

Bichler, Shimshon; Nitzan, Jonathan

Preprint

New Economy or Transnational Ownership? The Global Political Economy of Israel

Provided in Cooperation with:

The Bichler & Nitzan Archives

Suggested Citation: Bichler, Shimshon; Nitzan, Jonathan (2002) : New Economy or Transnational Ownership? The Global Political Economy of Israel, The Bichler and Nitzan Archives, Toronto, <http://bnarchives.yorku.ca/82/>

This Version is available at:

<https://hdl.handle.net/10419/157818>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<http://creativecommons.org/licenses/by-nc-nd/4.0/>

New Economy or Transnational Ownership?

The Global Political Economy of Israel

Shimshon Bichler, Haifa University
Jonathan Nitzan, York University

Paper presented at the international conference sponsored by
The Canadian Centre for German and European Studies at York University

The Regional Divide:
Promises and Realities of the New Economy in a Transatlantic Perspective

May 3-4, 2002, Toronto, Canada

This paper is a slightly revised version of Chapter 6 in Jonathan Nitzan and Shimshon Bichler, *The Global Political Economy of Israel* (London: Pluto Press, forthcoming 2002). Please direct correspondence to:

Jonathan Nitzan
Political Science, York University,
4700 Keele St., Toronto, Ontario, M3J-1P3, Canada
email: nitzan@yorku.ca • voice (416) 736-2100, ext. 88822 • fax (416) 736-5686

Table of Contents

| | |
|--|----|
| Introduction ... | 2 |
| Transnational Dominant Capital ... | 3 |
| <i>Centralisation</i> ... | 3 |
| <i>Transnationalisation</i> ... | 5 |
| <i>Restructuring</i> ... | 7 |
| The 'Dependency' ... | 8 |
| <i>Zionist Donors-Investors</i> ... | 9 |
| <i>Corporate Cold Warriors</i> ... | 11 |
| <i>The Godfathers</i> ... | 14 |
| <i>The Autumn of the Patriarch</i> ... | 18 |
| Toward Transnationalism ... | 23 |
| <i>The Technodollar–Mergerdollar Coalition</i> ... | 23 |
| <i>Israel 'Opens Up'</i> ... | 25 |
| <i>The Brodet Report</i> ... | 26 |
| The Principal Groups ... | |
| <i>Taxes, Death and Bank Hapoalim</i> ... | 28 |
| <i>'Releasing Value'</i> ... | 30 |
| <i>Mickey Mouse Takes Over Koor</i> ... | 31 |
| <i>The Recanatis Face the Raiders</i> ... | 33 |
| <i>The Big Asset Swap</i> ... | 35 |
| 'High Technology' and Domestic Power ... | 37 |
| <i>'New Economy' or Leveraged Hype?</i> ... | 38 |
| <i>Newspapers and Criminals</i> ... | 40 |
| <i>The Russian Connection</i> ... | 43 |
| <i>The 'Fishman State'?</i> ... | 50 |
| <i>The Politics of Communication Profits</i> ... | 54 |
| Transnationalism and Israeli Technology ... | 58 |
| <i>Why Invest in Israel?</i> ... | 59 |
| <i>Competition, Power and Waste</i> ... | 61 |
| <i>Israel's Silicon Wady: The Big 'Sale'</i> ... | 64 |
| <i>End of the Road?</i> ... | 66 |
| Global Accumulation, Domestic Depletion ... | 69 |
| At a Crossroads ... | 73 |
| References ... | 75 |

The world is ours, we are its lords, and ours it shall remain.

– Jack London, *The Iron Heel*

Introduction

The global order of the 1990s, argue the neoliberals, has altered the face of Israeli capitalism, and all for the better. The first and most important change was the country's increasing exposure to the vagaries of the world economy. Import duties, which averaged 13 per cent in the 1970s, dropped to 1 per cent in the 1990s, while import penetration, expressed as a share of GDP, rose from 37 per cent to more than 50 per cent over the same period.¹ Local producers, faced with these mounting pressures, were forced to shape up or give up. Israel also managed to attract foreign capital, which during the 1990s acquired large stakes in local firms. This greater openness, maintain the neoliberals, not only invigorated domestic competition, but also ushered a fundamental transition from traditional to 'high-technology' sectors, a transition which, according to the enthusiasts, would carry the country to a fabulously prosperous future.

The second, related pillar of this transformation was the decline of the government. According to this view, the process of privatisation, hastened by the imperative of global competition, released the energy previously suffocated by public bureaucracy. In addition, international pressure forced the government to follow more responsible fiscal and monetary policies, with far less room for pork-barrel politics. True, politics, no longer the exclusive domain of dominant parties, has also become fractured and fragmented; but that only made it more democratic, argue the neoliberals.

The third and final pillar was the disintegration of organised labour, the historical arch-enemy of market efficiency in Israel. Import penetration, the arrival of hundreds of thousands of guest workers, and the effective dismantling of the Histadrut, have together reduced organised labour to a mere shadow of its past glory. For the first time in history, Israel's labour relations came to enjoy some 'flexibility'.

Although some of the facts portrayed here are undoubtedly true, the picture as a whole is seriously distorted. To begin with, Israel's transition toward a market economy was not at all new. It began not in the 1990s, but a century earlier, with the very first steps of Jewish colonisation in Palestine. Second, a market economy wasn't necessarily 'competitive', at least not in the way described by economics textbooks. While Israel was embracing market institutions, these institutions were based on power no less than the ones they replaced. Third, the government was far from declining. Although its direct role in production and distribution was receding, its indirect function in the institutionalisation of power was as important as ever. And fourth, the democratising impact of Israel's global integration was hardly worth bragging about. Israeli formal politics indeed appeared more open; but then it also mattered less. Effective power was increasingly capitalised in private hands, and as Israel's biggest owners integrated into a transnational capitalist class, much of what happened domestically was decided privately, and often off-shore.

¹ Figures computed from World Bank (Annual), and from Israel. Central Bureau of Statistics (Annual).

The most basic fault with the neoliberal picture, however, is the notion that the 'globalisation' of Israel is, *itself*, somehow novel. In fact, the country's development has been embedded in the global political economy from its pre-state beginnings. Moreover, in certain respects, the 'global imperative' was stronger earlier than now. For example, the trade deficit and the need for external financing were *five* times larger during the late 1970s and early 1980s, than presently. Similarly, the inflow of FDI has only recently surpassed its levels of the early 1960s. The purpose of pointing out these facts is not to suggest that things haven't changed. It is rather to argue that the key here is not globalisation per se, but its *specific nature*.

The essence of capitalist globalisation, we argue, is the spatial integration of accumulation and ownership through the alternating cycles of breadth and depth. During breadth regime, accumulation by dominant capital groups relies principally on expanding market share – both through proletarianization as well as mergers and acquisition. A depth regime, on the other hand thrives on the inflationary expansion of differential profit margins.²

Until the late 1980s, the main purpose of capital moving into Israel was to safeguard the depth regime, domestically as well as regionally. And given that this regime thrived on *inter*-national conflict, it is hardly surprising that national borders remained important. Capital crossed these borders regularly, of course. But its owners were for the most part associated with a particular state; everywhere else they were still *foreign* investors. This specific feature began to change during the 1990s, with the new regime of global breadth. Capital started breaking through its national envelopes *en masse*, and as the corporation gradually lost its national identity, its investors slowly became *transnational* owners. The purpose of this paper is to examine how this latest transition affected the global political economy of Israel.

Transnational Dominant Capital

On the eve of the twenty-first century, power in Israel was best described in two words: absentee ownership. The three principal hallmarks of this ownership were (1) high corporate centralisation and integration, perhaps the highest the country has ever known; (2) increasing transnationalisation; and (3) incessant restructuring of vendible assets. What did this structure look like?

Centralisation

The first feature, as indicated, was high corporate centralisation. At the centre of it all was dominant capital, composed of a handful of giant conglomerates, along with several big but more focused companies, and a large but self-liquidating group of government-owned firms on their way to privatisation. Although the main constituents of this core are well known, its structure can only be described in fairly general terms. One reason is that many of its firms were linked through complex and often circular cross-ownership ties, and even when these ties were conceptually straightforward, their origins were often concealed by long ownership chains leading to offshore shell companies. The other reason is that the core was changing so rapidly, that even the most accurate description

quickly became outdated. The general contours of the core, though, were clear enough, and are illustrated in Tables 1 and 2.

[Table 1]

Table 1 lists the principal domestic holdings of the country's five biggest private groups and the government. Of these, the largest in terms of market capitalisation was Israel Discount Bankholdings (IDB), controlled by the Recanati family, along with the Carasso family, Goldman Sachs and William Davidson. In March 1999, IDB had net market value of nearly \$11 billion, equivalent to roughly 22 per cent of the entire Tel Aviv Stock Market. The group had majority and minority stakes in hundreds of companies spanning the entire business spectrum, from banking, through finance, to high technology, industry, real estate, retail, services and transportation. The second largest group, valued at \$3.5 billion (7.4 per cent of the market), was the Ofer group, owned by Ofer brothers. Its holdings included numerous companies in banking, finance, raw materials, high technology, real estate and transportation. The Offers also had a minority stake in the third largest group, Koor, whose principal owners were the Bronfman and Kolber families, along with the Arison, Nechama and Dankner families, as well as Goldman Sachs (through Bank Hapoalim). Koor, whose value of \$2.8 billion accounted for close to 6 per cent of the market, was more focused than the previous two groups, with holdings primarily in high technology, raw materials and real estate. The Dankner group, owned by the Dankner family, ranked fourth, with a value of \$1.2 billion (2.6 per cent of the market). It had partial control of Bank Hapoalim, as well as stakes in high technology, chemicals, energy and real estate. It also had a share, through its ownership in Bank Hapoalim, of Koor and Clal (the latter being part of the IDB empire). The fifth ranking group, Arison Holdings, was owned by the Arison and Nechama families, with a value of \$1.1 billion (2.3 per cent of the market). Its main assets were Bank Hapoalim (which gave it stakes in Koor and IDB), 'high-technology' companies, and a wide array of real estate and construction firms.

The sixth group in Table 1 is the government, with holdings in many sectors, including banking, telecommunication, military production, energy, infrastructure and transportation. The government's stake in publicly traded companies was valued at \$7.2 billion, or 14.8 per cent of the market (some of the companies listed in the table were not publicly traded when these lines were written). Although the value of its holdings ranked the government second only to IDB, we placed it at the end of the list since it operated mostly as a 'night watchman', with many of its assets destined for privatisation.

Of the 652 companies listed on the Tel Aviv Stock Exchange in March 1999, 82 were wholly or partly controlled by these five private groups (92 with the government). The relative value of these companies, however, was far larger than their relative number; together, they accounted for as much as 41 per cent of the market's overall capitalisation (55 per cent with the government). The remaining half of the market was also highly concentrated. According to analysis published by the Tel Aviv Stock Exchange, the next five groups, following the top five and the government, accounted for another 7 per cent of the market (Abramov and Zuk 1999). These groups included the Fishman family (1.8 per cent of market capitalisation); Migdal, owned by the Italian

² For more on breadth and depth, see Nitzan and Bichler (2000), Nitzan (2001), Nitzan and Bichler

Generally group (1.6 per cent); the Tshuva family (1.3 per cent); Elco, owned by the Zelkind family (1.3 per cent); and Land Development Company (Hachsharat Hayishuv), controlled by Nimrodi (1 per cent). Altogether, 34 ownership groups controlled up to 77 per cent of the market value, with much of the rest held by several large firms – specifically Teva (widely held, mainly by U.S. investors), Blue Square (a cooperative on its way to privatisation), Osem (controlled by Nestlé and the Propper family), Elite (owned by the Federman family), Harel Investment, Delta, and Agis.

Table 2 provides selected summary indicators on the aggregate power of the five largest groups and the government. Data include the number of firms controlled (through majority or minority stakes), along with their combined sales, net profit, and employees, and are broken down by different corporate segments. (Note that the different segments are not mutually exclusive – for instance, conglomerates have stakes in industrial or service companies, while some companies listed abroad are included in other segments.) The picture, however cursory, is highly revealing. It shows that, together, these groups dominated much of the conglomerate, banking, finance and industrial segments. Their stranglehold over the service sector appeared somewhat looser, but this is only because their power here was shared with several large retailers, such as Tnuva and Blue Square. An increasing number of Israeli companies, primarily in the ‘high-technology’ sector, are listed in the United States and Europe. Yet, as the bottom row of Table 2 shows, here too, despite the much bigger pool of investors, the presence of the leading Israeli groups is significant.

[Table 2]

Transnationalisation

The second hallmark of the Israeli power structure was its increasing transnationalisation. By 1998, foreign ownership had risen to 14.4 per cent of the Tel Aviv market, up from 3 per cent only five years earlier (Bank of Israel. Monetary Department 1998: Table 3-4, p. 85). In less than a decade, Israel has been invaded by hordes of foreign investors, both private and institutional, conservative and adventurous, respectable and criminal, who were all lured by the prospects of peace and the smell of peace dividends. This invasion – which Israel’s dominant capital welcomed wholeheartedly – has fundamentally altered the nature of power.

To begin with, many of Israel’s leading domestic firms were by now controlled, partly or wholly, by foreigners. At the end of the century, the list included, with foreign owners/partners in parentheses, companies such as Barak (Sprint, Deutsche Telekom and France’s Télécom), Cellcom (Bell South), Class Data, InfoGear and Scoia Fund (Cisco), Coca Cola (Coca Cola), Cromatis and Elron (Lucent), FIBI (Safrat family), Dead Sea Magnesium (Volkswagen), Gilat (General Electric and Microsoft), Golden Lines (the Italian state-owned Stet and SBC Communication), Indigo, Geotech and Scitex (George Soros), Intel Israel (Intel), Jerusalem Economic Corporation (Bear Stern), Libit (Texas Instruments), Medinol (Boston Scientific), Biosense (Johnson & Johnson), Mirabilis (AOL-Time Warner), NDS (NewsCorp), Nicecom (3COM), Orbotech and Opal (Applied Materials), Ornet (Simmens), Osem (Nestlé), Partner (Hutchison Whampoa), Paz (the

(2001), and Nitzan and Bichler (2002, Ch. 2).

Liberman family from Australia) and Telrad (Nortel). In addition to these direct foreign holdings, foreigners have also increased their indirect ownership, mainly through diversified portfolio investments by pension, mutual and hedge funds.

Some of the most rapidly growing Israeli firms – primarily in high technology – were listed abroad, mainly in New York, and were held almost entirely by foreigners. The most noted of these were the pharmaceutical giant Teva (with 1999 sales of \$1.2 billion, net income of \$134 million and a market capitalisation in excess of \$3.5 billion); Comverse, the world's leading supplier of cellular voice cells and the first Israeli-based company to make it to the Standard & Poor's 500 index (with \$850 million in sales, \$150 in net income and a market capitalisation of over \$10 billion); the cellular billing company Amdocs (with \$620 million in sales, \$97 million in net income and a market capitalisation of over \$7 billion); and Check Point Software, inventor of the 'Firewall' (with 1999 sales of \$215 million, net income of \$92 million and a market capitalisation in excess of \$4.5 billion) (data in this section from corporate reports and Moody's).

