israel during this period; it is also a fact that this amount appears insignificant when it is compared to the unprecedented US generosity in the years following the 1967 and 1973 Arab-Israeli Wars.

Second Period of Honeymoon: Post-1967

As mentioned earlier, though the US and Israel had strong ties, these became stronger after the Arab-Israeli Wars of 1967 and 1973. In the Six Day War of June 1967, Israel's overwhelming victory against its Arab opponents and the occupation of enemies' territories put it politically, diplomatically and strategically in a strong bargaining position. Israel lost the support of its important pre-war ally France but its post-war status attracted the US in the form of huge economic as well as military aid. The US stepped in to fill the vacuum after French President Charles de Gaulle refused to supply Israel with military support as a sign of protest in its preemptive launching of the war.¹⁷ There was an obvious change in US policies concerning the importance to be attached to a triumphant Israel. Safran has noted that the war transformed Israel's strategic and diplomatic status and opened various new avenues and opportunities.¹⁸ Gilboa argues that the victory of Israel was "an American gain as well, since both Egypt and Syria were close allies of the Soviet Union and their defeat was considered a major blow to Kremlin's prestige in the region".¹⁹ Luttwak concurs by stating that the 1967 Arab-Israeli War was "a disaster of great proportions for Moscow, and a commensurate gain for the United States" in the heat of the Cold War.²⁰ In the post-1967 War era, Washington made two basic judgments: to provide Israel substantial diplomatic, military and economic support, and to use occupied territories of the Sinai, West Bank, Gaza and the Golan Heights as "bargaining chips to exchange for peace, recognition and security from the Arab neighbours".²¹ In his autobiography, Kissinger claims that "the new territory seized was three times the size of Israel itself".²² This shows the extent of Israel's success over its opponents and its increased geo-strategic and security significance for the US in the years following 1967.

In the scenario that developed under these circumstances, a much more positive shift in the US policy occurred regarding the new status Israel enjoyed. Now Israel was seen as a strategic asset by the US and as a tool against Soviet influence and a bulwark against radicalism and militancy in the Middle East.²³ As a result of greater geo-strategic, security and political significance, the volume of US economic aid to Israel increased many times during this period. While US economic assistance jumped from US \$186 million in 1970 to US \$240 million, US \$429 million and US \$433 million in 1971, 1972 and 1973 respectively (See Table I for the relevant years). Figure I also clearly shows the difference between US economic aid to Israel during these years. Laufer and Quandt have also noted these trends in US aid to Israel as these authors claim that there was nearly a ten-fold increase in US security assistance to Israel in the early 1970s.²⁴ This indicates that these years were the harbinger of another era in the US-Israel aid relationship as US aid rapidly increased from millions into billions of dollars.

There can be no better example of realpolitik of using foreign aid as a foreign policy tool. All this increasing amount of aid was provided not purely for humanitarian considerations or needs of Israel but because of its growing geo-strategic significance for the US.²⁵ The US did not spend “billions of dollars in military and economic aid merely out of a sense of moral obligation” but because Israel was now seen as a strategic asset.²⁶ This period also witnessed the Jordan crisis: the 1970 uprising of the Palestinians against King Hussain of Jordan. According to Quandt, Israel played a critical role in building pressure to prevent Syrian intervention in Jordan, which enabled pro-US King Hussain to re-establish his authority in Jordan by defeating Palestinian radicals.²⁷ In the same context, Bar-Siman-Tov argues that “for the first time the United States recognized Israel’s strategic value”.²⁸ In the Jordanian-Syrian crisis when US interests were at stake, Israel proved itself a worthy ally to defend US policy goals in the region. Hence, due to geo-strategic, political and security factors, US economic and military aid to Israel increased markedly during this period than what it was before.

With the passage of time Israel’s status changed enormously in the eyes of the US policy makers and it occupied a more and more significant and advantageous position. During the Arab-Israeli War of October 1973, the US airlift and the Nixon and Kissinger overt handling of US \$2.2 billion aid request from Israel led to the oil embargo from Arab states and subsequent energy crisis in the US and elsewhere among its allies.²⁹ Unlike major European countries who not only remained neutral in the conflict but “took on the role of critics and antagonists of American policy and action”³⁰, the US remained consistent in increasing

its economic and military aid to Israel soon after the year of crisis, after the 1967 Arab-Israeli war and then again after the October 1973 War.

