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# Israel's Global Capitalism

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Jerusalem and Montreal, June 2004

<http://www.bnarchives.net>

The flaring up of the Israeli-Palestinian conflict in the early 2000s caught most experts by surprise. The 1990s euphoria of the Oslo 'peace process' suddenly dissipated, replaced by a second *intifada*; the newspeak of 'peace dividends' gave way to debates about 'imperialism'; and instead of 'global villageism' there is now much talk about the 'war on terrorism.'

Interestingly, most analysts, popular as well as academic, seem to view this dramatic change largely as a 'chance occurrence.' In a world dominated by postmodern 'narrative' and 'discourse,' nothing is truly 'real' – or alternatively, the only 'reality' is what we see on television and read in the newspapers. According to the media, the Israeli-Palestinian conflict, like all conflicts, is a matter of ethnicity, religion and culture, and these sentiments have their ups and downs. The prime agitators of such sentiments are 'leaders' of various kinds – state officials, army generals, spiritual figures and religious icons – whose clashing urges produce different outcomes. In the present conjunction, the shift from peace to war was triggered by Israel's far right, which, led by Benjamin Netanyahu and Ariel Sharon, decided to derail the fragile Oslo Accord in order to continue the settlement of Greater Israel.

Unfortunately, so far there has been little attempt to go beyond these immediate appearances. History certainly is open-ended, but it is not random. And while ethnicity, religion and culture are real features of our capitalist world, they cannot adequately explain its development. Israel is a capitalist country in a capitalist world, and therefore its history – including its conflict with the Palestinians – needs to be situated within the broader processes of capitalist development, local and global. Focusing on the 1990s, the purpose of this paper is to identify several key developments in global capitalism, examine how these processes altered the political economy of Israel and speculate on what they may mean for the future.

## **The 'neoliberal' order**

During the 1990s, the global political economy of Israel was fundamentally transformed. The transformation had two crucial aspects. The first aspect was the *transnationalization of ownership*, a process that has had the effect of integrating the Israeli elite into the global capitalist class. The second aspect was a change in the *nature of capital accumulation*. This change involved a shift from 'war profits' to 'peace dividends'; from a regime marked by conflict and war to one based on high-tech and corporate amalgamation.

These two changes – which are crucial for understanding the domestic and regional politics of Israel – are global in origin. To comprehend them, we first need to take a step back and re-examine the so-called ‘neoliberal’ order of the 1990s.<sup>1</sup> The precise nature of this order remains debated, but, until recently, most writers seemed to agree on the following three points:

1. That states were in some sense ‘declining’ relative to markets.
2. That globalization, deregulation and technical change together contributed toward greater ‘competition.’
3. That as a consequence of declining states, globalization and intense technical change, the world was moving back toward a more ‘anarchic’ order; a nineteenth century-like order in the spirit of Marx, where direct power – the power of both state and business – was undermined by structural market forces.

Despite their popularity, these conventions are rather questionable. Let us consider each of them in turn.

#### **‘Decline’ of the state?**

During the 1990s, one popular indicator for the ‘decline’ of the state was the dramatic fall in budget deficits around the world. As [Figure 1](#) demonstrates, this fall was real enough. The thin line in the chart shows that, globally, budget deficits fell from 5.5 per cent of GDP in the mid 1980s, to 1 per cent in the late 1990s.

But then, the deficit is merely the difference between taxation and spending. And while this difference indeed fell, the overall involvement of governments – measured by the share of government consumption spending in GDP and indicated by the thick line in the chart – has remained stable, and, recently, even started to rise.

Moreover, as we all know, ‘state’ is something different from government. Broadly speaking, the concept of ‘state’ refers to the organization of power and the control of violence in society, and from this wider viewpoint it is hard to speak of the state as ‘declining.’

#### **Rising ‘competition’?**

The question of power relates to the second convention – namely, that the world has become much more ‘competitive.’

It is of course true that the 1990s were marked by significant cultural-ideological integration, deregulation and technical change. What is less clear is the impact these changes had on competition. Indeed, what exactly does it mean to say that the world now is ‘more’ competitive?

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<sup>1</sup> We emphasize the 1990s because, in our view, since the year 2000 the world may have begun moving away from neoliberalism.