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. Arison Investment was founded by the late Ted Arison, an Israeli emigrant who made his fortune in the leisure business, through his 47 per cent controlling share in Carnival Cruise, the world's largest ocean leisure firm (1999 sales of \$3.5 billion, net income of \$992 million and market capitalisation of \$27 billion). Koor Industries was controlled by Charles Bronfman and his partner Jonathan Kolberg. Until 1999, the former was co-chairman and owner (9.5 per cent) of Seagram, a global beverage, entertainment and investment giant, with sales of \$15.3 billion and market value of \$16 billion. In 2000, Seagram merged with France's Vivendi in a \$34 billion share swap, creating a global entertainment and infrastructure giant with sales in excess of \$53 billion, in which Charles Bronfman now had an equity stake of over 3 per cent. Compared to the Bronfmans, Kolbergs and Arisons, the Ofer brothers, owners of Israel's second largest group, look like true 'sabras', but the appearance is deceiving. They too made their fortune abroad, and in no other than the leisure industry. As it turns out, their principal asset was a 20 per cent stake in Royal Caribbean Cruises, another leisure giant with 1999 sales of \$2.6 billion, net income of \$384 million and market value of \$9.1 billion. The Ofers shared their ownership in Royal Caribbean with Pritzker, a former Israeli contractor who now owned the Hyatt chain, and with Wilhelmsen, a Norwegian shipping firm. In 1997, the Ofers and the Arisons competed over the purchase of a third leisure company, Celebrity Cruises, which the Ofers eventually won and merged into their Royal Caribbean. The sellers of Celebrity were no other than the Recanati family, owners of IDB, who held 50 per cent of Celebrity's shares through their Overseas Shipholding subsidiary. (And perhaps this is how it was destined to be. After all, capitalism got its first global push in the sixteenth century with the plundering of Caribbean gold, whereas the United States reached its global economic peak with a bootlegger family in the White House; so it seems only fitting for Israeli transnationalisation to be led by heirs of a famous alcohol smuggler and by cruise ship owners registered in the Caribbean....) Like the Ofers, the Recanatis themselves were no foreigners, having immigrated to Palestine from Greece in 1936. However, over the years, the family not only expanded its foreign business, but also aligned itself with an

impressive battery of overseas partners. By the end of the century, these included Goldman Sachs and William Davidson (who had direct stakes in IDB), Bell South and the Safra family (partners in Cellcom), General Electric and Microsoft (partner in Gilat Satellite and General Engineers), Kimberly Clark (in American Israeli Paper Mills), Praxair (Maxima), International Paper and George Soros (Scitex), Shamrock Holdings (Tel-Ad), TCI and UPC (Tevel), and Prudential Securities (YLR), to name only a few (data in this section are from company reports, the U.S. Securities and Exchange Commission, Moody's, and newspaper clippings).

The other facet in the transnationalisation of ownership was outward foreign investment by Israeli dominant capital. Over the past decade, direct outflows have risen to over 1 per cent of GDP, from virtually nothing in the 1980s, with funds primarily earmarked for foreign acquisitions. The forerunner in this movement was Koor, followed closely by the other major groups.

Restructuring

Together, the two processes of centralisation and transnationalisation made the ownership scene dynamic to an extent never seen before in Israel. And indeed, incessant restructuring was now the third hallmark of the Israeli power structure. What was until a decade ago a very rigid structure, has turned into one of permanent flux. For instance, during the first 50 years of its existence, Koor was under the joint ownership of the Histadrut and Bank Hapoalim. And then, in a matter of ten years, the company was sold and bought several times, first to Shamrock, an investment arm of the Disney family, who then sold it to Bronfman and Kolber, who in turn dismembered it by selling off unwanted assets and buying new ones. Similarly, state assets, once privatised, began rotating between the different actors. The Israel Corporation and Israel Chemical Industries, for instance, were sold to one of Israel's biggest foreign investors, Saul Eisenberg. When Eisenberg died in 1997, his family resold the companies to the Ofer brothers, who then proceeded to chop it to pieces, keeping the parts they liked and selling those they didn't. The investment company Clal, which since its inception in 1962 was held jointly by IDB, Bank Leumi and Bank Hapoalim, was taken over by IDB and merged into its operation through massive reorganisation. All in all, the ownership structure remains as concentrated, complicated and interlinked as before; but now it was also constantly changing.

Evidently, then, Israel has changed a great deal, but the nature of this change, we argue, had little to do with the 'new economy' fairy tale of neoliberalism. The rigid power of state capitalism is certainly gone, but replacing it we see emerging the even more powerful hand of global capital. What caused this shift? How did a small colonial society turn transnational? Was this the consequence of 'market forces' and the unstoppable advance of 'technology'? The outcome of 'autonomous' state officials who suddenly decided to 'liberalize' their society? Or perhaps there were deeper processes at work here, involving the very nature of accumulation and class? To explore these processes, it is convenient to start from the myth of Israel's external 'dependency.'

The 'Dependency'

'Mr. Begin, I have a small question for you. I got a little bulldog this morning and decided to name it after you. You wouldn't mind, would you? After all, it's a Jewish dog....' This unusual request from Californian banker Milton Petri, was addressed to Menachem Begin during a 1978 dinner party for rich Jewish donors in New York. Begin, being on his first prime ministerial visit to the United States, retained his composure. 'Mr. Petri', he replied, 'your dog is not only Jewish, he is also very rich. I would be honored if you named him after me.' Later, Petri explained: 'I donated Begin a million greenbacks when he ran for prime minister, but then I got to know Peres; I thought he was better for Israel, so I gave him a million greenbacks, too....' (*Yediot Ahronot*, Supplement, 22 August 1986). This type of discourse wasn't new. In his memoirs, Discount chairman, Harray Recanati, recalls a similar incident from the 1950s:

I participated in a reception for a big *Magbit* donor, who didn't hesitate attacking Eliezer Kaplan, our Finance Minister, and his General Manager David Horowitz, in their presence. He lashed at their socialist policy, which, in his view, contradicted the foundations of Judaism. I expected a sharp rebuttal, but nothing happened. The two merely calmed him down with patience and phoney reverence which disgusted me.... I felt humiliated to the bottom of my heart.... (Recanati 1984: 71)

But then what else could the Israeli politicians do? Their country was totally dependent, from the very beginning, on foreign capital, and if the donors wanted them to bow and suffer a little humiliation, so be it. They personally may have been offended, but their country survived, and *that* was the key. Or was it?

Israel's external predicament is illustrated in Figure 1. The chart shows two series, both expressed as a share of GDP, and smoothed as five-year moving averages. One series is Israel's trade balance, expressed against the left-hand axis, with negative readings denoting a deficit, and positive readings a surplus. The other series is the amount of foreign transfers used to finance the deficit, comprising the sum total of gifts and aid from individuals (private donations and remittances), from institutions (like the *Magbit*), and from foreign governments (Germany and the United States). This series, charted against the right-hand scale, is inverted; the lower the reading on the chart, the *greater* the transfer. In general, we can see that transfers covered the bulk of the trade deficit, but not all; the remainder was financed mostly by borrowing, and to a lesser extent by inward investment.

[Figure 1]

The chart makes obvious Israel's enormous dependency on foreign inflows. Since the 1950s, the country had to finance excess imports equivalent, on average, to 18 per cent of its GDP, a Herculean task by any measure. The historical development of this burden, though, remains puzzling. The trade balance, by definition, equals to the flow of capital (comprising debt, equity and transfers). What isn't always clear, though, is which of the two is the cause and which is the effect. In the United States of the 1990s, for example, the deficit was often seen, at least in part, as a *consequence* of private capital inflow. According to this view, the favourable domestic investment climate attracted

capital from other countries, which in turn contributed to both faster economic growth and a stronger dollar. Since this tended to boost imports and restrict exports, the natural consequence was for the trade deficit to balloon. Obviously, this type of investment-led sequence is not what happened in Israel. In contrast to the United States, most foreign investors have generally preferred to keep their money *out* of Holy Land, and, indeed, over the past half century, private inflows remained negligible relative to the trade deficit (see Figure 5 below). Moreover, when such inflows finally started to rise during the 1990s, the trade deficit actually contracted – exactly the opposite of what we should expect from a supply-driven process. The other explanation goes in reverse, from trade to the flow of capital. The starting point here is demand. When local growth is faster than global growth, goes the argument, imports tend to rise faster than exports; the process boosts the trade deficit, and therefore calls for higher capital inflow to finance the widening gap. And yet, this logic too doesn't sit well with the Israeli fact. As the chart clearly shows, during the economic boom of the 1950s and 1960s, the trade deficit, although large by international standards, was relatively limited. In the 1970s and 1980s, on the other hand, when the economy was sinking into a deep recession, the deficit, instead of abating, rose dramatically. And when growth resumed in the 1990s, the deficit in fact shrunk.

But, then, what, other than supply and demand, could explain Israel's enormous dependency on foreign inflow? Why did the economy develop such a huge trade deficit? And what accounted for the large ups and downs of these two magnitudes? The first step toward answering these questions is to disaggregate them: *Who* exactly 'depended' on the flow of capital? *Who* needed the excess imports? And how were these groups *related*? As we shall see, ordinary Israelis didn't really need most of the 'excess imports', and therefore had little reason to become 'dependent' on foreign capital. But for key groups in Israel and the United States, both the deficit and the inflow were in fact crucial. These groups – particularly the large corporations, the high political and military echelons, and the thick network of retainers, lawyers, dealers and media intermediaries supporting them – benefited greatly from the process. In the final analysis, it was they, not the country as a whole, who depended on the capital inflow. In this sense, the history of Israel's external accounts is only superficially a matter of economics. The real story is political. It concerns not so much the level of economic growth or the national saving rate, but the progressive globalisation of Israeli accumulation and its ruling class.

Zionist Donors-Investors

During the early years of the state, Israel suffered from acute foreign exchange shortages. On a number of occasions, the Finance Ministry even considered default (Horowitz 1975: 111). Agricultural exports, the country's main source of foreign earnings, were patently insufficient to cover the need for imported raw materials, weapons and industrial machinery. The shortfall was usually financed by transfers, mostly through *Magbit* donations and Israel government bonds (whose repayment schedule made them tantamount to gifts). Since 1955, the predicament was somewhat alleviated by the arrival of German restitution payments. But with the appetite for imports growing even faster, the relief was only temporary. It was in this context that Zionist donors, mostly Jewish millionaires living abroad, rose to prominence in Israeli politics. Although their

individual contributions were not always large, the country was in dire need for foreign reserves, so every dollar ‘made a difference’. And that was only too convenient. For as it turned out, the contributions were equally important, if not more so, for the donors themselves, as well as for their political friends.

Most donors were connected to various Zionist organisations, often as officers and directors, and many have aligned themselves with local ‘policy makers’. Take Dr Tibor Rosenbaum, who presided over the Jewish Agency and the World Zionist Organisation, while his Banque du Crédit Internationale, based in Geneva, was busy laundering money for the Mossad and the Mafia. On the request of Finance Minister Sapir, Rosenbaum lent the Labour Party \$300,000. Needless to say, no one ever bothered to repay this ‘loan’. Rosenbaum also ‘donated’ \$75,000 to the party. The process was relatively straightforward. A company named Ramtam was set up, and promptly received from the Labour government a monopoly over the sale of duty free items. The owners of the company were Tibor Rosenbaum himself (48 per cent), the Labour Party (48 per cent), and Amos Manor, former head of the Shin Beit and Rosenbaum’s representative in Israel (Yadlin 1980: 151). Money put into this company, as well as its monopoly profits, could then be transferred between the various participants, away from the public eye.

Such arrangements were beneficial to all sides. For the politicians, the extra-budgetary inflows were crucial. And for the donors, the sums were usually small – certainly relative to what they hoped to get in return. Indeed, although many of them felt sincere affinity to the Zionist project, they also viewed their donations as investments, a sort of down payment for future certificates, rights, grants, subsidies, tax exemptions, and even physical protection. The logic of the process was summarised, somewhat sarcastically, by Moshe Sharet. In 1953, he recorded a discussion he had with a Foreign Ministry official, regarding Samuel Bronfman, one of the heads of the *Magbit*:

A few years ago he had 100 million dollars. Now he undoubtedly has a billion. He is the richest man in the West, and possibly in the entire world. His early fortune was made smuggling booze during the Prohibition in the United States, and since then he continued to do well making Whisky and other healing potions.... He showers money right and left on various institutions, in order to strengthen his position in Canada and the U.S.A., and in order to pre-empt any calamity which might befall on him. He donated a million and half to Columbia University and to McGill. He gives a lot of money to the Canadian Liberal Party, and the Catholic church also enjoys his generosity. What he fears most is legislation aimed directly at him: for instance, a law to take from every capitalist what he owns over and above five hundred millions. This will have him, and only him, lose hundreds of millions in one swoop. And that is why he tries to appease, with gifts and donations, all the crucial circles. Regarding his donations to Israel, our Montreal consul, Yossef Nevo, calculated that relative to his fortune, Bronfman’s donation is equivalent to Nevo giving three dollars. And with this he still lives under the illusion that people should respect him as a man, rather than a bag of gold.... (Sharet 1978: 85)

And so emerged a network of foreign ‘donor-investors’, people like Bronfman, Eisenberg, Fineberg, Gaon, Hammer, Khan, Klor, Riklis, Rotenberg, Rothschild, Warburg, Weinberg, and Wolfson, for whom Zionism and business went hand in hand. Around them, they weaved an intricate web of friends, retainers and managers, mostly drawn from the government, military and security organisations. The alliance between these two groups was the initial institution from which the internationalisation of Israeli accumulation has evolved. But it was by no means the whole story.

Corporate Cold Warriors

In fact, since the early 1970s, the relative significance of private donor-investors started to diminish. Accumulation, globally as well as locally, shifted from breadth to depth. And as the regional conflict intensified, the country’s trade deficit and its financing were increasingly marked by the ‘military bias’ of both the United States and Israel. The core of the process was the massive rise in military imports, which soared to over 13 per cent of Israel’s GDP during the late 1970s, up from less than 2 per cent in 1960. Whether or not this additional ‘dependency’ was necessary for most Israelis is left for the reader to decide. What *does* seem clear, however, is that for the U.S. Arma-Core, for Israel’s dominant capital, and for the many intermediaries going between them, this dependency was a rich gold mine which they had no desire to abandon.

On paper, the increased trade deficit in armament – assuming ‘trade’ is the proper word to describe this military build-up – was accompanied by rising capital inflow; in practice, though, the money never reached Israel. Since both the equipment and its finance were provided by the U.S. government, payment would usually go from Washington directly to the relevant American supplier. The contractors of course found this ‘circular finance’ convenient, although that didn’t keep them at home. Israel was crucial for their depth regime of ‘energy conflicts’, and it was therefore important to keep a close eye on the process. One way of doing so was to invest in Israel proper.