The US commitment to Israel, especially in terms of military aid was growing through all these years.³¹ Regarding a clear pro-Israel role of the US in these years, Green and Ibrahim assert that the fact that the US overtly sided with Israel in the October War against the Arabs was a proof of the ever-increasing significance of their relationship.³² The US support for Israel stands in clear contrast when it is compared with the response and reaction of the rest of the world soon after the wars of 1967 and 1973. Safran claims that twenty countries severed diplomatic relations with Israel within one month of the war in 1973.³³ He further states that like other major European countries, Great Britain declared a neutral policy and an embargo on arms to Middle East which affected Israel as it was relying on British-made Centurion tanks. It can be safely assumed that during all these years the US remained committed to the economic stability and military security of Israel even in circumstances when it was shunned by its old allies like France, Britain and other European nations for its lack of flexibility and aggression. It has been aptly summed up that “by the end of this period, America had become Israel’s chief friend and protector”.³⁴

Different writers and researchers have put the total amount of US aid to Israel in different figures, depending upon the duration and value of US dollar. Mark is of the view that total US aid to Israel from 1949-2002 is more than \$87 billion. Sharp has recently produced figures which show that total US economic and military assistance to Israel since 1949-2007 is \$101.190 billion, in which \$53.643 billion is military grant and \$30.89 billion is economic grant. According to data obtained from USAID, put in constant 2006 \$ value, total US economic and military assistance to Israel up to 2006 is an astounding figure of more than \$161 billion (excluding non-concessional loans).³⁵ Similarly, average per capita US aid to Israel during the period 1970-2006 is \$988 per year and from 1949-2006 it is \$688 per year in constant 2006 \$.³⁶ By assessing such an unusual quantity of US aid to Israel, it is appropriate to quote Quandt who has remarked that “no country received as much aid from America on a per capita basis as did Israel”.³⁷

Why US aid for Israel? On account of Israel’s poverty or due to US interests

In order to empirically demonstrate that Israel has remained the largest recipient of US economic aid not on account of its poverty but due to US geo-strategic, security and political pursuits in the region, this part of the paper looks at the developmental status of Israel. To measure the financial strength of any country, one of the most common development

indicators is Gross Domestic Product (GDP) per capita. Not only has this indicator been widely employed in the aid literature to measure the poverty status or development need of a country but it is also “highly correlated with other need variables such as life expectancy, infant mortality, or literacy”.³⁸ In the same context, Berthe’lemy states that the “most straightforward indicator of beneficiary needs is income per capita...if aid is to be allocated based on recipient needs, the poorer countries should receive more, and the richer countries less”.³⁹ Similarly, another critical indicator of the recipients’ developmental needs is the population size of an aid-receiving country. Maizels and Nissanke assert that “population size can legitimately be taken to represent recipient need, since larger developing countries can be said to require more foreign aid than smaller countries at the same level of development”.⁴⁰ It means that *ceteris paribus* (keeping other factors unchanged), a country having more population is supposed to get more aid. This point is further elaborated by the following example. If two countries have similar developmental status based on certain developmental indicators (such as GDP per capita, literacy ratio, net exports, life expectancy at birth), then the country having more population needs more aid due to its large population as its developmental needs are more than the country having less population.

Now the question is what is the financial and developmental status of Israel based on the above two indicators? As this paper has shown, Israel has received a total of more than US 60 billion dollars in economic aid since its establishment in 1948. The question arises whether the US has provided economic aid to Israel because the latter actually needed it and whether US aid has been motivated purely by developmental and humanitarian considerations or US foreign policy goals. Table II, based on the World Bank data, clearly shows the developmental position of Israel on the basis of GDP per capita and total Population. It is evident from the data that based on the above indicators Israel can be rightly called a very rich country as it has maintained a very good GDP per capita over a long period of time and its population is nowhere even near to a number of developing countries such as India, Bangladesh or Pakistan.

It is argued that based on per capita income Israel can be considered among the top 40-50 richest nations.⁴¹ According to US Central Intelligence Agency, Israel had a per capita GDP of US \$32,200 in 2012, which is higher than oil-rich Saudi Arabia that had a per capita GDP of US \$25,700 during the same period.⁴² These facts substantiate the argument that Israel is not a poor country and that the US has a ‘special relationship’ with it.

