

A Quick Look at the Economy of Israel; A Quiet Topic the World's Mass Media Usually Skip

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Introduction

A promise is stated in a German Bible in *heutigem Deutsch* (meaning a *modern* translation) in Ezekial 11:17. God is speaking to the Hebrews:

Aber ich, der Herr, werde sie aus den Völkern, unter die sie zerstreut sind, sammeln und ihnen das Land Israel zum Besitz geben (Die Bibel, p. 741) – But I, The Lord, want you out of the nations through which you are now scattered, [and to be] gathered together in the Land of Israel whose possession I now give to you.

As for placing a specific date on the arrival of this gift, historians, theologians, and politicians cannot agree. It has been said that the United Nations, with urging by American President Harry Truman, made this Heavenly promise come true in 1948 with the creation of the State of Israel.

Unfortunately, since that date there have been very few years of complete peace for this new nation. Nevertheless, some phases of a normal peaceful *economy* have carried on. We shall consider some of those phases in the pages to follow and we rely on numerous foreign sources.

The Economic Scene

For its issue of July 24, 2006, Britain's *The Economist* painted the following sketch of the current Israeli economic picture:

A General Picture

Healthy real GDP growth will be driven by a strong domestic performance and steady export expansion. After narrowing in 2006, the budget deficit will widen in 2007 as a result of a modest increase in social welfare spending, although improved fiscal management will keep the deficit in check. Interest rates have begun to rise, as the Bank of Israel (the central bank) responds to rate hikes in the US and to increased domestic demand, and rates will continue to rise until late 2006 or early 2007. Average inflation will rise marginally in 2006 but stay low overall in 2006-07. The current-account surplus will widen further in 2006-07 (Forecast 2006).

Real Estate

As September of 2006 dawned, Daniel Kennemer of *Jerusalem Post* offered some discouraging figures in real estate:

New home sales were down significantly in most parts of the country – including in the North [nearest to the military action] – even before the war with Hizbullah, according to data published on Thursday [August 31]. Private-sector sales of newly constructed residential units fell an annualized 10.2 percent during the first six months of the year – or an average 0.9% per month – following an annualized 18.8% rise in the second half of 2005, the Central Bureau of Statistics said, citing trend data (Kennemer, New House, 2006).

Kennemer then pointed out that the dropping in sales varied with district:

New housing sales fell 45% in the Jerusalem district, 37.7% in Judea and Samaria, 35.2% in the North, 11.8% in the South and 3.5% in the Haifa district in the first half of 2006 as compared to the parallel period a year earlier (*Ibid.*)

But Kennemer had this *encouraging* news:

In contrast, new housing sales jumped 68.3% in Tel Aviv and 11.2% in the Central district, more than making up for the drops in the rest of the country and bringing the national total to 9.1% above the number sold in the first half of 2005, although still down from the second half of last year (*Ibid.*)

Economic Life Moves On

For its issue of August 21, 2006, the Spanish-language Israel newspaper *El Relej* indicated that there was at least one new development, and included was the adding of employees:

El gigante informático IBM pretende crear nuevos centros de desarrollo en Israel en Rejovot y en Jerusalem según informa hoy el periódico económico israelí Globes. Este sería el tercer centro de desarrollo que tiene la compañía en Israel. IBM cuenta con 400 empleados en Israel, la mayoría de ellos en Haifa. Con los nuevos centros IBM tendrá en Israel unos 650 empleados (IBM pretende, 2006) – IBM is planning to create new software development centers in Israel in Rejovot and in Jerusalem, the Israeli economic newspaper Globes informed today. This will be the third development center which the company has in Israel. IBM currently has 400 employees in Israel, the majority of them in Haifa. With the new centers, IBM will have some 650 employees.

Shmulik Shelah, writing for *Virtual Israel* and *Globes*, indicated the importance of the facility in Haifa: “IBM’s Haifa research center...is one of the company’s largest centers outside the US” (Shelah, 2006).

El Relej wisely imposed the longstanding nickname on IBM: “*El gigante informático IBM*,” meaning, of course, “The computer science giant IBM.” Unfortunately, there was a negative aspect to the *El Relej* report: “*Unos 500 comercios en riesgo de cerrar*” (*Ibid.*), meaning: “There are some 500 [IBM] shops at risk of closing.”

The Poverty Line

For its issue of August 30, 2006, *Jerusalem Post* published a story on how many Israelis live *below* the

“poverty line.”