This wasn’t ‘ordinary’ investment, though. In most cases, the contractors had little interest in building or acquiring extra capacity, and certainly not for its own sake. Their main concern was the *politics* of profit. First, being in Israel helped them safeguard their own individual share of U.S. military assistance to that country, and occasionally win additional perks through joint ventures with local firms. Second, it enabled them to closely monitor the regional conflict, and perhaps influence its course through their ties with local politicians and military officers. And last but not least, it helped them keep a lid on local competition. Domestic firms were consequently kept as second tier contractors, although that barely hurt them. In fact, the opposite was true. The presence of American ‘competitors’ only added to their profits. First, U.S. military imports, by fuelling the regional arms race, helped sustain healthy growth in domestic military spending. Second, the imports often made local companies entitled to reciprocal sales contracts with the U.S. government. And, third, they opened the way to joint ventures with U.S.-based firms, facilitating entry to the lucrative global armament market. The process was of course complicated and often lacking in transparency. And so, around the basic equation linking U.S. and local companies, there developed an intricate network of politicians, army officers, retainers, financiers, advisers, promoters and arms dealers,

whose function was to lubricate the flow of weapons and profits, in return for a share in the spoils. The protective umbrella for all of this was the good old 'national interest'.

The following examples briefly illustrate the various mechanisms at work. United Technology, for instance, bought 40 per cent of Beit Shemesh Engines. The acquisition happened after Likud Defence Minister, Moshe Arens, decided that the latter company would produce the engine for Israel's Lavi aircraft. When the Lavi was shelved under pressure from the U.S. arms lobby, United Technology promptly divested. Similarly with GTE. In 1968, when local defence spending started to rise, the company bought the government's share in Tadiran. In 1983, however, when domestic military expenditure began falling and Tadiran started selling to the U.S. military, GTE gradually pulled out. Another illustration is the partnership between Control Data and IDB in their ownership of Elbit, one of Israel's most profitable military contractors. Until its divestment in 1983, Control Data was able to share the local profit of Elbit, while simultaneously preventing it from venturing into the United States. Or the example of Siemens. In 1984, the German-based firm bought one-third of Elisra, a military contractor. Elisra was slated to 'win' a \$750 million, pre-tailored contract from Bezeq, the government-owned telecom monopoly, and Siemens felt the investment was a risk worth taking. In 1984, however, things got entangled. With the Likud giving way to a government of 'national unity', other competitors suddenly appeared on the horizon. One of these was Saul Eisenberg, whose backers included Defence Minister Rabin and Prime Minister Peres. The other was ITT, represented, unofficially of course, by U.S. ambassador Samuel Lewis. Eventually Lewis prevailed, and ITT got the contract. Siemens, having been insulted, immediately liquidated its investment in Elisra (*Hadashot*, 14 October 1984).

In contrast to these investments, whose main purpose was the local market, other companies came to Israel in order to sell abroad. One of these was Loral, which entered into partnership with Elbit of IDB, as well as with Elta, a subsidiary of state-owned Israel Aircraft Industries. This entry occurred in the late 1980s, when Washington, having forced Jerusalem to abandon the Lavi fighter aircraft, agreed to offset some of its own sales (or rather, grants) to Israel with repurchases from Israeli companies. And indeed, 'shortly after signing the joint ventures', boasted Bernard Schwartz, Loral's CEO, 'we got two contracts, one from NATO, the other from the U.S.A.' (*Ha'aretz*, 18 January 1988). Another example is Northrop. During the early 1980s, the company lost more than a billion dollars on its failed F-20 'fighter for export', and was now scrambling for an alternative. One option was to jointly produce with Israel a substitute for the Lavi, which could then be sold around the world. To advance the idea, Northrop's chairman, Thomas Jones, and his Israeli retainer, former IDF air force commander Mordechai Hod, met in 1985 in New York with Israel's Defence Minister, Yitzhak Rabin. The deal, though, never took off. Other U.S. contractors objected vehemently, and Washington demanded that Israel abandoned its aspirations for a domestically produced aircraft altogether – or risk losing American assistance. From then on, it decreed, the best Israel should hope for were subcontracts from U.S. firms. And indeed, a short while later, delegations from some 20 contractors, including General Dynamics (maker of the F-16) and McDonnell Douglas (producer of the F-15 and F-18), arrived in Tel Aviv to peddle their ware and find local subcontractors to join the ride.

The Israeli newspapers described the inevitable as a ‘national’ humiliation and loss of autonomy; and yet, for the local armament network, this was not all bad news. Deliveries of General Dynamics’ F-16, for instance, were handled by Elul Technologies, whose owners included, among others, retired air force commander, Ezer Weitzman, and former brigadier-general Aharon Yalowsky. Elul’s partner to the intermediation was a Koor subsidiary named Arit, whose manager, Moshe Peled, was former head of the IDF armoured corps. Over the years, these two companies imported hundreds of aircraft, along with spare parts, worth billions of dollars, so that their own commissions must have been in the tens of millions.³ For many domestic producers, the abandonment of local development in favour of the U.S.-made F-16 wasn’t the end of the world either, since the Americans promised them plenty of subcontracts. Former air force commanders Benjamin Peled and David Ivry, for instance, who made the decision to prefer the F-16 while still in uniforms during the 1970s and early 1980s, were now managers of Elbit and Israel Aircraft Industries, respectively – two companies who stood to gain handsomely from reciprocal sales to the United States.

During the mid-1980s, Israeli ‘policy makers’ increasingly found themselves as ‘go betweens’, flying back and forth across the Atlantic to mediate the various interests of American and Israel contractors. A typical illustration of the process is provided by the 1987 visit of Defence Minister Yitzhak Rabin to the United States. First, Rabin ratified a ‘Memorandum of Understanding’ between the two countries. Several sections of this memorandum, particularly those concerning the use of Israeli nuclear weapons to defend American interests in the region, were kept secret (perhaps in order to avoid any misunderstanding regarding Israel’s delicate ‘dependency’ here). Second, he attended the Congressional proceedings in which the United States paid for such ‘understanding’ in hard cash, or rather in hardware. The package was valued at \$3 billion, all in aid, with a full 60 per cent earmarked for military deliveries. The remainder of the visit was devoted for the allocation of these funds. As noted earlier, following the scrapping of the Lavi, Israel was given more F-16s. As it turned out, their producer, General Dynamics, took advantage of its position to jack up prices, and Rabin was now keen on bringing them back down. For this purpose, he met with his U.S. counterpart, Defense Secretary Frank Carlucci. Israel, he told Carlucci, was an unofficial ally of the United States, and was therefore entitled for the same unit price as NATO; that is, \$1.5 million less than the price quoted by General Dynamics. Carlucci promised to talk to General Dynamics. There was also another hurdle. The overall size of the rebate – \$100 million – required Congressional approval, and so Rabin, saving no effort, pleaded his case with as many congressmen as he could find. Just to be on the safe side, he also travelled to General Dynamics’ headquarters. Here, however, he found the going tough. The visit coincided with ‘Operation Ill Wind’, a massive criminal investigation into corrupt dealings between the Pentagon and its contractors. General Dynamics, faced with the prospects of large fines, was in no mood for discounts. The company also didn’t like being reminded

³ Exactly how much they got may never be known, since such information is conveniently secret in Israel. But the overall magnitude of commissions could be appraised, if only indirectly, from rare government audits. According to the 1986 *State Comptroller Report*, for example, between 1982 and 1984, the Ministry of Defence ‘forgave’ Israeli arms dealers as much as \$100 million worth of commissions they were otherwise obliged to pass on to the government.

that, in lieu of the Lavi, it had to give Israeli firms subcontracts worth \$150 million. Dealing with Congress proved easier. The house approved \$200 million in seed money for a new Israeli project, the Arrow missile, thus breathing new life into Israel Aircraft Industries. Carlucci promised to finance 80 per cent of the project, and agreed for the remaining 20 per cent to be diverted from the economic part of the aid. Congress also approved \$8 million in advanced payment, with another \$17 million down the road, for developing the Popeye, a missile which state-owned Rafael hoped to sell to the U.S. military. And for an encore, Rabin managed to squeeze from the U.S. legislator some public relations money – \$34 million for a Voice of America station in the Negev desert, and another \$40 million for Israeli medical and university research. All in all, not bad for a former general who never took a course in marketing.

Between the deals, the Defence Minister also found time to negotiate the release of American-Israeli spy Jonathan Pollard; for consultations regarding the Iran–Contra scandal in which Israel was deeply involved; and of course for *Magbit* fund-raising. Other issues, such as the ‘peace process’, figured less prominently, and the first Palestinian *Intifada*, which erupted while the negotiations were going on, was naturally not even on the radar screen. But then, these issues weren’t part of Israel’s ‘dependency’.

The Godfathers

As noted, since the 1970s U.S. aid and loans made private investors less crucial for the country’s balance of payment. Indeed, although still considered ‘foreign investors’, by now many of them were bringing no new foreign currency into the country. Having built their power base early on, they much preferred to reap the benefits. The most prominent became ‘godfathers’ to one or more ‘policy makers’, whom they controlled and manipulated to their own ends. Sometimes, they even bought up an entire political party. The arrangement was lucrative for both sides. The politicians would typically bestow on their godfather various ‘incentives’, ostensibly in order to entice him into ‘investing’ in the country; and if the godfather on his part chose to help these friendly public officials with some extra-budgetary financing, that too was obviously a Zionist act.⁴

One of the more colourful godfathers was Meshulam Riklis. Originally a citizen of Israel, Riklis was considered an army deserter during the 1948 War, a conflict which

⁴ The cost of buying up a typical Israeli politician was relatively modest. Shimon Peres, for instance, who surrounded himself with investors-donors such as Charles Bronfman, Armand Hammer, Bruce Rappoport and Saul Eisenberg, was always happy to receive little gifts. A newspaper article from the late 1980s, for example, knew to report that ‘during a visit of millionaire Charles Bronfman to the official residence of his good friend, Prime Minister Shimon Peres, he was astounded to find out that the place had no wall to wall carpets. Bronfman promptly donated \$25,000 for buying carpets for the house. Sonya Peres, [the Prime Minister’s wife] put herself to the task, and after careful investigation called a carpet factory in Jaffa to place the order’ (*Ha’aretz*, 13 February 1987). Or another illustration. When in 1987, Dr Heinrich Benedict, a West German dentist, was charged with fraud to the tune of 50 million marks, he surprised the court by pulling out an Israeli diplomatic passport and claiming immunity. As it turned out, in 1981, in preparation for the Israeli elections, Benedict fixed Shimon Peres with a new set of sparkling teeth. In return he got not only the status of a diplomat, but also Peres personally intervening on his behalf with the German authorities (*Ha’aretz*, 14 March 1988). As a side note, this last incident also serves to explain, perhaps better than any learned theory, why Israeli politicians remained indifferent to the deterioration of public health care in their country.

left 30,000 Israelis dead or wounded. In the 1960s he reappeared in his home country, this time as a foreign investor. According to his own testimony, until the early 1980s he managed to spread no less than 3 million dollars on all political parties (*Hadashot*, 29 May 1985). His biggest investment was former IDF general, Ariel Sharon. Riklis helped Sharon buy his famous ranch, and supported his ShlomZion political party. The investment soon came to fruition, and when Sharon was nominated Defence Minister in Begin's government, he turned back to repay his godfather. All Israeli arms deals must be approved by the Defence Ministry, and Sharon thought it was only appropriate that Arie Ganger, an associate of Riklis, be made in charge of such a delicate operation. The tactic, though, was a little too transparent; the arms contractors shouted foul, and the nomination was withdrawn (*Ha'aretz*, 17 January 1986). In 1982, Sharon got entangled in the Lebanon War and the massacre in Sabra and Shatila. *Time* magazine, having published its own version of events, found itself sued for libel by Sharon. The case drew considerable attention. After all, it wasn't every day that a politician from a small country took on one of the world's largest media empires. But then Sharon had his finances shored up. His expenses were offset by various friends, including arms dealers Ya'akov Nimrodi and Markus Katz, as well as godfather Riklis. The latter also dedicated Ganger, full time, for the noble cause (*Hadashot*, 14 February 1984). Following the war, Sharon was barred by the Kahan Commission from serving as a minister. In 1984, however, he resurfaced, this time as Industry and Trade Minister. In his new capacity, he endowed the Riklis-Ganger duo millions of dollars in tax exemptions, drawing heavy fire from the State Comptroller, and accusations of criminal conduct from members of the opposition (*Ha'aretz*, 21 May 1987; 9 July 1987; 21 March 1988; and *State Comptroller Report* No. 37, 1986).

These were the heydays of the Weapondollar-Petrodollar Coalition, an alliance of large armament contractors, oil companies and government officials whose converging interests stirred the politics of the region through much of the 1970s and 1980s.⁵ It was only fitting therefore, that in addition to armament, many godfathers developed a taste for oil-related assets. One of these was Swiss financier Bruce Rappoport. During the 1980s, Rappoport was involved in plans to have Bechtel Corporation construct an Iraqi-Jordanian pipeline. Rappoport himself was supposed to clear \$2 billion worth of commission from the deal, and then divert part of the money to Peres' Labour Party (*Ha'aretz*, 11 March 1988; *Haolam Hazhe*, 23 March 1988). Peres, of course, wasn't Rappoport's only friend in Israel. Two other retainers, Likud Finance Minister Yitzhak Modai, and Member of Knesset and future Energy Minister, Moshe Shahal, laboured relentlessly so that Paz, the country's largest oil company, be sold/given to their rich patron (at the time the government still owned a substantial stake in the company). And they almost had their way. Unfortunately for Rappoport, however, other investors also had their eyes on Paz, and some of them started leaking disturbing facts to the newspapers. One of these facts was that Rappoport's financial representative in Israel was no other than David Shoham, head of the State's Privatisation Committee in charge of the deal (*Ha'aretz*, 4 February 1988; *Ksafim*, 1 February 1988).

⁵ See Nitzan and Bichler (1995), Bichler and Nitzan (1996), Bichler and Nitzan (2001, Ch. 6) and Nitzan and Bichler (2002, Ch. 5).

Another godfather with a weakness for oil was Baron Edmund de Rothschild. Over the years, Rothschild managed to accumulate numerous friends in the country. These included, among others, the late Prime Minister, Levi Eshkol, who granted the Baron sweeping tax exceptions; former head of the IDF navy, Moka Limon, whose daughter married Rothschild's son; and Arnon Gafni, former Governor of the Bank of Israel, who managed Rothschild's local finances. One of his many Israeli assets was an 18 per cent stake in the Eilat–Haifa oil pipeline. After the closure of the Suez Canal in 1967, Finance Minister Sapir wanted to build a new, \$120 million pipeline from Eilat to Ashkelon, and asked Rothschild to invest. The Baron objected. The plan was not only too expensive, but would also undermine his earnings from the existing pipeline. So Sapir found another investor, the Shah of Iran, who put in half the money through IPC Holdings, a Canadian-based company. Rothschild was of course furious. He wasn't used to being 'double crossed'. But after receiving \$27 million from the government in return for surrendering his exclusive 'right' to transport oil, his anger subsided somewhat (Frenkel and Bichler 1984: 161–2).