One straightforward yardstick for competition is the markup, normally measured as the per cent share of capital income in sales or value added. [Figure 2](#) shows two markup series for the United States, indicating the share of non-labour income in value added. The thick line shows the markup for the U.S. manufacturing sector as a whole; the thin line shows the markup for a selected subset of ten information-technology-communication industries, or ITC.

Now, standard economic reasoning would suggest that, as competition becomes more intense, the markup should get squeezed – and vice versa when competition is lessened. Based on this logic, the data in the chart indicate that competition in fact has *declined* more or less continuously throughout the second half of the twentieth century. During that period, the manufacturing markup rose by over 1/3<sup>rd</sup> – from 45 per cent in the 1940s to 60 per cent in the late 1990s. In the ITC sector, the markup rose from 45 per cent in the 1960s, to 60 per cent in the early 1990s, and to nearly 80 per cent in the late 1990s.

This last increase is especially noteworthy. The ITC sector is considered by many as the most ‘global’ and ‘competitive’ of all sectors, and the 1990s were hailed as the era of ‘competition.’ And yet, the data here seem to suggest that, despite globalization, deregulation and technical change, ‘competition’ in fact has *decreased*.

One can question this conclusion by noting that manufacturing represents less than 20 per cent of the economy, and wonder whether the situation in other business sectors was perhaps radically different. The evidence in [Figure 3](#) suggests it was not. The chart shows the combined share of profit and interest in U.S. national income since the late 1920s. Two clear patterns are evident from the data. The first pattern is the systematic increase in the income share of capital. This share had risen from an average of 14 per cent in the 1930s and 1940s, to 18 per cent in the 1980s and 1990s. The second pattern is the continuous decline in the *variations* of the income share of capital, as indicated by the narrowing distance separating the two dotted lines in the chart. In other words, returns have gone up while risk has come down – the exact opposite of what one would expect from a process of increasing ‘competition.’

### **The end of ‘direct’ power?**

The contradiction between the current rhetoric of intensifying competition and the dynamics of increasing power is more apparent than real. The so-called ‘high-tech revolution’ indeed gave birth to tens of thousands of software companies around the world. But the simple fact remains that of these companies, one single corporation named Microsoft appropriates 70 per cent of all software profit.

Is there a ‘paradox’ here? Not really. The so-called neoliberal era of the 1980s and 1990s was ‘liberal’ mostly by name. In fact, the world has *not* gone back to Smith’s ‘invisible hand.’ For those who cared to look, direct power remained very visible – albeit in a different form. The 1990s in particular indeed marked a transition, but that transition meant not the end of direct power, but

its transformation. Specifically, there was a realignment that affected the balance of power *within* the world's dominant capital groups.

One aspect of the changing nature of power during the 1990s is illustrated in [Figure 4](#). The chart contrasts the global profit share of two corporate groups. The first group, which we call the *Weapon-dollar-Petro-dollar Coalition*, consists of leading military contractors and oil companies. The second group, which we label the *New Economy Coalition*, is made of high-tech firms, both hardware and software.

The changing fortunes of these two alliances are clear from the chart. During the 1970s and 1980s, accumulation was conflict-oriented and was dominated by the *Weapon-dollar-Petro-dollar Coalition*. This coalition benefited mainly from a global war economy and from a massive process of inflationary redistribution. At the height of 1980s, when military spending surpassed 5 per cent of world GDP and global inflation averaged 30 per cent, the firms in this coalition scooped over 20 per cent of all global corporate profits.

Since the early 1990s, however, the situation changed. War profits declined and leading politicians and businessmen began talking about 'peace dividends.' There was a marked shift toward civilian information and telecommunication on the one hand, and toward capital mobility, emerging markets and mergers and acquisitions on the other. This shift was led by the *New Economy Coalition*. As a result of these processes, by the end of Clinton's presidency the *New Economy Coalition* earned nearly 15 per cent of all global profits, compared with a mere 3 per cent for the armament and oil firms. ([Figure 4](#) also suggest a new U-turn in the making, with high-tech and corporate mergers retreating in favour of the reinvigoration of oil earnings and war profits. We return to this shift at the end of the paper.)

These global developments serve to suggest that the evolution of Israel – from war profits to peace dividends, and perhaps back to war and conflict more recently – in fact was part of a much larger, global transformation.

### **Domestic developments in Israel**

As noted earlier, during the 1990s, the transition toward peace dividends, high-tech and corporate mergers was often seen as undermining the power of both state and business. But the reality was different, both in Israel and elsewhere. We begin with domestic changes, and then turn to see how Israel fits within the broader global picture.