According to the annual poverty report released on Wednesday by Director General of the National Insurance Institute (NII) Yigal Ben Shalom, 26.2% of Israelis, comprising over 1.6 million people, were below the poverty line in 2005 – a jump from 24.5% in 2004. The report also found that: 769,000 children live below the poverty line, an increase of 55,000 from 2005 – over 35% of the children in Israel. One out of four families in Israel was below the poverty line, for a total of 410,000 families. In families with at least four children, the poverty rate rose to 58.1% from 54.7% in 2004, while 177,000 families in which one parent earned an income were defined as poor. One third of public and private sector employees were below the poverty line. The report defined “below the poverty line” as an income of less than 1,868 NIS per person per month (25% of families, 2006).

NIS stands for *New Israel Shekel*, which at the time of that report had a value of **23 cents** in American currency. Thus the monthly figure of 1,868 *New Israel Shekels* translates into \$428, or an annual figure of \$5,136.

Experienced economists will tell us that placing a *dollar* figure on a foreign income does not lead to an accurate picture. Here are some proofs. In America’s Great Depression, a person receiving an income of \$428 per month would consider himself or herself *extremely fortunate* and **far above** the “poverty level!”

But it is the People’s Republic of China which makes the point best. Tiberiu Brailean, writing in Romania’s *Ziarul de iasi* in January of 2004, stated the unbelievable:

Intre 150 si 300 de milioane de chinezi traiesc cu mai putin de un euro pe zi (Brailean 2004) –
Between 150 and 300 million Chinese still live on as little as a euro a week.

In American currency, that would be \$1.28 per week. Compared to those 150 to 300 million Chinese today, those Israelis below the poverty level are in good shape. But, remember we **cannot** accurately compare.

Tourism

Tom Chesshyre of *The Times* of London wrote a feature titled “Israel predicts **tourism boom**” (Chesshyre 2006 – **bold emphasis** added by the current authors), and he went on to state that Israel “offers the right mix of religion, culture, history and relaxation.... Actually, Israel is incredibly safe” (*Ibid.*). But there’s more in *The Times* about British tourists arriving in Israel:

Latest figures show that tourist numbers from the UK leapt by 28 per cent in the first quarter of the year, with more than 200,000 visitors expected by the end of the year – up a fifth on last year (*Ibid.*).

These very positive and encouraging figures appeared in *The Times* on Wednesday, July 12, 2006. As we now know, on that very same date, frightening news began coming from Israel.

Then, the Military Action

Germany's *Frankfurter Rundschau* put the whole military report into this short paragraph:

Der Nahostkonflikt ist am Mittwoch dramatisch eskaliert: Nach der Entführung von zwei israelischen Soldaten durch die radikal-islamischen Hisbollah-Milizen rückte die israelische Armee auch in den Libanon ein (Der Nahostkonflikt, 2006) – The Near East conflict dramatically escalated on Wednesday. After the kidnaping of two Israeli soldiers by the radical-Islamic Hezbollah Militia, the Israeli Army has now invaded Lebanon.

Milano, Italy's *Corriere della Sera* quoted the Israel Prime Minister as he clearly linked two events:

Hezbollah rapiti due soldati israeliani. Il premier Olmert: «E' un atto di guerra». Scontri oltre il confine. Le truppe di Tel Aviv invadono il Libano (Hezbollah rapiti, 2006) – Hezbollah kidnaps two Israeli soldiers. Premier Olmert [said]: “This is an act of war.” This is a clash beyond borders. The troops of Tel Aviv invade Lebanon.

The Paris daily *Le Monde* treated the attack in this manner:

“Nos avions, nos chars et notre artillerie opérant à l'intérieur du territoire libanais,” a déclaré un porte-parole militaire israélien, mercredi 12 juillet, en soulignant que cette offensive avait été lancée à la suite de la capture de deux soldats...à la frontière israélo-libanaise (Nos avions, 2006) – “Our planes, our tanks and our artillery are operating in the interior of Lebanese territory,” an Israeli military spokesman declared on Wednesday, July 12, while emphasizing that this offensive was launched following the capture of two [Israeli] soldiers at the Israel-Lebanon frontier.