Perhaps the most noted oil magnate among the godfathers was Armand Hammer. His father was a founding member of the U.S. Communist Party and a friend of Lenin. The son was already a businessmen, although he certainly took advantage of his family background to profit from mediating the two superpowers during the Cold War. Hammer's foray into oil was almost accidental. During the 1960s, he bought a tax shelter by the name of Occidental Petroleum. Unfortunately, or fortunately, the company, instead of losing money, struck oil in California. Then, in 1969, Hammer found himself in the midst of an international conflict. Libya's ruler, Muammar Qaddafi, kicked all Western companies out of his country, save one: Occidental Petroleum. Hammer was now really rich. It was during those boom times that he began courting the Israelis, helping their covert oil shipments bypass the Arab Boycott. Since the late 1970s, he also started rubbing shoulders with local politicians, including Peres and Begin, to whose parties he donated money. One possible reason for this generosity was that Hammer wanted them to plead his case in Washington. As it turned out, the oil magnate got entangled in illegal donations to the Nixon campaign, whom he hoped would open new business routes into the Soviet Union. Unfortunately, when William Casey became CIA Director under Reagan, these activities got Hammer branded as an 'anti-American communist'. And here, his political investments in Israel proved fruitful. Prime Minister Begin met personally with President Reagan, and the 'Hammer case' was sorted out to the satisfaction of all sides (*Haolam Hazeh*, 26 August 1987).

Sometimes, however, indirect influence proved insufficient and the godfather had to buy up an entire political party. This was illustrated in 1984, when a small ethnic party, named Tami, pulled out of the coalition, bringing down the Likud government. The man behind the deed was Swiss investor, Nessim Gaon. A native of Egypt, his business career began in Sudan, where, under the British Mandate, he made his first money from the toil of poor peasants. After Sudan won its independence, he moved to Geneva. There, together with his brother-in-law, Leon Taman, he built a multimillion dollar trading business, peddling food, commodities, real estate, and plenty of scandal around the world (*Al Hamishmar*, 30 March 1984). According to his own evidence, he was generous with all of Israel's political parties. When the Likud bloc came to power,

he helped Begin's own faction, Herut, retire much of its burdensome debt. Begin was grateful, and when he travelled to Egypt after the Camp David Accord, he brought with him the two brothers-in-law, Gaon and Taman. Gaon was also standing right next to Begin when the latter received the Nobel Peace Prize in Stockholm. Of course, these dealings with the 'right' hardly came at the expense of the 'left'. Gaon was careful to also cement his relations with Peres and the Labour Party, and even married his daughter to the son of his local representative, Labour member of Knesset and the country's future President, Haim Herzog. In return for these investments, Gaon hoped to win the bid for Israel's first commercial television channel. But here he was up against other heavyweights, and the bid failed. Realising that his investments were not striking the right chord, Gaon decided to pursue a more direct route. He bought himself a whole political party.

On the eve of the 1981 elections, he founded Tami, a small party headed by two colourful politicians – Aharon Ozan, a former Labour minister whom Gaon bailed out financially, and Aharon Abuhatzaira. The latter of the two had a valuable political asset. His cousin, one Baba Sali, was a local saint, whose cunning witchcraft helped him assemble a large following of obedient voters, comprised almost exclusively of poor Sepharadi Jews. And so, in a curious twist of fate, Gaon the billionaire, a man whose fortune was squeezed out of the world's poorest peasants, was now speaking for Israel's 'down and out'. Naturally, the establishment didn't like this brilliant political manoeuvre, and quickly unleashed its journalists against the intruder. Gaon, on his part, retaliated with full page advertisements:

The media has come out against me, viciously trying to smear my image. In doing so, it aggravates an already tense situation, further deepening the ethnic conflict in Israel. As President of the Sepharadi Federation, I travel in the cities and development townships, talking to factory workers and school children. What I find and feel is frustration, people who live without hope, as second-class citizens.... The parties in Israel sowed hatred and rivalry between the different ethnic groups.... They split the nation by classifying Asian and North African Jews according to their origin. Is this how they treated European Jews? In my view, this is Jewish anti-Semitism.... I think the political establishment and the media are scared of losing their power.... It is well known that I support the big parties in this elections, as I did in previous ones. Other Diaspora Jews do the same to strengthen the democratic process in Israel. And yet, never before was I blamed of intervening in Israel's internal affairs. Only now, when I support Tami, I'm accused of such intervention....
(*Ha'aretz*, 26 June 1981).

Eventually, the godfather prevailed. Tami won three seats in the Knesset, and Abuhatzaira became Minister of Labour, Welfare and Immigration. Then, in 1984, Gaon's business in Nigeria took a turn for the worse. Following a coup, the new ruler, Mohammad Buhari, froze all debt services, including to Gaon and Taman, whom he accused of selling rice to Nigeria at triple the world price (*Hadashot*, 27 April 1984;

(Naylor 1987: 242). Gaon found himself stuck with no less than \$100 million worth of Nigerian debt. Naturally, he turned to the Israeli government, of which he was now a major 'stakeholder', demanding collateral for the money. Prime Minister Yitzhak Shamir and opposition leader Shimon Peres agreed, and even tried to sneak the guarantees through a special Knesset subcommittee responsible for secret, 'security-related' financing. But other politicians, representing even heavier interests, leaked the proceedings, and the deal fell through. Gaon, outraged by the failure, ordered his retainer, Aharon Ozan, to pull out of the coalition and bring the government down.⁶ The logic of the move was sound. The Labour Party promised Gaon to guarantee his Nigerian loans through Solel Boneh which operated in Africa. And since the Likud was severely battered – by the Lebanon War, by the stock market crash, and by a series of resignations – an early election call seemed the quickest way to shore up Gaon's finances. Eventually, though, things worked out for all sides. Gaon settled his differences with the new Nigerian government, which proved just as corrupt as its predecessor, while Peres and Shamir cemented their own collusion through a new government of 'national unity'. The unofficial celebration was held in Gaon's Noga Hotel in Geneva, where 350 dignitaries, many of them 'foreign investors', gathered for the 1985 *Magbit* conference. The star of the conference was Henry Kissinger, who received a modest \$10,000 for entertaining the distinguished guests (*Hadashot*, 4 February 1985).

For Gaon, though, this was the beginning of the end. He continued to prosper for a few years, but the scandals surrounding his operations, including his business liaisons with various dictators, such as Ferdinand and Imelda Marcos of the Philippines, and Mobutu Sese Seko of Zaire, multiplied (*Haolam Hazhe*, 8 May 1985; *Hadashot*, 23 May 1985; *Ha'aretz*, 10 October 1986; and Naylor 1987: 336). In 1991, Gaon discovered a new gold mine, or so he thought, signing a barter deal to supply post-communist Russia with \$1.5 billion worth of commodities in return for oil. Two years later, however, the Russian government suspended payments, alleging bribery and fraud. Gaon, who was left with huge credit obligations, sued the Russians in Stockholm's international arbitration court, as well as in Paris and in New York. His demands gradually rose from \$63 million to \$700 million, and, surprisingly, the court ruled in his favour. This time, though, the problem was enforcement. The world has changed, and the aging godfather, whose companies were by now chased by creditors and the Swiss tax authorities, no longer commanded the political backwind necessary to sail the high seas of neoliberalism. Desperate, Gaon tried in 2001 to seize two Russian military jets on the grounds of the Le Bourget air show, threatening to do the same to the Russian embassy in Paris (*The Moscow Times*, 27 June 2001; *The Economist*, 5 July 2001). But that was clearly the end of the road.

The Autumn of the Patriarch

The closing of the godfathers era was best illustrated by the downfall of the 'father of all godfathers', Saul Eisenberg. Here we have the archetypal depth investor. Profit for him was a matter of politics, pure and simple. He had little respect for legal incorporation, organisational hierarchy, standard accounting practices, due diligence, and other such

⁶ The other retainer, Abuhatzaira, was by now out of the loop, locked up in jail on corruption

sublimations. The business of Eisenberg was Eisenberg: his own intimate knowledge of politics, his complicated networking, his intricate bribery schemes. His principal expertise, however, was in bridging the gap between the developed and developing economies, and that bridging, by preparing the ground for global breadth, eventually spelled his own demise.

Eisenberg was born to a religious Jewish family in Munich. When the Nazis came to power, he wandered, as a stateless refugee, across Europe. Just before the Germans invaded the Netherlands, Eisenberg, 17 years of age, managed to embark a ship headed to Shanghai. The vessel also carried a load of frightened Chinese refugees, saved earlier from a shipwreck sunken by the Germans. They wanted cigarettes, which gave Eisenberg his first opportunity to get something for nothing. He sold the cigarettes for a dollar a pack, having bought them at the ship's canteen for 5 cents (*Ha'aretz*, 26 December 1997). After a short stay in Shanghai, the young refugee found his way to Japan. And it was there, during the Second World War, that his business started to flourish. After the war he continued his trading, this time with the Allied Occupational Force, helping supply the raw materials needed for Japan's reconstruction.

This experience as a go-between defined his entire career. The post-war era was marked by a shift from colonialism to neo-colonialism, and it was the Eisenbergs of the world, along with the Hammers and the Khashoggis, who spearheaded the early foray of transnational firms into the developing world. Over the years, Eisenberg mediated many thousands of complicated deals, ranging from commodities, through machinery, to energy, transportation, heavy armament, and finance. His significance was evident from both his commissions and exclusivity. Those who tried to bypass him, quickly found themselves lost in a labyrinth from which only Eisenberg knew the way out. Atomic Energy of Canada, for example, learnt in 1976 that it could not sell its Candu reactor to Korea; or rather that it couldn't sell it without first paying Eisenberg his \$20 million cut.⁷ Similarly with Pilkington, the British glass maker, which in 1979 found out that building a \$150 million factory in China would cost it another \$17 million in commissions to Eisenberg.

Slowly, however, the shift from import substitution to export-led growth opened up East Asia's political economies. Eisenberg's toll booths became easier to bypass, and, as his leverage declined, he began looking for alternatives. He found these in Africa and Latin America. There, the economies were still closed, politics highly corrupt, and conflict, on which Eisenberg thrived, all pervasive.

His new business base, though, was set up in Israel. During the early 1960s, Pinchas Sapir, the country's Finance Minister, was looking for foreign investors, and Eisenberg, having heard of the various incentives, landed in Tel Aviv for a fact-finding mission. He liked what he saw, and in 1968 settled in. His reason was threefold. First, the political overhead in Israel was relatively low. Second, the policy makers' thirst for foreign capital was quenchless. In fact, it was so great, that the 'socialist' government quickly passed the so-called Eisenberg Law, which exempted him, and only him, from

charges.

⁷ The affair ended in political scandal, claiming many heads in both Ottawa and Seoul, including the resignation of Korea's Prime Minister. Eisenberg himself emerged from the commotion unscathed.

paying any taxes whatsoever for the next 30 years.⁸ Finally, the country's increasing military bias provided the right milieu for Eisenberg's clandestine expertises.

And indeed, soon enough he became Israel's number one arms dealer. According to various estimates, his annual military exports during the 1980s reached \$100 million. He sold everything, from aircraft and ships to ammunition and supplies – mainly to developing countries such as South Africa, Nigeria, Zaire, Colombia, Ecuador, Chile, Taiwan and China. He also became one of the country's largest military importers, representing no less than 60 foreign contractors. And like in Asia, many of his competitors and their political friends quickly found out he couldn't be ignored. In 1981, for example, Defence Minister Ariel Sharon was planning an African trip, with plenty of journalists, whose purpose was to open up new markets for Israeli armament. Eisenberg politely offered to fly Sharon, discretely and without the press, in his private jet. The minister of course refused. He had his own friends, such as arms dealers Markus Katz and Ya'akov Nimrodi, to cater for. But as the trip progressed, Sharon realised he was outmanoeuvred. On every landing he was greeted by an Eisenberg representative, already holding the exclusive right to import Israeli weapons.

Such episodes, though, were more the exception than the rule. In general, Israeli statesmen were rather happy to cooperate with their country's number one arms peddler. For example, when, in 1988, Foreign Minister Shimon Peres went to Austria to sign a trade agreement between the two countries, he was accompanied by Eisenberg's own 'foreign minister', David Kimchi. The signing ceremony was largely a formality. Kimchi, formerly a Mossad agent and Director General of Israel's Foreign Ministry, drafted the agreement three months earlier, making sure Eisenberg was given his usual exclusivity (*Haolam Hazhe*, 11 May 1988). This was not the first time Peres' flag followed Eisenberg's trade. In 1987, he went to Brazil with Eisenberg and Kimchi, who, again, arranged the visit. It wasn't entirely clear which interests Kimchi was pushing, Eisenberg's or Israel's – although that scarcely mattered, since the two were really one and the same. As one reporter put it: 'Eisenberg and Dave Kimchi work to strengthen trade and economic ties between Israel and Brazil, which is why they were invited to accompany Peres on his trip....' (*Ha'aretz*, 9 December 1987).

In the early years, Eisenberg donated mainly to the Labour Party. After 1977, however, he extended the list to include Likud and the religious parties. His political and business affairs were controlled from his Asia House, a large office building, shaped like a vessel, which he strategically inserted at the very heart of Tel Aviv, right next to America House, IBM, Koor, and the Defence Ministry. The building housed Eisenberg's own companies, as well as various related businesses, including consulates and embassies. It was also home to useful friends and politicians, such as Haim Herzog, Yaakov Ne'eman, Avraham Sharir and Yigal Hurwitz. The latter, while acting as Finance Minister in Begin's government, located his own private firms in Asia House. He also arranged, entirely by coincidence of course, that the building be classified as an 'export factory', so that its owner could enjoy additional subsidies and grants (there was no need for tax exemptions, since Eisenberg already paid none).

⁸ Income Tax Code, Section 14A; and the Law for Encouraging Capital Investment, Chapter 7, 53.2 (1969 Amendment).

Like Nessim Gaon, Eisenberg also bought himself a party; or rather a segment of a party, since he didn't like wasting more than necessary. His acquisition was the Liberal Party, which at the time comprised half of the Likud bloc. His most important retainers there included party leader, Simcha Erlich, who was Begin's first Finance Minister; Trade Minister Gidon Pat; and the scandal-prone Tourism Minister, Avraham Sharir, who later also became Justice Minister.⁹ Sharir was given an office in Asia House, to which he promptly moved the meetings of the Knesset's crucial Finance Committee.