The first aspect of the new Israeli capitalism is high corporate centralization. By the end of the 1990s, after a decade of hectic restructuring, Israeli capital had become not only more concentrated than ever before, but also deeply integrated with foreign investors, transnational companies and organized crime.<sup>2</sup> Of the 652 companies listed on the Tel Aviv Stock Exchange in 1999, 82

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<sup>2</sup> Politicians such as Ariel Sharon, Benjamin Netanyahu, Ehud Barak and Avigdor Lieberman, for instance, have been linked to organized crime and Russian 'oligarchs'

were wholly or partly controlled by five dominant groups. The relative value of these 82 companies accounted for as much as 41 per cent of the market's total capitalisation. The rest of the market was also highly concentrated. The next five groups, following the top five and the government, accounted for another 7 per cent of the market.

Following Joseph Schumpeter, many writers often hail technical change as the agent of 'creative destruction,' a force that relentlessly undermines the power of vested interests and entrenched power. And yet, the rapid changes in technology that helped transform the Israeli business landscape of the 1990s were hardly destructive of power. Moreover, the hand that guided these changes was anything but 'invisible.'

In fact, the transformation of power in Israel was greatly facilitated by a deep symbiosis between capital and state. During the 'ancient regime' of the permanent war economy, the Israeli state was directly involved in accumulation. Its engagement worked through various avenues – including military spending, inflationary monetary policy, transfer payments and direct ownership. In the new 'high-tech' regime, these forms of involvement have declined and were replaced by the state's *indirect* role of securing of 'intellectual property rights.'

Human knowledge is always and everywhere societal, but in capitalism societal knowledge is made profitable. What makes this knowledge profitable are the various institutions and processes of power. Without these power institutions and processes, there could be no profit in knowledge. To illustrate, knowledge about the wave spectrum and how to use it for telephone and satellite is widely available. But this knowledge is made profitable only if most people can be excluded from using it – that is, *unless they pay*. This exclusion requires power, and that is where the state becomes crucial. It seems safe to argue that without this 'exclusionary' power of the state, the whole 'ITC revolution' would not have happened. In this sense, the battle for capital accumulation was and remains a 'battle over the state.'

### **Transnationalization**

The second hallmark of the 1990s was the increasing transnationalization of Israeli power. In 1998, foreign ownership had risen to over 14 per cent of the Tel Aviv stock market, up from 3 per cent only five years earlier.

In less than a decade, Israel was invaded by foreign investors, both private and institutional, conservative and adventurous, respectable and criminal, all lured by the prospects of peace and the smell of peace dividends. This invasion – which Israel's dominant capital welcomed – has fundamentally altered the nature of power.

To begin with, most of Israel's leading domestic firms have become partly or wholly controlled by foreigners. The list includes companies such as Barak,

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like Vladimir Gusinsky and Lev Leviev. The scandals surrounding their various liaisons probably are just the tip of the iceberg.

Cellcom, Class-Data, Coca-Cola-Israel, Cromatis, Elron, First-International-Bank, Dead-Sea Corp., Gilat, Golden-Lines, Intel-Israel, Partner, Paz, Telrad and others. All are owned/controlled by foreign capital. In addition to these direct foreign holdings, global investors have also increased their indirect ownership through diversified portfolio acquisitions by pension, mutual and hedge funds.

Simultaneously, some of the most rapidly growing Israeli firms – primarily in high-technology – listed their stocks abroad and quickly became foreign-owned. Some of the better known names include Teva, Comverse, Amdocs and Check-Point, and there were hundreds of others who followed their footsteps.

The most important aspect of this process, however, was the transnationalisation of dominant capital itself. By the late 1990s, two of the five top groups – Arison and Koor – were effectively in foreign hands.

### **Israel's global capitalism**

These developments are crucial. Behind them lies a profound change in the nature of Israeli accumulation and of the Israeli ruling class.

As foreigners bought local assets, and as Israeli capitalists acquired foreign ones, the combined effect was to '*denationalize*' the Israeli capitalist class. In less than ten years, Israeli capitalists have become part of a 'transnational capitalist class.' Their capitalism has become 'Globe-Israeli.'