Table-II: GDP per capita and Total Population of Israel

| Year | GDP per capita (US \$, 2000 constant) | Total population (millions) | Year | GDP per capita (US \$, 2000 constant) | Total population (millions) |
|------|---|-----------------------------------|------|---|-----------------------------------|
| 1960 | 5823 | 2 | 1985 | 13631 | 4 |
| 1961 | 6266 | 2 | 1986 | 14065 | 4 |
| 1962 | 6577 | 2 | 1987 | 14835 | 4 |
| 1963 | 7017 | 2 | 1988 | 14886 | 4 |
| 1964 | 7280 | 2 | 1989 | 14763 | 5 |
| 1965 | 7675 | 3 | 1990 | 15291 | 5 |
| 1966 | 7477 | 3 | 1991 | 15507 | 5 |
| 1967 | 7375 | 3 | 1992 | 15823 | 5 |
| 1968 | 8396 | 3 | 1993 | 16265 | 5 |
| 1969 | 9289 | 3 | 1994 | 16947 | 5 |
| 1970 | 9643 | 3 | 1995 | 17603 | 6 |
| 1971 | 10393 | 3 | 1996 | 18113 | 6 |
| 1972 | 11517 | 3 | 1997 | 18173 | 6 |
| 1973 | 11430 | 3 | 1998 | 18522 | 6 |
| 1974 | 11854 | 3 | 1999 | 18652 | 6 |
| 1975 | 11970 | 3 | 2000 | 19836 | 6 |
| 1976 | 11860 | 4 | 2001 | 19366 | 6 |
| 1977 | 11597 | 4 | 2002 | 18853 | 7 |
| 1978 | 11902 | 4 | 2003 | 18796 | 7 |
| 1979 | 12329 | 4 | 2004 | 19390 | 7 |
| 1980 | 12864 | 4 | 2005 | 20022 | 7 |
| 1981 | 13260 | 4 | 2006 | 20711 | 7 |
| 1982 | 13248 | 4 | 2007 | 21405 | 7 |
| 1983 | 13466 | 4 | 2008 | 21869 | 7 |
| 1984 | 13411 | 4 | | | |

Besides the above, Israel is also exempted from various other conditions that all other US aid recipients are supposed to fulfill before aid being allocated. All US aid recipients are granted the allocated amount in quarterly installments while aid to Israel since 1982 has been given in a lump sum at the start of each fiscal year.⁴³ Another exception is that Israel then reinvests this amount in US Treasury notes enabling it to earn significant money in interest paid by US taxpayers.⁴⁴ In order to provide Israel the entire amount in this manner, it costs the US government between US \$50-60 million annually in additional bank charges, which

are not deducted from the money given to Israel.⁴⁵ Similarly, there are no strings attached to US aid to Israel regarding how and where to spend aid money and there is no resident USAID mission to supervise and recommend the aid programme of Israel for Washington review.⁴⁶

Based on the above, the ties between the two countries have been dubbed as “unique in history”.⁴⁷ The US special relations and its foreign policy towards Israel can be summed in the words of Reich that “the United States has changed from a power providing limited direct support for Israel to the world’s only superpower linked to Israel in a free-trade area, and a crucial provider of political, diplomatic, and strategic support as well as economic aid”.⁴⁸

Conclusion

Focusing on key regional events in the Middle East, the paper has examined the provision of US economic assistance to Israel since the latter appeared on the world map in 1948. Covering different periods spanning six decades, the empirical analysis of the USAID data vis-à-vis the World Bank data clearly illustrates that the provision of US aid has not been primarily guided by poverty needs of Israel. This is due to the fact that the latter has maintained significantly high developmental status based on several key development indicators. Hence, despite being a rich country in terms of GDP per capita and average life expectancy, Israel has received the largest amount of US economic aid between 1948 and 2006. It shows that instead of poverty factor alone, the allocation of US aid to Israel has been vastly influenced by key regional events having significant policy implications for US geo-strategic, political and security interests in the region.

The analysis of historical as well as contemporary US aid policies towards Israel is a grim reminder that bilateral donors have continued to use foreign aid as an instrument and tool of their foreign policy. As mentioned earlier, during the Cold War period “development aid was inseparably connected to the policies of the bi-polar world”⁴⁹. However, it was felt somewhat idealistically that there would be no more rationale for aid to be used as a strategic tool after the end of the Cold War. Unfortunately, this has not been the case as has been illustrated by the allocation of US assistance to Israel. If past is to be the guide to future, development aid is likely to be used as a tool of foreign policy unless there is a clear division and segregation between aid for development and aid for diplomacy.

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