Eisenberg's direct manager in Israel was the skilful Michael Albin. Formerly partner to Ezer Weitzman's arms dealings, Albin was now trusted with jointly manipulating the stock market and the Liberal Party. During the early 1980s, his business activities reputedly accounted for as much as half of Eisenberg's local profits (*Hadashot*, 21 June 1984). This was the Gilded Age of the Tel Aviv market, and Albin, like Riger and Fishman, specialised in buying dormant companies, rigging their prices upwards, massively diluting the stock by selling new paper in large quantities in return for hard cash, and then dumping the corporate carcass. Occasionally, he also invested in real companies. One of these was Ata, a large but troubled textile firm which Eisenberg and Albin promised the government they would 'turn around'. They had no such intentions. After floating the company's stocks and cleaning its coffers, they simply jumped ship. The company's hundreds of employees, many of whom worked there for more than a generation, were left free to fend for themselves.

Eventually, dominant capital grew edgy with Albin. His market manipulations put their entire system of 'regulation' at risk, and they decided to impose some checks on his wild behaviour. The task was delegated to Tel Aviv bourse chairman, Meir Het, who proposed certain amendments to the trading rules. The Knesset Finance Committee, however, rejected his proposals outright. This happened after Michael Albin, on the unprecedented invitation of Avraham Sharir, was called to testify in front of the committee. The hearings, by the way, were held at Eisenberg's Asia House (Frenkel and Bichler 1984: 150).

The cost of buying such political support was generally pretty low. Micha Reiser, for instance, a Likud member of Knesset, was acquired for various perks such as a couple of company directorships, a car and a driver, airplane tickets, and stock options; the combined value of these was probably less than \$100,000. Securing the support of others, such as Yossef Hermelin (former head of Shin Beit), Mordechai Hod (former air force commander and representative of Northrop), Eli Landau (city mayor) and various journalists, must have cost even less.¹⁰

Eisenberg wanted a return on these investments, and here too, much like in Asia, he focused on raw materials. One of his targets was the already mentioned oil oligopoly, Paz. In 1980, Sir Issac Wolfson, who got Paz from Sapir for practically nothing in 1957, was ready to give his share to Eisenberg for \$27 million. But then, Eisenberg, whose supporters included Prime Minister Begin, Finance Minister Hurwitz, and Industry and Trade Minister Gidon Pat, found himself facing other interested parties, including the

⁹ Sharir's scandals could fill a whole book. For a sample, see *Ha'aretz*, 9 May 1984; *Ma'ariv*, 14 May 1984; *Haolam Hazeh*, 6 March 1985; and Kotler (1988: Vol. II, pp. 12–35).

¹⁰ These and other names were found in Albin's papers after his death. Naturally, none of them were prosecuted.

large dominant capital groups, Bruce Rappoport, and Australian millionaire Jack Liberman. After a long war of attrition, the company went to Liberman. The winning argument, hammered by his own supporter, Finance Minister Moshe Nissim, was that Liberman, being a foreign investor, would bring in much needed dollars. The Australian godfather, though, had no such intentions. As it turned out, he managed to ‘discover’ plenty of New Israeli Shekels, equivalent to \$60 million, buried deep in the company’s coffers. And since Paz was eventually sold for only \$57 million, he ended up getting it for a song, and without ‘investing’ a single foreign dollar.

Eisenberg, in any case, didn’t give up. His other target was Israel Corporation, a conglomerate with interests in over 100 subsidiaries, including Oil Refineries and Zim Shipping, which it jointly owned with the government. Initially, the takeover proceeded smoothly. Albin, as usual, manipulated the media so that the share price would fall when he was buying, only to reverse his tactics when the time came to issue new paper and realise some gain. Eventually, Eisenberg got the company, but only after sailing through some very rough water. In 1983 the stock market collapsed, and Eisenberg, perhaps for the first time in his life, found himself stuck with \$40 million in losses. Needless to say, that was unacceptable, particularly since Albin seemed to have emerged unharmed, with \$15 million in profit. And so, once more, Eisenberg unleashed his political power – this time against his own partner. Scandal ensued, and Albin, who found himself in police custody, eventually jumped (or was pushed) to his death from the station window.¹¹

Eisenberg’s last coup in Israel was the acquisition of Israel Chemicals Ltd (ICL) – a diversified producer of chemicals and fertilisers entrusted with exploiting the country’s few natural resources. The company was slated for privatisation already in 1977, when the Likud first came to power, but given the sensitivity of selling a ‘national resource’, the deed took another 20 years to complete. The sale was one of the final clashes between Israel’s ‘nationalist’ and ‘transnationalist’ factions. In 1989, the nationalists, headed by Labour Finance Minister Avraham Shohat, successfully torpedoed a suggestion to sell 50 per cent of ICL to foreign investors. The benefits of privatisation, they argued, should go to the ‘citizens of Israel’, not foreigners (*Ha’aretz*, 23 May 1995). The particular citizen they had in mind was Saul Eisenberg. ICL, which at the time had \$2 billion worth of government investment in the pipeline, was sold to Eisenberg’s Israel Corporation based on a market value of only \$930 million. Initially, Eisenberg bought only 25 per cent. He also had an option to buy another 17 per cent, which he hoped to muscle out for even less, once the stock price fell. But low and behold, the price, instead of falling, rose by 33 per cent. And to make a bad situation worse, the new neoliberal officials at the Government Corporations Authority insisted Eisenberg had to take it or leave it. Grudgingly, Eisenberg bit the bullet, paying the full price for the remaining shares; but for a man who always managed to ‘get something for nothing’, this was a real blow. Clearly, the world was no longer what it used to be, and

¹¹ Feeling betrayed, Eisenberg didn’t hesitate to pull the rug from under his own family. In this particular incident, the target was his daughter Ester and her husband. The son-in-law, who earlier worked for Eisenberg together with Albin, was cut off from the business and shipped to America. Then, the daughter having been accused by her father of ‘possessing stolen property’, was detained by the police, her passport confiscated, so that she couldn’t join her other half in America.

three weeks later, in March 1997, Eisenberg, 'one of Israel's dearest citizens', as Prime Minister Netanyahu called him, died of a heart attack (*Ha'aretz*, 28 March 1997).

Once Eisenberg was gone, his family business crumbled. With secrecy being his main asset, he was always suspicious of friends and foes alike. He did as much as he could on his own, keeping most of his records in his head. Even his wife and children were kept on a short leash, having to ask him for money when they needed it, and justify their request in writing (*Ha'aretz*, 5 August 1997). The scope of what he owned, how much it was worth, and who should it go to – all remained unclear. And the bitter family feud after his death only demonstrated that there was really no one to carry the business forward. Eisenberg's 53 per cent of Israel Corporation was therefore put on the bloc, and in January 1999 was sold to the Ofer brothers for a mere \$330 million.

In contrast to the dysfunctional Eisenberg family, who lived in the world of yesterday, the Ofer clan was operating like clockwork. The two founding brothers, Yuli and Sammy, were getting older, but the younger generation was smoothly taking over. Much of the Ofer's fortune, estimated by *Forbes* at \$1.9 billion in 1998, came from the seaways – primarily through their 20 per cent stake in the cruise company Royal Caribbean, and through their two commercial undertakings, Zodiac and Tanker Pacific Shipmanagement. When Israel Corporation was put up for sale, they jumped on the opportunity. One obvious reason was their desire to have Zim, the world's twelfth largest container shipping company with 2.3 per cent of the global market, added to their maritime assets (*Ha'aretz*, 28 April 2000). The other reason, less publicised by equally important, was that the 30-year Eisenberg Law was about to expire, and both seller and buyer were eager to finish the reshuffle without the taxman's intervention (*Ha'aretz*, 4 January 2000). And indeed, within two years, Israel Corporation, now owned by Ofer's, unloaded \$230 million worth of assets, leaving its new masters with a more focused set of holdings in chemicals (mainly through ICL), shipping (through Zim), refining (through Oil Refineries), and communication and 'high-tech' (through Tower Semiconductors). The era of the godfather came to a close.

Toward Transnationalism

The Technodollar–Mergerdollar Coalition

The decline of the Israeli godfather came as the world moved from depth to breadth. Since the late 1980s, world military spending has dropped sharply. A 'new economy', based on civilian 'high technology' was said to emerge. Brick-and-mortar industries grew out of fashion. 'Knowledge' was the new buzz word, and information and telecommunication were the 'hot' growth sectors.¹² But, then, these changes in

¹² We use inverted commas here for a purpose. The concepts of the 'new economy', 'high technology' and 'information' have become so common, that few people stop to question their meaning. First, 'information' and 'knowledge' are not some distinct, well-defined output such as furniture, houses, automobiles and computers, or production inputs such as lumber, iron ore, and microchips. Instead, they are part of that all pervasive, mysterious substance, called consciousness, which makes society possible in the first place. Second, it isn't clear how we can gauge the 'level' of technology. In what sense, for example, can we argue that the internet and the cell phone are more 'high-tech' than the internal combustion engine, the telephone, the printing press and the wheel – or for that matter, than mathematics, written language, or music? Finally, although

technology and the composition of output were themselves part of an even bigger transformation affecting the nature of *accumulation*. From the viewpoint of capital, the real issue was not production as such, but the politics of production: who controlled it, by what means, and to what ends. Until the late 1980s, such control was exercised largely through the various mechanisms of depth, including statist protectionism in a world crisscrossed with barriers and conflict. Since the early 1990s, however, as the world moved to breadth, the mechanisms, too, have changed. One of these changes was the growing state enforcement of intellectual property rights; the other was the increasing 'absorption' of technical innovators through corporate amalgamation.

And indeed, in a certain sense, contemporary technology made mergers and acquisitions perhaps more crucial than ever. The basic reason is simple enough. The emphasis of this technology on 'information' and 'communication' is inherently *integrative*; it binds together different spaces and regions. Such integration, however, also introduces new players, new forces and new rules. And these, if left unattended, tend to destabilise established power and undermine profit. The most common way of containing these centrifugal consequences is through the centripetal, counter-force of corporate amalgamation. And so far, the method has been effective. Although liberalisation during the 1990s exposed the economies of many countries to outside 'competition', in most of them capital's share of income nevertheless rose.

The engine behind this rise was the emergence of a new, 'Technodollar–Mergerdollar Coalition'. Whereas the earlier, depth-oriented Weapondollar–Petrodollar Coalition thrived on military conflict and inflation, the interest of the new alliance lay in civilian 'high-tech' and the 'natural right to buy' anything vendible. The differential prosperity of this new coalition rested on three breadth-related poles. The first of these was *capital decontrols*, a key prerequisite for cross-border mergers. And since free investment presupposed free trade, the 1990s saw the creation of larger 'free trade zones', most notably NAFTA and the EU, as well as lesser amalgamations such as Mercosur and EFTA. The second pole was *privatisation*. Part of this involved the sale of government-owned enterprises, but there was a much bigger prize here, namely the privatisation of government itself. According to World Bank data, average government spending on goods and services rose from less than 13 per cent in 1960, to nearly 16 per cent in the early 1990s. Much of this activity could be turned over to private hands; and since these usually ended up being the largest firms, the effect was tantamount to boosting differential accumulation through external breadth. The third, and possibly most important pole was expansion into the virgin territory of '*emerging markets*'.

The potential for differential accumulation in these markets was vast. One reason was that the entry of large Western-based companies into developing countries has been restricted for over half a century. Their presence there was therefore still limited, implying enormous room for expansion by takeover. The other reason was that, during the 1990s, the growth rates of both population and GDP per capita in these countries, although receding from their peak rates of the 1970s, were still more than twice those of the industrialised countries. True, green-field expansion created strong competitive

contemporary 'high technology' does affect our world, perhaps in a big way, could we argue that this impact, taken in its totality, is greater than the impact of earlier innovations? In what units should we measure such impact?

pressures which were not necessarily favourable to differential accumulation; but it also served to replenish the pool of takeover target, thus helping extend the amalgamation process. To put the significance of this latter potential in context, consider that during the late 1990s, 'Information Technology', the hottest growth sector of the U.S. economy, accounted for an estimated 8 per cent of GDP, and almost 15 per cent of its growth rate. Now compare this to the developing countries of East Asia and Pacific region. During the mid-1990s, these countries accounted for only 4 per cent of the world's output in constant \$US, but for as much as *one-third* of its overall growth! The growing significance of these new markets was particularly stark relative to the diminishing role of military spending. During the 1960s, prime contract awards by the U.S. Defense Department accounted for 5 per cent of GDP, whereas overall U.S. exports to developing Asia were ten times smaller, at only one-half of 1 per cent of GDP. By the mid-1990s, however, the former had fallen by 70 per cent, whereas the latter more than tripled to 1.7 per cent of GDP, surpassing U.S. defence procurements for the first time in history.¹³

Israel 'Opens Up'

It is within this context of breadth, 'high-tech' and the emphasis on developing countries, that the recent transition in Israel must be understood. Although Israel could be classified as a developed country by most standard indicators, from the viewpoint of global investors in the early 1990s it was still very much an emerging market – entangled in complex international and domestic controls, burdened by security concerns and instability, and far too small to bother about. Its incorporation into the new process of globalisation, therefore, required a series of fundamental changes, typical to many developing countries at the time.

The first of these changes was endorsing neoliberalism. In many countries, converting the elites proved relatively easy, since for them the globalisation 'stick' was usually accompanied by many 'carrots'. Selling neoliberalism to the underlying population, however, was a different story altogether. For most people, the change usually meant rising income inequality and the disintegration of various social support structures typical to the earlier statist order. Making them see of the 'merits' of neoliberalism, or at least confusing them enough so they remained inactionary, therefore wasn't easy. The situation was in some sense reminiscent of Arthur Koestler's cynical reflection on the nature of historical change under communism. Since, according to the elite, 'ideology' always lagged behind 'reality', and given that only the elite could properly understand this discrepancy, it followed that the only path to progress was through forceful change, imposed from above (Koestler 1941). Similarly in capitalist Israel of the 1990s. Despite strong opposition from the underlying population to liberalisation and the peace process, including the murder of Prime Minister Rabin and a renewed Palestinian *Intifada*, ruling class propaganda for its 'new world order' continued unabated.

The second, more 'technical' requirement was to make capital vendible. In many developing countries, as in Israel, family ownership, high debt-to-equity ratio, and complex cross-holdings made buying assets a nightmare for foreign investors. Breaking

¹³ Figures in this paragraph are computed from Margherio *et al.* (1998: Table 7, p. A1-24); World

these ‘rigidities’ was therefore as essential for globalisation, as it was traumatic for domestic groups. It entailed legislative and policy changes, social friction, and heightened conflict among the leading groups as they tried to reposition themselves on the changing stage.

The third necessary process was the relaxation of foreign trade barriers, and eventually, of foreign investment barriers. Again, this process too proved difficult and drawn out. It meant that governments had to give up considerable ‘autonomy’, since manipulating domestic macroeconomic aggregates became inconsistent with ‘self-adjusting’ trade and capital flows. In the case of Israel, it also required a far broader political transformation toward peace negotiations and regional reconciliation; without this transformation, capital decontrols would have been far too risky and destabilising.