This process is illustrated vividly in [Figure 5](#). The chart shows the five-year moving correlation between the Tel-Aviv stock market and the Nasdaq. Every point on the line measures the correlation coefficient, over the previous 60 months, between the annual rate of change of the Tel Aviv index and the annual rate of change of the Nasdaq index.<sup>3</sup>

Clearly, the long-term trend here is up. Until the mid-1980s, the correlation was very low and sometimes even negative. That era was characterized by a closed economy with militarized stagflation, restricted capital flows and regulated exchange rates. But as the old order of war profits began to give way to the peace dividends of the 'new economy,' the correlation between the two markets rose significantly, reaching a value of 0.87 in the five years ending in March 2004.

This rising correlation is of critical importance, historically as well as for the future. Taken at face value, it suggests that, over the past five years, 87 per cent of the ups and downs of the Tel-Aviv stock-market were 'determined,' so to speak, not by the ups and downs of the peace process or the *Intifada*, but rather by the global 'new economy' and the high-tech sentiment.

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<sup>3</sup> The correlation coefficient ranges from a value of +1 indicating that both series are moving exactly together, to -1 meaning they move inversely, with the value 0 denoting that there is no systematic connection between them.

### **Capitalism and Zionism**

Until recently, Israeli capitalism and the Zionist project went hand-in-hand. Since its colonial inception, the Israeli ruling class had managed to interweave nationalist and racist ideals with capitalist praxis. During the militaristic phase, it harnessed the requisites of the 'national interest' to its own particular benefits, using the 'burden of war' as a lever of accumulation. The social cohesion needed to sustain the war economy was bolstered by religious and racial rhetoric, by welfare institutions and by cyclical armed conflicts against external enemies.

The shift toward transnationalism undermined this 'Zionist consensus.' Increasingly, dominant capital began to focus on the Nasdaq and the NYSE, on 'high-tech' adventures, and on mergers and acquisitions in the rest of the world. And as the focus shifted, part of the country's elite became less and less receptive to the 'garrison-state' model, looking instead for a 'peace process' and a 'New Middle East'.

It was at this point that the Zionist package began to unravel. The domestic Jewish population, no longer needed for 'national projects,' was left exposed to the harsh reality of neoliberalism. Similarly, the Palestinians, who previously were used for the cheapness of their labour, found themselves outbid by even cheaper workers imported from the global periphery.

For the majority of the population, the new era was disastrous. In the 1940s, Israel was one of the most egalitarian countries in the world, with the top 20 per cent of the population earnings roughly 3 times more than the bottom 20 per cent. At the time, the comparable ratio in the U.S. was about 10. In the 1990s, the U.S. ratio was about 11 or 12, but the Israeli ratio soared to well over 20 – comparable to Latin American standards. And along with inequality came deprivation. Unemployment is approaching record levels, and Israel is experiencing, for the first time ever, hunger and homelessness.

### **The new wars**

Seen against this background, the flaring up of the Israeli-Palestinian conflict in recent years seems to signal a certain revival of Zionism. But this revival is highly fractured and differs significantly from the prior 'Zionist consensus.'

The revived Israeli-Palestinian conflict is part of a much broader shift from 'global villageism' to 'war on terrorism,' and this shift, much like the 1990s shift toward 'neoliberalism' and 'peace dividends,' is intimately intertwined with a transformation in the nature of global accumulation. For the past few years, the New Economy Coalition has been in retreat, along with capital mobility, investment in emerging markets and corporate merger, while the Weapondollar-Petrodollar Coalition has prospered, with energy crisis and stagflation becoming the main engines of accumulation.

However, unlike during the hey days of the Weapondollar-Petrodollar Coalition of the 1970s and 1980s, the recent renewal of conflict may not bode well for the now Globe-Israeli dominant capital. The increasing high-tech bent of many of its local investments makes it vulnerable to a global environment of