News reports of July 12, 2006 were very encouraging – from an *Israeli* military standpoint. The current study, however, is dealing with the *economy* and **not** the *military*. As the middle of August arrived, peace was to be mandated in southern Lebanon. Alberto Flores D'Arcais of Rome's *la Repubblica* explained the role of the United Nations this way in a report dated 25 agosto:

Il documento con le direttive per i 15 mila caschi blu datato 17 agosto 2006. Si fa riferimento a possibili attività ostili da parte di Hezbollah. Libano, piano segreto dell'Onu carta bianca ai comandanti (D'Arcais, 2006) – A [United Nations] document with a directive involving [eventually] 15 thousand “blue berets” dated 17 August 2006. It refers to the possible hostile activity on the part of Hezbollah. For Lebanon, the U.N. secret plan gives *carte blanche* to the [U.N.] Commanders.

What, then, was the impact of the Lebanon invasion on the **economy** of Israel?

Economy, of course, Impacted by Military Action

As early as July 23, 2006, *Turkish Daily News* and *Reuters* treated the *cost* of the war:

Israel's war with Hezbollah guerillas in Lebanon should not derail the Jewish state's robust economy as long as fighting ends soon. The \$130 billion economy has ridden a wave of positive sentiment since 2004 and is headed for a second straight year of growth above 5

percent on strong exports, a revival of consumer spending and heavy foreign investment (Israel economy, 2006).

On August 4, Linda Gradstein, the Jerusalem correspondent for America's National Public Radio provided this report for listeners to NPR's *Morning Edition*:

Weeks of fighting have taken a heavy toll on certain sectors of the Israeli economy. But growth is still expected to be a healthy five percent this year, and the stock market is only down slightly. But if it drags on, economists say consumer confidence and foreign investment could both suffer.

Somewhat later – August 18 – *John Robb's Weblog* quoted Henry Chu and Vita Becker of the *Los Angeles Times*:

The Israeli government has issued its preliminary estimate of the month long war's price tag: \$5.3 billion, including defense spending, emergency aid to hard-hit communities, physical damage, and the consequences of a 1.5% loss in the gross domestic product. It adds up to a blow for an economy that gingerly started to recover two years ago as Israeli-Palestinian violence subsided (Chu, Becker 2006).

That \$5.3 billion was later raised to \$5.7 billion by an August 30 report by *Reuters* and *AlertNet* (Lebanon War 2006).

On August 24, Sharon Wrobel of *Jerusalem Post* had this central bank report:

The Governor of the Bank of Israel, Stanley Fischer, is expected on Monday to leave interest rates for September unchanged mainly due to an anticipated slowdown of economic growth in the second half of the year caused by the fighting in the North and the shekel's strength against the dollar (Wrobel - Fischer 2006)

Just six days later, Wrobel revealed that the Israeli currency – the *Shekel* – could be suffering:

Apart from the first days of the conflict in the North...when the shekel weakened slightly against the dollar, the local currency had gained significant strength to a support level of NIS [New Israeli Shekel] 4.36 against the dollar at the end of the fighting.... Over the past week [last week of August], the shekel gradually weakened to NIS 4.39 against the dollar (Wrobel – Uncertainty 2006).

In the midst of all these economic data, what were Israeli citizens thinking about the situation? Prepared to answer that question was Betsy Hiel who was on assignment on the Israeli scene for America's *Pittsburgh Tribune-Review*. On August 20, she wired home a report from Haifa. Here's a portion of what she conveyed to the folks back home:

The Israeli press is attacking the government's decisions, the war's conduct, the cease-fire's conditions. Hezbollah's leader, Hassan Nasrallah, remains alive, claiming victory, as do Syria

and Iran. Israelis see Hezbollah keeping its weapons – guns, anti-tank missiles, short-range Katyusha rockets that terrorized northern Israel – and many fear the violence could easily flare again (Hiel 2006).

Pittsburgh Tribune-Review correspondent Betsy Hiel, whose report we have just sampled, wants us to remember the name of the Hezbollah leader: **Hassan Nasrallah**. Remember that name! Hiel, in her article, lists numerous anti-Israel leaders down through history. She reports how an artist in the West Bank city of Ramallah spends his time painting sketches of these major anti-Israel leaders, and these sketches are purchased by many people possessing anti-Israel sentiment. Betsy Hiel quotes that artist as he refers to two famous **anti-Israel** names:

“Historically, it was Jesus Christ,” he said, pointing to a sketch of the Messiah. “Now, of course, it’s Hassan Nasrallah” (*Ibid.*).