The fourth, related requirement was a change in the nature of the state itself. Once foreign and domestic capital began fusing, the resulting entities ended up transcending the geographical boundaries of their ‘home’ countries. Reacting to this change, governments have recently stepped up their coordination of micro- and macro-economic policies and regulations. But the ‘imbalance’ remained clear: whereas capital was growing *transnational*, state cooperation was still *international*. The result of this apparent unevenness was for capital to increasingly ‘privatise’ various state dimensions, as well as to ‘incorporate’ state organs and institutions from different countries as components of a worldwide mega-machine, called transnational accumulation

And, indeed, the global breadth phase may well signal the end of *nationally* based differential accumulation. One aspect of this is the change in the profit *benchmark* firms and investors try to beat. This yardstick, which previously was mostly national, has become global, even for small companies and capitalists. The other change is that *dominant capital itself* is gradually losing its ‘national’ character. In this regard, and particularly for our purpose here, it is also important to note a fundamental asymmetry in the way the process affects large and small markets. The size of dominant capital firms tends to be positively correlated with the size of their original ‘home market’. This means that the amalgamation of two corporations, one based in a large country like the United States and the other in a small country such as Israel, is likely to be not ‘a merger of equals’, but a takeover of the latter by the former. It also means that dominant capital based in a small market would tend to transnationalise much faster than one based in a large market. And, indeed, as we shall see, the transnationalisation of Israel’s dominant capital was remarkably rapid – so much so, that by the end of the 1990s it was no longer possible to talk about Israeli dominant capital as such. After a decade of transnational fusion, it appeared part and parcel of *global dominant capital*.

The Brodet Report

Israel’s formal initiation into transnationalism began in 1995, with the publication of the so-called Brodet Report on *Aspects of Bank Holdings in Real Corporations* (Brodet *et al.* 1995). After decades of showing virtually no interest in the subject, the government all of a sudden became keenly concerned with corporate structure, and particularly with the fact that Israeli banks had extensive ‘non-financial’ holdings. A large committee, made

Bank (Annual); and U.S. Department of Commerce, through McGraw-Hill (Online).

up of public officials, businessmen, university professors and foreign experts was set up, and after short deliberations broke the astonishing news. 'The Israeli economy', it announced, 'is characterised by high corporate concentration', so much so that several large groups dominate much of the business landscape! (p. 1). These groups, explained the committee, 'are known to have had a crucial impact on the paths, behaviour and performance of the Israeli economy', and their continued dominance posed grave risk for 'the proper functioning of the market'. Among the various listed threats were instability, lower competitiveness, reduced production, higher prices and, most importantly, the scaring away of foreign investors. This was bad, very bad. It undermined the interest of the public in general and of consumers in particular, and if allowed to continue, warned the committee, could even compromise the 'proper functioning of the democratic regime' itself (p. 1).

A truly heart-warming document. What remained unclear, though, is where these allegations came from. Not that they were incorrect; but, then, how could the committee be so confident in making them? After all, with the exception of a few, largely unknown works by outsiders, the extent of the process was rarely documented, while its broader political-economy implications hardly even touched on.¹⁴ And if corporate concentration was in fact self-evident all along, why has it become a 'problem' all of a sudden?

The answer was hidden between the lines. Although the committee spoke of concentration in general, its focus was exclusively the banking groups. The latter were still state-owned after their 1983 bailout, and the government was eager to re-privatise them. There was however a slight problem. The banks owned large chunks of the 'real' economy, so selling them to the large domestic groups, according to the Brodet Report, would have increased concentration further, amplified conflict of interests, and destabilised their financial operations. A much better solution was to 'loosen' them up first by unbundling their real holdings, and then invite transnational corporations and foreign investors to take them over. This, it was argued, would kill two birds with one stone: on the one hand, foreign ownership would help keep the companies strong in an era of 'global competition', while on the other, domestic concentration would look lower since the new owners would be foreign.

Specifically, the committee recommended that the banks be required to reduce their holdings in any 'real' company to 20 per cent or less; that they be barred from exercising effective control over such companies (through minority holding, loans, or board members, for instance); and, finally, that they capped their overall 'real' holdings at 15 per cent of their own equity, but be allowed an additional foreign holdings of up to 5 per cent of equity. According to the committee, based on 'weighing all relevant considerations', these recommendations provided the 'right balance' between alleviating concentration, keeping the banks stable, and reducing conflicts of interest (Brodet *et al.* 1995: 5).

Precisely what these 'relevant considerations' were and how they were 'weighed' was not made clear in the report. It was also unclear how all of this would assure 'competition'. Indeed, the committee recognised that stripping banks of their non-financial subsidiaries still left the door wide open for an alternative structure, in which

both were held by a 'generic' holding group (which is exactly what happened later). Conveniently, though, dealing with this concern was not part of the committee's mandate. The committee also said nothing on how to prevent the divested companies from being re-amalgamated into different groupings. Last but not least, there was complete silence on what would prevent foreign owners from cooperating with their domestic counterparts.

On the face of it, then, the whole exercise seemed rather strange. Why would the government set up a committee to deal with concentration, and then limit its scope so that its solutions could be easily circumvented? The reason was simple. The real purpose of the report was never to lower concentration, but to *change its nature*. The basic idea was to allow global investors to move in by *integrating* rather than undermining local groups. For this to happen, though, the great octopus of domestic assets had to be first chopped down into vendible units, so that they could be more easily transacted in the rapidly changing market for global ownership.

The immediate target was Bank Hapoalim. When the report was published, the bank had a vast array of precious holdings, operating across the economy. All in all, it had stakes in more than 770 companies, mostly through its ownership in six large conglomerates. One of these conglomerates was Clal, in which Bank Hapoalim had a direct 33.9 stake, as well as another 6.7 per cent through its provident funds (the other large owners were IDB with 29.6 per cent, and Bank Leumi's provident funds with 6.7 per cent). The second was Koor, where Hapoalim held 22.7 per cent directly, and another 10 per cent indirectly, through its provident funds (the other owners here were Bank Leumi, and by now also U.S.-based Shamrock). The third holding was Delek, a company dealing in energy, transportation, retail and petrochemicals, and in which Bank Hapoalim had 25.5 per cent (again, together with IDB which owned 30 per cent). A fourth asset was Poalim Investment, a diversified holding group in which Bank Hapoalim held a 45 per cent stake. The fifth group was the infamous Ampal, the company which brought Hapoalim's chairman Jacob Levinson to his end, and where the bank still held 52.8 per cent of the stocks. The sixth group was a wholly owned real estate subsidiary, Diur BP, previously purchased from Solel Boneh. Extended through these various holdings, Bank Hapoalim's tentacles reached everywhere. It had stakes in ten different monopolies; it controlled leading companies in almost every sector of the economy; and it accounted for over 15 per cent of Israel's total industrial sales (Brodet *et al.* 1995: Ch. 6). Clearly, there was a lot to chew on, and the wolves were lining up.

The Principal Groups

Taxes, Death and Bank Hapoalim

One of these wolves was Ted Arison, who in the early 1950s emigrated from Israel to the land of unlimited opportunities, to make a fortune in the leisure business. Like many elderly Jews, Arison wanted to spend his last years in the Holy Land, and so in 1990 he 'made Aliya' and immigrated back into Israel. There was also another reason. Arison did not like paying taxes, and he hardly did. Between 1986 and 1998, his Panamanian-

¹⁴ Rowley, Bichler, and Nitzan (1988) and Bichler (1991) were perhaps the only works on the

registered company, Carnival Corp., made \$4.7 billion in gross profit of which it managed to pay only 1.4 per cent in corporate taxes (computed from Standard & Poor's Annual). As he grew older, though, Arison realised that U.S. tax laws could make his heirs pay as much as 55 per cent in estate taxes on his personal fortune of \$5 billion, and that was too much for him to stomach. The solution was to become a foreign resident. If you lived for a decade outside the United States, the tax man could no longer get you after you die. And so Arison, a 66-year-old man, moved back to Israel, and started marking time. 'All I know', he said, 'is my lawyer, he told me.... "You better live for 10 years." That's it. So I'm trying' (*Business Week*, 25 October 1999). As it turned out, though, god played tricks on him, and he died nine years later, one year short of a permanent tax holiday.

These nine years were of course not entirely wasted. Arison was a seasoned businessman who knew what he wanted and how to get it. He started his career in Israel, where he ran M Disengoff & Co., a small shipping business he inherited from his father. Once in America, he spent 20 years drifting from venture to venture, until he finally hit the right track. This happened in 1972, when he bought Carnival from his partner, Meshulam Riklis, for \$1. The company had a single second-hand cruiser and \$5 million in debt, but conditions were changing. Ocean cruising was until then an upscale market, and this, Arison realised, was his golden opportunity: if he could bring it down to the masses, they would in turn pave his way to riches. And that is exactly what happened. While in 1979 the company had revenues of only \$45 million, by 1990, when Ted finally turned it over to his son Micky, middle-class 'fun-cruisers' were already generating for the Arisons \$1.4 billion in annual revenues and as much as \$200 million in net income.

Part of this success was undoubtedly due to Arison's patriotic acumen. By registering his company in Panama and putting most of its ships under a Liberian flag of convenience, he was able to pay little or no taxes, as well as to bypass the inconvenience of U.S. minimum-wage requirements. According to the *Wall Street Journal*, Arison's cruise employees, many of them university graduates from developing countries, were required to work for 10 months in a row with only two days vacation, while earning as little as \$1.5 per day (which they were free to supplement with tips) (*Ha'aretz*, 8 September 1997). Of course, internal depth strategies of this kind were not enough, and the Arisons also went after internal breadth, expanding their leisure operations by buying other carriers, resort hotels, the PanAm airline which they merged with their own Carnival airlines, and the NBA Miami Heat. By the late 1990s, their fortune, held mainly by father Ted and his son Micky, was estimated by *Forbes* at more than \$10 billion, making them by far the richest 'Israeli' family in the world. It was clearly time to buy a bank.

Ted Arison had a bank before – the Ensign Bank – a small Florida outfit which got him entangled in conflict of interest allegations, after it lent money to the manager of Miami's port, Carnival's home base (*Ha'aretz*, 24 July 1997). This time, however, Arison was after a much bigger prey: Bank Hapoalim. He was of course not alone. Standing against him was another group, led by Eliezer Fishman, the Israeli financial phoenix who was beaten to pulp by the large banks during the 1980s, only to rise back

subject at the time.

from the ashes and lash on them again. His consortium included investment banks Bear Sterns and Lazard Freres, American Financial Group, U.S. insurance groups Reliance and Leucadia National, and promoter and former president of Edmond Safra's Republic Bank of New York, Jeff Kyle. Arison lined up an equally impressive array, including Charles Bronfman, Goldman Sachs and George Soros. Halfway through the race, the participants' enthusiasm cooled down a bit, after the Brodet Report required that Hapoalim divested some of its prized holding. Also, the stock market was rising and that did not help either, since it threatened to make the purchase more expensive. The process even came to a temporary halt when the Likud returned to power after Rabin's assassination. Bronfman, who was closely aligned with Shimon Peres, got cold feet and began to hesitate. Arison, on the other hand, was far less concerned. In his view, 'it does not matter who is in power – right or left; the Israeli economy is so strong that even political change cannot spoil it' (*Ha'aretz*, 8 December 1997). Just to be on the safe side, though, he donated generously to Netanyahu's campaign; he also put \$5 million into a new right-wing research institute, the Ariel Centre for Policy Studies, whose explicit mandate was to warn against the 'risk of peace'.¹⁵

Eventually, Bronfman, Goldman Sachs and Soros pulled out, seeking other ventures. Arison, though, remained persistent. He courted new partners – the Dankner family, which had close ties with Likud, along with foreign investors Len Abramson, Michael Steinheart, Charles Shustman and Lou Reinary – and by the end of 1997, his efforts finally came to fruition. His group paid the government \$1.4 billion for 43 per cent of Bank Hapoalim, with an option for another 21.5 per cent later on. At the time, this was the largest corporate acquisition in Israel's history.

'Releasing Value'

Notably, a full 63 per cent of Hapoalim's purchase was financed by other banks, primarily Bank Leumi, First International Bank, Discount, and United Mizrahi Bank (whose chairman now was none other than David Brodet, head of the Brodet Committee). And this pattern was hardly unusual. According to a study by Odded Sarig, Israeli banks, which at the time were mostly government owned, financed up to 85 per cent of the privatisation and merger activity of the 1990s (*Ha'aretz*, 28 October 1997). This heavy leverage indicates that both investors and lenders expected the acquired assets to appreciate well beyond the cost of servicing the loans. And generally they were right. In 1988, Israel's stock market capitalisation was equivalent to roughly 10 per cent of outstanding bank credit, compared with an OECD average of 50 per cent; a decade later, and despite a massive credit explosion, the ratio had soared to 55 per cent, roughly the same as the OECD's (computed from World Bank Annual).

At least some of this increase, went the conventional wisdom, was due to the 'releasing of value' buried in the underlying assets. According to this argument,

¹⁵ 'Oslo', announced the director of the centre, 'is a disaster for Israel', adding that 'Netanyahu was generous enough to help us, along with Arison, even before being elected as Prime Minister.' The centre, which Netanyahu hoped would challenge the 'old academic elites', was headed and advised by many Likud dignitaries, including former Prime Minister Yitzhak Shamir and his son, Yair Shamir; former Defence Minister Moshe Arens; future Minister for Internal Security Uzi Landau; and of course, Arison himself (*Ha'aretz*, 12 June 1998; 19 July 2000).

conglomerates like Bank Hapoalim were simply too big, too diversified and too opaque for investors to recognise their 'true' worth; and, as a consequence, their shares traded at a 'discount'. By unbundling them, and then repackaging their individual components as separate companies, their hidden value would then be 'released'. And since Israel had no capital gains tax, selling off some of these newly improved pieces could make even a highly leveraged buyout look cheap. Arison, along with many others, obviously found this logic compelling, with the result being that, between 1990 and 1998, the number of listed companies on the Tel Aviv Stock Exchange rose threefold, from 216 to 662 – a rate of increase six times faster than the world's average, and second only to Germany, which was going through a similar transformation (computed from FIBV 2000). Some of these companies were of course brand new, but many were floated subsidiaries, waiting for investors to discover their true worth.

And, yet something in this logic wasn't quite right. If conglomerate value was indeed 'invisible', how could some investors nonetheless see it before it was unbundled? And if the value was visible then it must have been already 'in the price', so how could there be any capital gain to be made? Clearly, for 'money to make money', something must happen in the middle. In the case of privatisation, this 'something' was often having the right political friends. Arison, of course, knew this all too well. In 1995, he bought Israel's largest real estate and construction conglomerate, Housing and Construction (Shikun Ubinui). Since the company belonged to the Histadrut, and was therefore naturally 'in difficulties', Arison got his 35 per cent stake for a mere \$15 million; that is, based on a company value of only \$43 million. In 1998, however, Housing and Construction was already worth \$278 million. What exactly happened during these two and half years to 'release' this sixfold increase in value was unclear. Arison himself knew nothing about construction. He did understand politics, though. And indeed, after the sale there were calls for independent inquiry into why the Histadrut was so eager to get rid of its prized assets, and for so little. It also turned out that Housing and Construction's chairman, Ephraim Sadka, as well as his CEO, Uzi Vardiser, each ended up with a large bundle of shares. Haim Ramon, the Histadrut chairman, of course denied any wrongdoing. Needless to say, the matter was never investigated for lack of 'public interest' (*Ha'aretz*, 17 June 1998).