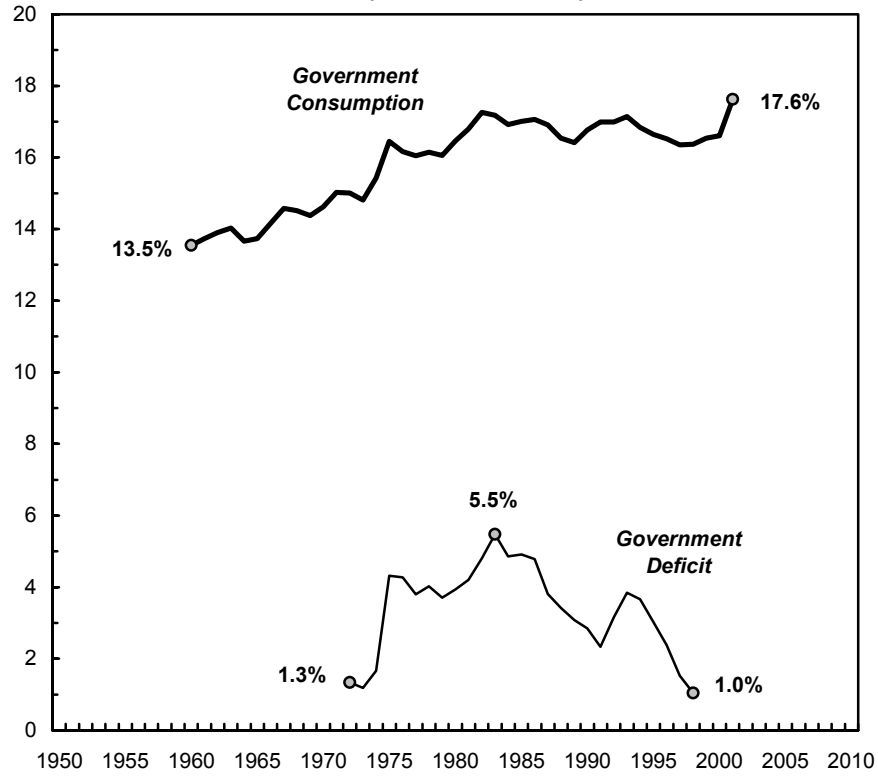


war and stagflation. At the same time, having diluted its domestic holdings in order to diversify globally, it is increasingly unable – and, indeed, has less of an incentive – to try to pacify the local bickering.

The consequence of these developments is an emerging conflict *within* the Israeli ruling class. Globe-Israeli dominant capital, whose fortunes are increasingly tied to the New Economy Coalition, is interested in regional peace but is unable and unwilling to bring it about. However, its progressive ‘withdrawal’ from active participation in the politics of the conflict creates a vacuum, and this vacuum in turn is filled by fifth-rate politicians, many with criminal connections and neo-Nazi worldviews. The bellicosity of these politicians is harmful to the interests of Globe-Israeli dominant capital, but it is highly serviceable to the Weapondollar-Petrodollar Coalition and the current U.S. Administration that seek to keep the regional turmoil going.

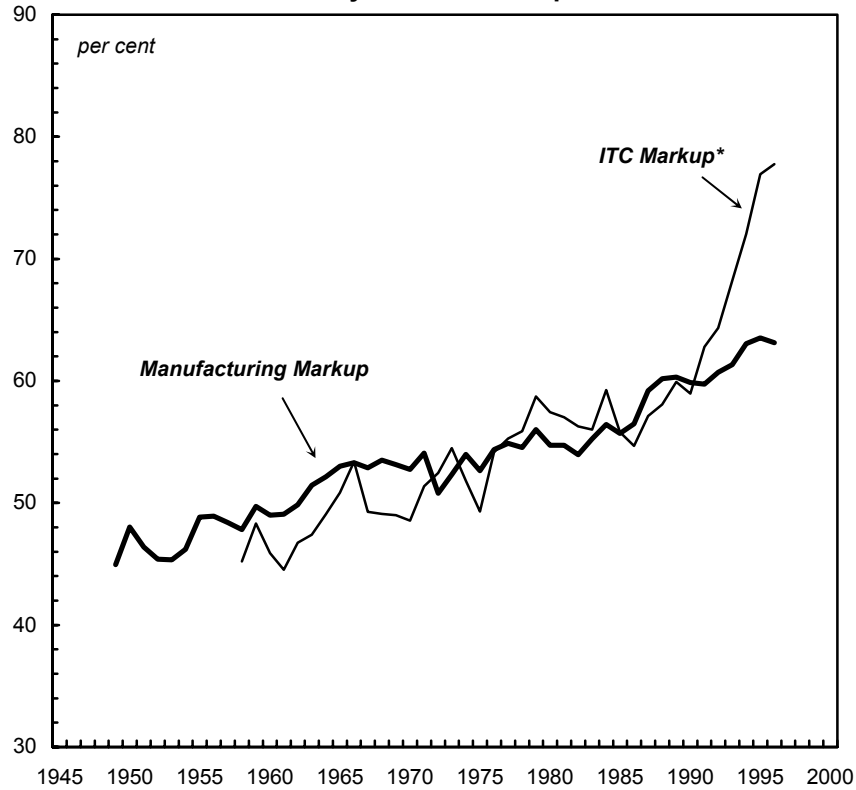
This conflict within the Israeli ruling class may create an opening, however tenuous, for a positive change. If Globe-Israeli accumulation no longer profits from the Middle East conflicts of the Weapondollar-Petrodollar Coalition, and if the interests of the ruling class – whether liberal or racist -- increasingly conflict with those of the underlying Jewish and Palestinian population, then, objectively, the condition may be ripe, perhaps more than ever, for a Palestinian-Israeli state. Such change, however, could only come together with a radical political-economic transformation of Israeli society.