Daily Israeli life must go on – even after a war!

Still, Some Positive Signs Even After the Military Action

There may be a researcher who is seeking *sad details* regarding how the venture in Lebanon has *crippled* the Israeli economy. Such a researcher will face a difficult task. As proof, we go chronologically through some August news stories. No, they are not all rosy, but the picture seems to be of a Government in control.

On 9 de agosto de 2006, *El Reloj* provided this post-war report, with news both good and bad:

El Ministro de Economía asegura que por la Guerra no se aumentará impuestos. Por otro lado el Ministro de Trabajo Eli Ishai advirtió que en el norte del país podría haber un aumento considerable de desempleados que podría llegar al 14% por la actual guerra (El Ministro 2006) – The [Israeli] Minister of Economics has assured that there will be no raising of taxes due to the war. On the other hand, the Minister of Labor Eli Ishai advises that in the north of the country [nearest to Lebanon] there could be a considerable rise in the unemployed that could rise to 14 percent from the current war.

Sharon Wrobel, writing for *Jerusalem Post* on August 22, certainly made the real estate industry look healthy:

As businesses across the country look to recover from the war in the North, the real estate industry appears to have emerged as one sector little-affected by the conflict. “We have seen a very minor drop in business deals, mainly because all real estate activity was frozen only from Hadera and northwards [during the hostilities], said Hanan Schlesinger, CEO of real estate company Anglo-Saxon.... the number of mortgage applications in the North has increased to 14 percent of all applications across the country since the cease-fire (Wrobel, Real 2006).

Daniel Kennemer, also writing for *Jerusalem Post*, on August 27, told how the war timed itself in harmony with the “*Batzir*” – that’s the Hebrew word for “grape harvest.” Kennemer tells us that

Israeli artillery batteries had stationed themselves in the vineyards of Dalton Winery. That would **not** help with the planned harvesting! The CEO of Dalton Winery, Moshe Haviv, then had this happy report:

“Fortunately for us, the artillery batteries left [the vineyard] one day before the beginning of the Batzir [harvest]” (Kennemer – After 2006).

On the final day of August, Germany’s business-economics newspaper *Handelsblatt* painted a most positive picture of Israel’s economic situation:

Israels Börse übersteht Libanon-Krieg unbeschadet. Analysten: Der Konflikt hat nur geringe Auswirkungen auf die boomende Wirtschaft des Landes. Volkswirte erwarten für dieses Jahr in Israel noch immer ein Wirtschaftswachstum von über vier Prozent, gestützt von den relativ niedrigen Zinsen (Israels 2006) – Israel’s stock market survives the Lebanon War undamaged. Analysts [are saying]: The conflict had only minor consequences upon the booming economy of the country. Economists expect again this year an economy growth of over four percent, supported by the relative low interest rates.

The *Handelsblatt* picture comes very close to saying that the incident in Lebanon is going to have no impact on the economy of Israel.

That Military Action Further Clarified Relations with Israel and its Close Friend

It has been maintained by some historians – and even some diplomats – that the fine art of diplomacy must always include appropriate timing. It could be suggested that two specific world leaders carefully chose the moment at which they would make an announcement. Russia’s *Lenta.Ru* carried the story with a dateline of August 31, 2006. We have translated from the Russian Cyrillic script. Here is the bulletin in English:

President of Venezuela Hugo Chavez said Wednesday in Damascus that he and Syrian leader [President] Bashar Assad have agreed to take together an anti-American position (Hugo 2006).

And remember, as we saw shortly above, that Betsy Hiel wrote this sentence for *Pittsburgh Tribune-Review*:

Hezbollah’s leader, Hassan Nasrallah, remains alive, claiming victory, as do **Syria** and **Iran** (Hiel 2006 – **bold emphasis** by the current authors.)

It wouldn’t take too much imagination to add *Iran* to the anti-American position being taken by Venezuela and Syria! **Why?** Because, for the purposes of the current study, the United States is broadly seen as *Israel’s best friend!*

Conclusions

Yes, *Der Herr* [The Lord] has given the Land of Israel to the ancient Hebrews. And its economic picture is a little more stable than a far-off observer might imagine. It was the aim of the current study to examine that economic picture. And it has been *surprising* to observe the calm within that

economic picture despite the continuing harassment of Israel by its neighbors. But as these very lines are being written, a new team of neighbors may be plotting yet another challenge for Israel and its economy.

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