Mickey Mouse Takes Over Koor

The other big Histadrut asset to be put on the blocks was Koor. Since the mid-1980s, the company faced mounting difficulties. Military spending was falling, the economic slump dried up domestic demand, and the government's 'stabilisation policy' kept interest rates high and exports uncompetitive. As a consequence, Koor accumulated close to \$700 million in losses between 1985 and 1990. In 1986, the company even faced the prospect of bankruptcy, which it managed to escape only after raising \$100 million in New York. The person who arranged the deal was Mike Milken of Drexel Burnham Lambert – an avid right-winger who reputedly made half a billion dollars in a single year, before being sentenced to a decade in prison for insider trading.

Classified as foreign borrowing, the deal had to be ratified by the Knesset Finance Committee, headed by Avraham Shapira. After giving his approval, Shapira extended his congratulations to Koor: 'Your success demonstrates your strength and

management style, as well as the confidence your company commands around the world' (cited in Gaon 1997: 23). What he failed to mention was that just about the same time, a New York subsidiary of Koor began lending money to Glenoit Mills, a faltering carpet mill in North Carolina, whose owner was none other than himself (*Forbes*, 11 July 1988). The impact of such manoeuvres, however, was at best cosmetic. In 1988 Koor was \$250 million in the red, and having failed to repay a \$20 million loan to Bankers Trust of New York, was again flirting with bankruptcy.

It was clearly time for a 'management reshuffle'. Ysha'ayahu Gavish, the last IDF general to head Koor, stepped down. His replacement was Benny Gaon, a former supermarket executive who grew up in the Histadrut, loathing everything about it. Gaon, whose name in Hebrew means 'genius', took a job nobody wanted and did everything by the neoliberal book. He cut the company's workforce to 16,000, down from 30,000; using divestment and amalgamation he reduced the number of subsidiaries to 30, down from 130; and, of course, he bolstered 'efficiency'. The employees of Koor, understandably distressed by these 'feats', protested their anger by occupying some of the company's factories. Gaon retaliated swiftly. Although formally still working for the Histadrut, and therefore in the service of his own employees, his real allegiances were clearly to mother equity and father debt. He hesitated little, and quickly dispatched the police, along with mercenaries and attack dogs, to evict the sit-in workers. For these achievements, the *Financial Times* hailed him as 'Mr Turnaround', while he himself boasted in his memoirs that only 'the daring wins'. The reality, though, was a bit more prosaic. What really turned things around was not the intrepid chairman, but the Jewish immigration from the former Soviet Union. Koor had its tentacles everywhere, and since the early 1990s, with the government again spending heavily and the economy growing rapidly, it was really difficult *not* to make money.

And then foreign investors started knocking on the door. Their entry was greatly facilitated by the 1992 election of Haim Ramon as the Histadrut's new chairman. Until then, the organisation's executives were still trying to cling onto their many corporate holdings. But the rising tide of neoliberalism and the growing deficit in their own coffers weakened their resolve, and when Ramon became chairman 'final sale' signs started appearing everywhere. Ramon himself was a corporate lawyer and a 'Third Way' neoliberal.¹⁶ Although a Labour member of Knesset, he never had any interest in workers. The Histadrut, he announced, could not be both a labour union and an employer; it had to get rid of its business assets, and it was his job make it happen. Unlike in Poland and other former communist countries, however, the workers, who in fact owned these business assets, weren't offered the chance to receive or even buy what was really theirs. Needless to say, they never saw a cent of the proceeds. Instead, Ramon decided, on their behalf, that it was better to sell Koor to a 'stable body' – in his words, in order to 'avoid shocks' and save the company's remaining employees 'unnecessary agony' (*Ha'aretz*, 7 March 1995).

¹⁶ The 'Third Way' concept was launched in 1990 by Tony Blair, who announced with much fanfare that he had finally discovered the alternative to both capitalism and state socialism. Whether he did or not is best left to experts in such matters. But it was clearly a brilliant 'alternative' for winning elections.

And he didn't need to look far. Gaon was already waiting around the corner with a very 'stable body' named Shamrock, an investment company jointly owned by Walt Disney's nephew Roy Disney and the General Electric pension fund. In March 1995, the deal went through, and Shamrock, headed by Stanley Gold, bought the Histadrut's 22.5 per cent stake in Koor for \$252 million. The sale, Gaon declared ceremonially, 'marked an end of a chapter in the economic history of Israel' (*Ha'aretz*, 7 March 1995). And he was right. It wasn't every day that a labour union sold a company to Mickey Mouse.

The Recanatis Face the Raiders

The Recanatis have had their squabbles with the law, but they never considered them as more than 'technical problems'. After the stock market crash of 1983, the Bejski Committee investigating the scandal demanded that the conspiring bankers resign, and that they be barred from ever returning to the banking business. All of them promptly complied and stepped down; with the sole exception of Raphael Recanati, who refused. His suspension came only after the government reluctantly intervened. Then came criminal charges, but they too hardly dented Recanati's confidence. In 1994, after a lengthy and much delayed trial, he and the other bankers were found guilty on various criminal counts, including banking manager felony, fraud under aggravating circumstances, securities fraud, misleading of customers, and false registration of corporate documents. All of them received fines, and most, including Raphael Recanati, were sentenced to prison. The bankers of course appealed, but the Supreme Court upheld all of their convictions, let the first (although it graciously lifted their jail sentences). As far as Raphael Recanati was concerned, this meant the case was closed. 'We were acquitted from the main charges', he claimed, 'and what remains are merely "technical" points which were left in order not to insult the [lower court] judge' (*Ha'aretz*, Annual Supplement, 15 December 1996).

And indeed, the Recanati empire remained pretty much intact. True, the Discount Bank, in which they still held a 13 per cent stake, was no longer under their control; but by now that was only one of many assets. The most important of these assets was IDB, the conglomerate which they founded in 1969 to organise their sprawling business. The family's special voting shares of this company were temporarily taken over by the government after the 1983 stock market crash, but were eventually sold back to them at bargain prices. Members of the family, including convicted felons Raphael and his son Udi, were still sitting at the helm, holding all the important levers of power. Their extensive kingdom was still safely under their command. Or so it seemed.

In Israel, the Recanatis were always leaders in business innovations. They were the first to discover the benefit of broader partnerships and alliances; the tax savings and global access provided by foreign investors; the beauty of statism and big government when budgets are rising, and of liberalism and small government in times of privatisation; the access to new saving provided by mass banking; and the promise of 'high technology'. Most importantly though, they understood, perhaps more than anyone, the power of leverage. And indeed, the Recanatis' was an 'empire by proxy'. Many if not most of their companies were held through minority ownership, bolstered on the one hand by strategic partners with whom they acted in unison, and on the other by widespread stock ownership which prevented serious outside challenges. Over the years,

they created a complicated web of cross-ownership – much like the ones existing in South Africa, Korea or Japan – with many layers of ownership, and often with subsidiaries owning parts of their parent and grandparent corporations. For instance, in 1999, El-Yam Shipping, a holding company controlled by the Recanati and Carasso families, was a parent of Financial Holdings El-Yam, which was in turn a parent of IDB, which controlled IDB Development, which controlled Discount Investment Corporation, which controlled PEC, which was in turn a parent of ... El-Yam Shipping, its own grand-grand-grandparent! (*Ha'aretz*, 31 May 1999).

This model enabled the Recanati family to control Israel's largest business complex with as little as 16 per cent of the ownership. The other strategic blocs were held by the Carasso family (16.4 per cent), and the recently added owners Goldman Sachs (9.5 per cent) and Bill Davidson (4.8 per cent) (*Ha'aretz*, 31 May 1999). And for a long time, that was more than enough. The key insiders cooperated in matters of internal governance, while relations with the other large groups were fortified through interlocking holdings and an intricate web of institutional arrangements. The 1990s, though, brought new winds.

First, there were growing internal squabbles. Although the various families of the Carasso clan have together held slightly more than the Recanatis, their agreement, dating back to the 1930s, was that the Carassos would always remain passive partners. In 1999, however, Raphael Recanati died, and when the throne was passed on to his son Udi and nephew Leon, some of the younger Carassos began demanding more say in management.

The more serious problems, though came from the outside. In 1996, IDB found itself under attack from an unknown U.S.-Israeli investor, Davidi Gilo, who launched a hostile takeover bid for one of its prime assets, Scitex Corporation. The company, a maker of imaging printing equipment listed in New York, was considered one of Israel's early 'high-tech' miracles. Between 1987 and 1992, its value soared from \$23 million to \$1.8 billion, but then mounting global competition turned profit into losses and Scitex's market value dropped to \$400 million. Gilo offered a 44 per cent premium, and IDB, which together with International Paper held only 38 per cent of Scitex, was forced to buy back its own stocks in order to ward off the invader. Eventually the defence succeeded, but Gilo was merely the beginning.

At about the same time, the Wertheimer family tried to buy out the Recanatis' share in Iscar, one of Israel's most profitable companies of which they were joint owners. Again, here too the Recanatis were vulnerable with a stake of only 25 per cent. In order to force them to sell, the Wertheimers started buying IDB stocks, raising their share to 13 per cent, up from 7. Adding insult to injury, the main sellers of IDB shares turned out to be no other than the Recanatis' long-time partners, the mutual and provident funds of Bank Leumi and Bank Hapoalim. This was indeed a totally new ballgame, a complete break with past practices of mutual understanding and common defence lines. Hapoalim's new owners viewed their assets as vendible capital; the battle drove share prices up, making for a good selling opportunity; and so they sold. In the end, the Recanatis capitulated, swapping their minority share in Iscar for Wertheimers' accumulated stake in IDB.

The most serious challenge, though, came from Yitzhak Tshuva, a rags-to-riches contractor who made his small fortune riding the immigration wave, and was now trying to play in the major league. His target was no other than Delek, a small conglomerate in its own right, which IDB controlled jointly with Bank Hapoalim for more than four decades. It took Tshuva only a few days to wrestle the company out of IDB, but these were clearly 'a few days which shook the world', or at least the Israeli business world. It wasn't so much that David could now take on Goliath, but rather that the Goliaths themselves were no longer buddies. Unlike in the battle for Iscar, this time the banks and their fund managers were not only willing to sell their holdings in Delek, but also to lend Tshuva the money with which to buy them in the first place. IDB held only 38 per cent of Delek, and when the other main owners stopped cooperating, the 'empire-by-proxy' was again exposed.

Clearly, the existing model was no longer working. Essentially, IDB, like the other large groups, had two basic options. It could either turn itself into a pure portfolio manager, letting others build up and sustain earning power, and then buy and sell claims on such power. Alternatively, it could 're-focus' its operations on several majority-held companies, and then work to shape and reshape its earning power on its own. Note, however, that while IDB could in principle choose one or the other, such an option is not really open for dominant capital *as a whole*. Differential earnings are based on power which must be constantly protected and increased, and that could not be done if everyone is merely a portfolio investor. This prerequisite is well recognised by the large players, so underneath the veneer of 'hostile takeovers', 'competitiveness' and 'impersonal market relations' there is always a deep layer of cooperation and understanding.

In the end, IDB chose the middle road, retaining a portfolio structure in some areas, but concentrating its power in others. Its most urgent goal was to protect its holdings in Clal, where it was already the largest owner, but still with less than half of the shares. Securing Clal, however, required a major reshuffling of assets with the other leading groups, and that is what happened next.

The Big Asset Swap

In 1997, Stanley Gold, chairman of Shamrock, was getting nervous. His two-year investment in Koor was not working well. First, his initial attempts to buy the company in the early 1990s, when the market was still cheap, lingered, and when he finally made the investment Koor was no longer a bargain. Then the market picked up, gaining as much as 70 per cent in two years. Koor's share, on the other hand, edged up by a mere 10 per cent, not even enough to service Shamrock's 63 per cent leverage. Gold, it turned out, was no wizard. Two earlier investments he made for Shamrock – one in LA Gear and the other in Grand Union – plummeted by 70 and 80 per cent, respectively (*Ha'aretz*, 7 July 1997; 23 July 1977). He was in no mood to have Koor as yet another one of his failures. The time had come to 'release value'. So far, most companies which de-conglomerated made a bundle: Bank Leumi by selling its insurance arm Migdal to the Italian company Generali; IDB by splitting its defence contractor Elbit into three separate companies; and Israel Chemicals by spinning off some of its non-core business. Now it was Koor's turn. Wasting no time, Gold started a smear campaign against Benny Gaon's managerial abilities, and even lashed at the new Likud government. 'Israel', he

complained, 'is not a pretty place to invest in and support. It is no longer democratic ... and its economy may deteriorate to a situation similar to Iran, where religion determines life' (*Ha'aretz*, 21 July 1997).

Splitting up was hard to do, though. Shamrock had a mere 22 per cent of the company, with the rest held jointly by the Israeli government, Bank Hapoalim, and several large institutional investors. Not that they objected to the idea, only that the time wasn't yet ripe. It was much better to do things by consensus, with all the other big players safely on board, and preferably without Gold who was moving like an elephant in a china store. And indeed, soon enough the dust over the ownership arena settled. Bank Hapoalim was sold to the Arison/Dankner group; and then, Charles Bronfman, one of Seagram's largest owners, decided he wanted to buy Roy Disney's share in Koor. The negotiations were brief, and Shamrock, which only two years earlier was hailed by Histadrut chairman Haim Ramon as a 'stable body', received \$404 million to move out.

The price was 60 per cent higher than what Gold had paid for it two years earlier. And yet Bronfman, Canada's richest man and one of Israel's shrewdest foreign investors, was hardly worried. His interests in Israel were organised through Claridge Israel, and run by Jonathan Kolberg, who also owned 15 per cent of the stocks. By the mid-1990s, these assets yielded a combined return (realised and paper) of over \$500 million – more than any of Claridge's other investments in the world (*Ha'aretz*, 24 July 1997). Unlike Stanley Gold, Bronfman never pretended to be a 'stable body'. His personal fortune of \$3.6 billion wasn't made by 'sitting tight'. Moreover, as an investment company, Claridge's very essence was precisely to 'buy cheap to sell dear'. Nonetheless, Bronfman was very attuned to the broader implications of whom he bought from and to whom he sold.