Figure 1  
**Public Sector Indicators (% of World GDP)**



SOURCE: World Bank, *World Development Indicators Online*, 2004.

Figure 2  
**The "New U.S. Economy": Greater Competition?**

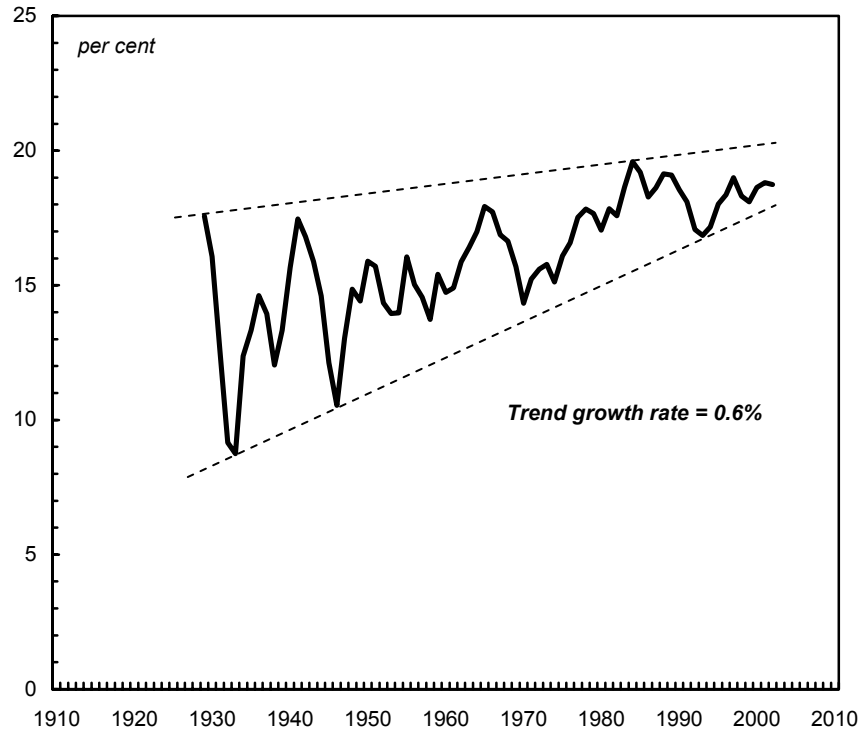


NOTE: The Markup is defined as the per cent share of non-labour income in value added.

\* ITC stands for Information Technology and Communication. The index here comprises hardware and equipment firms in the following 10 sectors (with SIC codes in parentheses): calculating and accounting equipment (3578), office machines nec (3579), radio & TV receiving sets (3651), semiconductors & related devices (3674), electronic capacitors (3675), electronic resistors (3676), electronic coils & transformers (3677), electronic connectors (3678), process control instruments (3823), instrument to measure electricity (3825). Definition are based on Lynn Margherio et. al. *The Emerging Digital Economy*, US Department of Commerce (Washington, DC, 1998), p. A1-19.

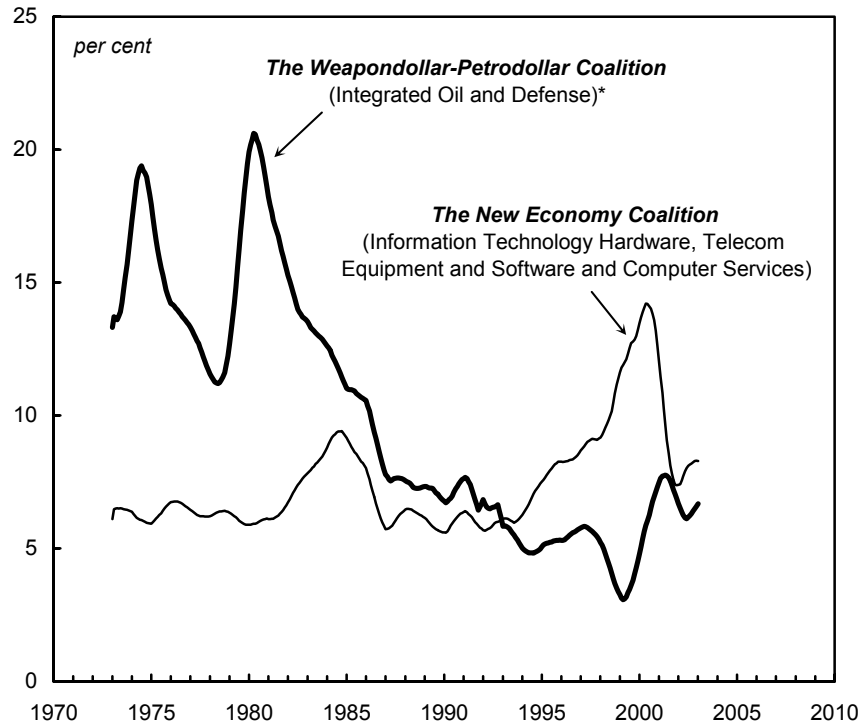
SOURCE: U.S. Department of Commerce, Bureau of the Census; WEFA-DRI.

Figure 3  
**Capital Income\* as a Share of U.S. National Income**



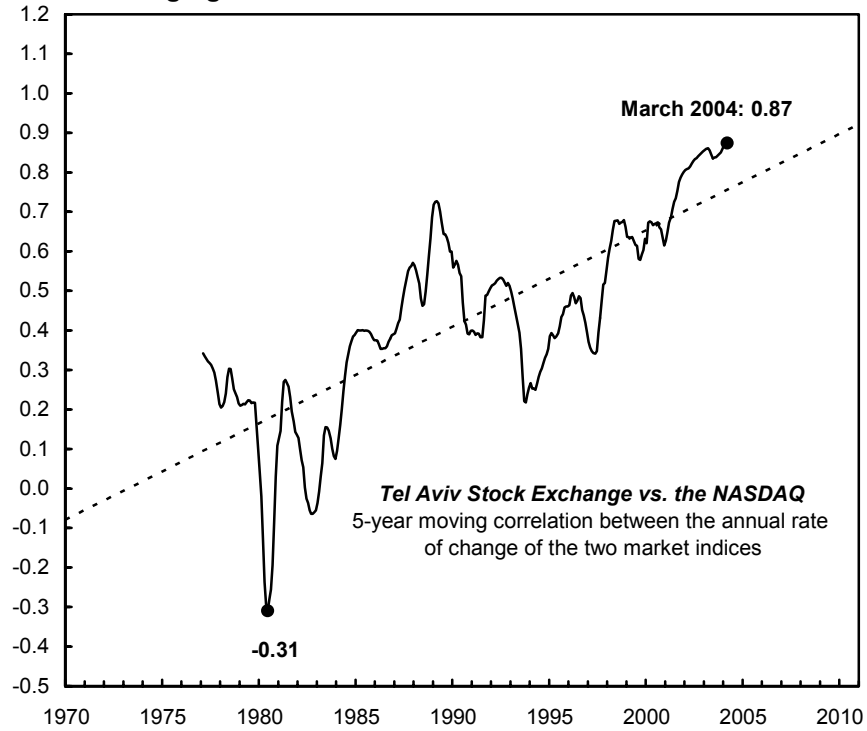
\* Capital income is defined as corporate pre-tax profit and net interest.  
SOURCE: U.S. Department of Commerce; WEFA-DRI.

Figure 4  
**Shares of Global Net Profit**



NOTE: Net profit is computed by dividing market value by the price/earning ratio.  
Series denote monthly data smoothed as 12-month moving averages.  
SOURCE: Datastream.

Figure 5  
**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 WEFA-DRI.