The three conglomerates – Bank Hapoalim of the Arison/Dankner group, IDB of the Recanatis and Carassos, and Koor, which was now held jointly by the Bronfman/Kolberg group and Arison/Dankner (through Bank Hapoalim) – were tightly interlocked through numerous cross-holdings. It was clearly time for a swap, and David Tadmor, the new Antitrust Commissioner, couldn't agree more. In his opinion, companies with joint ventures in certain areas tended to also not compete in other areas, even in the absence of any formal ties; such joint ventures, he said, were better dissolved. Strangely, though, instead of insisting that the joint holdings be sold to a third party altogether, or better still to several parties, Tadmor was perfectly content if one of the partners simply sold his share to the other. 'The purchase of Koor by Calridge', he claimed, 'created an exceptional opportunity to bring about a deep structural change in the market' (*Ha'aretz*, 19 July 1997; 24 July 1997). Why did he have to wait for such 'exceptional opportunity' was unclear. If there was indeed a problem, couldn't the Antitrust Commission simply step in and impose a solution? Apparently not, or perhaps it was just more convenient to 'demand' action precisely when the three conglomerates were ready to move.

At the beginning of the reshuffling process, Bank Hapoalim had a large stake in both Koor and Clal, and according to the Brodet Report, had to sell one of them – but *not* to any of the other large players. Clal, for its part, had many joint ventures with Koor and Claridge of the Bronfman/Kolber group, ventures which the Antitrust Commission wanted disbanded. The most important of these included the infrastructure conglomerate

Mash'av and the 'high-technology' company ECI, as well as string of smaller firms, such as the retail chain Supersol, the telecom company Clalcom, the fuel company Sonol, and the real-estate company Shikun Ubinui (owned also by Bank Hapoalim).

And so the reshuffle began. At the end of the process, a couple of years later, the business landscape was certainly different, although hardly more 'competitive'. Bank Hapoalim, with the Antitrust Commission looking the other way, did exactly what the Brodet Report said it couldn't, selling its stake in Clal to ... IDB. The latter wasted no time, and promptly embarked on the largest merger in Israeli history, consolidating its subsidiaries IDB Development and Clal into one company. Antitrust or no antitrust, nobody would wrestle this one from them any more. Next, Koor swapped its share in Mash'av against most of IDB's stocks in ECI. Mash'av infrastructure holdings, including the cement monopoly Nesher, were now safely in the hands of the Recanatis and Carassos. Claridge on its side, exchanged its own share in ECI against additional shares of Koor, raising its control of the latter to over 35 per cent. ECI was merged with Tadiran to create the country's largest 'high-tech' company, with more than \$1 billion in sales and an estimated market value in excess of \$3 billion. When the changes were over, Koor had become Bronfman's second largest asset, after Seagram (*Business Week*, 21 August 1997).

'High Technology' and Domestic Power

For ideologues of the 'new economy', corporate centralisation is merely a temporary mirage, constantly threatened and continuously rolled back by innovation and technical change. The idea dates back to Alfred Marshall's notion that large firms are like trees in a forest: no matter how big they grow, eventually they die, to be replaced by new, more vigorous startups. Later on, Joseph Schumpeter explained this dynamics by emphasising the process of 'creative destruction'. Old business structures, he argued, were constantly destroyed by the development and application of new technologies in quest for new (albeit temporary) monopoly gains. For much of the twentieth century, though, the thesis seemed hard to substantiate. Technology was of course changing, but aggregate corporate centralisation nevertheless continued to rise. The thesis supporters, however, remained adamant; and indeed, by the 1990s, they finally saw light at the end of the tunnel. For the first time in recent memory, rapid technological advances in computing, electronics and telecommunication, seemed to revolutionise business structures the world over. New 'high-tech' firms rose to challenge 'old economy' giants, competition undermined existing collusion, and governments were rapidly giving up their 'commanding heights', bowing to technical progress and the omnipotent consumer. Capitalism, argued its proponents, was finally coming into its own.

The festivities, though, proved premature. Technical change was indeed rapid, but instead of undermining business power it seemed to fortify it. Indeed, within a few years, most of the large 'high-technology' companies gravitated under the control of the same corporations, institutions and families who dominated the 'old economy'. 'Big is beautiful again', grumbled *The Economist* (21 July 2001). Of course, old money could not keep the bonanza all to itself, having to share large chunks of it with upstart technocapitalists, such as Microsoft's Bill Gates, Paul Allen and Anthony Ballmer, Dell's founder Michael Dell, Oracle's Lawrence Ellison, and Apple's Steven Jobs. Yet, as the

proceedings of the 1999 antitrust case against Microsoft suggested, in the so-called ‘new economy’ – perhaps more than in the ‘old’ one – it was not technology, but *power over technology* which counted. And indeed, in 1998, the combined net profit of the world’s 445 largest software companies amounted to \$11.5 billion, of which Microsoft, despite its inferior software, managed to pocket close to \$8 billion, or 70 per cent of the total (*The Economist*, 13 November 1999).

The development of Israel’s ‘high-tech’ business was hardly different. The introduction of new technologies opened various windows for change, but only for a brief historical moment, which was promptly closed after a short and brutal power struggle. The battle lured many new faces, most of which failed and were quickly forgotten. Some, however, managed to carve a significant niche, incorporating themselves into the new emerging ownership structure. And indeed, the important change was not the incorporation of newcomers as such, but rather the very transformation of ownership toward greater vendibility, complexity and globalisation. To make our story easier to tell, we focus in this part on inward-looking, global developments, in which new technology was harnessed for the purpose of domestic power, leaving outward-looking developments for the next section.

From a domestic standpoint, the key technical changes in the 1990s were the introduction of cable and satellite delivery systems, cellular telephony, and the integration of both with traditional newsprint and television on the one hand, and with the internet on the other. Figure 2 outlines the ownership structure of these sectors at the end of the decade, focusing specifically of newspapers, telephone, and cable/satellite companies. The chart is incomplete in several ways: it does not cover all firms in these sectors; it omits television channels and internet companies altogether; and it does not describe all ownership ties among companies. The general picture, though, is clear enough. It reveals a massive Octopus-Hydra, whose tentacles are almost impossible to disentangle, whose heads are made of both family firms and large publicly traded companies, and whose reach is increasingly transnational.

[Figure 2]

‘New Economy’ or Leveraged Hype?

One of the new ‘heads’ in this structure was the Dankner clan. Until the 1990s, the family’s business, which consisted mainly of citrus orchards, real estate and salt production, was relatively insignificant. The dawn of the new breadth phase, though, opened up new opportunities, of which the Dankners were quick to take advantage. Soon enough, they started entering into new ventures, including energy, chemicals, banking, aviation, tourism, and of course, ‘high technology’. Although they had no technical expertise or prior experience in any of these areas, the deficiency was more than compensated by their healthy feel for investors’ hype, fortuitous timing, and most of all, fondness of financial leverage. Their first major expansion took place during the deregulation wave of the early 1990s. The energy sector, which was until then controlled by an oligopoly of three companies, was opened up, and the number of competitors quickly soared to 13. The Dankners, smelling the build-up of investors’ enthusiasm, bought control over Dor Energy, a small outfit which earned almost half its profit from its monopoly in the Palestinian market of the West Bank. The company was of course no

match for the Israeli 'majors', but it was nonetheless a nuisance for them, and they were willing to pay a premium for its elimination. And indeed, by the late 1990s, the energy sector had re-consolidated. The number of firms dropped back to four, and Dor was bought out by Yitzhak Tshuva, who earlier wrestled the oil company Delek from IDB, and was now eager to begin swallowing his competitors.

The family's second move was to capitalise on the process of bank privatisation. They managed to join the Arison consortium in its quest for Bank Hapoalim, and when their group won the bid, the Dankner's found themselves owning 12 per cent of the country's largest bank. Notably, their entire stake, worth \$339 million at the time, was financed by a loan from the state-owned Leumi group. These were the happy days of Netanyahu, and the government, through Leumi, was apparently contended with the Dankners' miniscule collateral, which consisted of their newly acquired shares, plus assets whose book value was a mere \$25 million. For some members of the Dankner family, though, the huge leverage was too much to stomach, and they wanted out.

Yet this wasn't simple. With six households comprising 23 active family members, managing the Dankner's privately held assets was becoming somewhat of a nightmare. Other families – such as the Carasso clan of IDB, the Proppers of the food company Osem, and the Moses of the daily *Yediot Aharonot* – found themselves in a similar predicament. For all of them, multiplying numbers meant intensifying family feuds and managerial paralysis. In most cases, the solution was to commodify power, by transforming the privately held business into a publicly listed corporation. The Dankners were no exception, and soon enough they too went public. The advantages were clear. First, it enabled family members to exercise 'exit' as well as 'voice', to use Hirshman's terminology (Hirschman 1970); if influencing the company from within proved difficult, they could now simply sell their stake and opt out. Second, it injected a new measure of flexibility into ownership realignments. For instance, 47 per cent of Osem was sold to the world's largest food company Nestlé, while over a quarter of *Yediot Aharonot* was sold to Israel's new media baron, Eliezer Fishman (to whom we return later). Finally and most importantly, it allowed existing owners to profit immensely from stock dilution. It was mainly this latter possibility which captured the Dankners' imagination.

The most appropriate arena for such adventures was the 'high-tech' sector. The Dankners' main asset here was their 44.8 per cent stake in Matav, one of Israel's three cable oligopolies, which they jointly owned with Ofer Nimrodi and Vladimir Gusinsky through *Ma'ariv*. Matav itself owned 15.2 per cent of the cellular company Partner (along with Hong Kong-based Hutchison, Arison, Alovich, AT&T, Telia and Poalim Investment), as well as 10 per cent of the international telephone operator Barak (along with IDB, Sprint, Deutsche Telekom and France Telecom) (see Figure 2). Until the late 1990s, Matav also held a 9.4 per cent share in Netia, one of Poland's largest cable and telephone operators, as well as similar investments in Hungary. The dense ownership network surrounding the Dankners' holdings here was indicative of the immense hype in which this sector was immersed, particularly since many of these companies generated huge operating losses for their owners. But, then, in the bubbled 'high-tech' sector of the 1990s, it was losses, not profits, which often made you rich.

Recall that capitalisation is based on *expected* rather than actual earnings. Under 'normal' circumstances of the so-called 'old economy', such expectations were

commonly built on the basis of past and current profit trajectories. In the 'high-tech' sector of the 'new economy', however, there was no past to speak of, and often no current profit either. While this made it difficult to form any 'rational expectations', it offered fertile ground for irrational ones. And indeed, for want of a better yardstick, many investors seemed to believe that in the 'new economy', the rules of the game were somehow different. So much so, that the best future prospects were in fact offered by money-losing companies. The argument sounded simple enough: 'high-tech' ventures required massive sunk costs, leading to large current losses, which were therefore the surest omen for massive future returns. Promoters such as the Dankners of course couldn't agree more. Their company Matav, which faced a saturated market and competition from the satellite company YES, had during the late 1990s gone from profit to losses; its market capitalisation, however, soared to nearly \$700 million in 1999. A large chunk of Matav's operating losses came from its stake in Partner; yet in 1999, the latter was floated in New York, quickly reaching a market value of \$4.3 billion. This made Matav's share in Partner worth \$645 million and the Dankners' own stake as much as \$275 million (*Ha'aretz*, 29 December 1999; 3 April 2000). Such valuations offered lucrative opportunities for large POs, whose proceeds were quickly paid as dividends to the Dankners and the other key owners (*Ha'aretz*, 26 July 2001).

With so much going for it, even the Dankners began to believe in this 'high-technology' version of the Emperor's New Clothes. Yet, in their manoeuvres they were walking on a tightrope. By the end of the 1990s, they carried a debt-to-equity ratio of 10 to 1. Since their assets yielded little or no operating earnings, the only way for them to service their obligations was by realising capital gains and using POs as a source of dividends. Needless to say, this Ponzi-like strategy (named after legendary U.S. speculator, Charles Ponzi) could succeed only in a rising market; and on that the Dankners obviously had no control. In other words, the Dankners' success was built mainly on taking advantage of fortuitous circumstances, while doing little to *alter* those circumstances. Other rising capitalists, though, were trying to be more pro-active.

Newspapers and Criminals

In early 1992, Ya'acov Nimrodi, one of Israel's prominent arms dealers, came under attack from the daily *Hadashot*. The paper alleged that, while acting as a middleman in the 1985 'Irangate' deals, Nimrodi embezzled money the Iranians paid Israel for its weapon deliveries. The veteran dealer was flabbergasted. Having risked his life, not to mention his money for the noble cause, he had no intention of seeing his reputation tarnished. His knee-jerk reaction was to sue the Israeli government, asking the court to clear him from any wrongdoing. But then he realised there was a better way to resolve such media-related problems: buying your own newspaper. And low and behold, three months later the opportunity came knocking. Robert Maxwell, the master crook who owned *Ma'ariv*, Israel's second largest daily, had just died, and his receivers put the newspaper on the blocks. Nimrodi jumped on the opportunity, buying 50 per cent of the stocks.

Ma'ariv has had an illustrious history of very 'active', if questionable owners. Founded in 1948 by Revisionist journalists who left *Yediot Aharonot*, it was first owned by Oved Ben-Ami of the Dankner clan. Ben-Ami never served in any army. This didn't

prevent him, though, from being an avid right-winger, a financial backer of the Likud, and one of the founders of Eretz Yisrael Hashlema, the right-wing umbrella organisation of Jewish settlers in the Occupied Territories. He was also one of Israel's biggest crooks, whose business deals made him subject to numerous investigation by the State Comptroller, the tax authorities, and the police (Frenkel and Bichler 1984: 88–99). Despite his right-wing political views, *Ma'ariv* had on a number of occasions offered its services to the ruling Mapai Party, in return for the latter closing down its own paper, *Hador* (Sharet 1978: 52, 217, 345, 384). In 1989, after Ben-Ami died, the paper was taken over by Robert Maxwell, the British press baron and undercover KGB agent, who later disappeared (or drowned) under mysterious circumstances, though not before embezzling the pension funds of his workers.

Ya'acov Nimrodi, who bought the paper from Maxwell's receivers, began his career as an Israeli intelligence attaché associated with the Iranian SAVAK, the Shah's notorious secret police. Using this experience as a launching pad, he later rode the global arms-export bonanza as one of Israel's leading weapon peddlers. By the end of the 1980s, when the depth phase of war profits was coming to a close, Nimrodi started looking for peace dividends. In 1987, a Jersey Island corporation registered under his name bought from the Leumi group 42.9 per cent of Israel Land Development (Hachsharat Hayishuv). The company was originally founded in 1909 by the Jewish Agency to redeem land for Jewish settlement, and Nimrodi's front man in the deal, Jerusalem's would-be mayor Ehud Ullmert, aptly hailed it as a 'Zionist transaction' (*Ha'aretz*, 22 October 1999). A year later, the takeover was sealed when Nimrodi acquired from the Jewish Agency the company's special 'founding shares' which gave whoever owned them absolute control. After establishing this new Zionist base for his family, Ya'acov Nimrodi stepped aside, passing the throne to his son Ofer. By the time Israel Land Development bought *Ma'ariv* in 1992, the family business was already run by this young lawyer and graduate of Harvard's business school, who, next to his father's somewhat tarnished image, looked like Mr Clean. Yet, soon enough, Ofer too found himself in trouble.

Much like the Dankners, the Nimrodís ventured into diverse areas. These included real estate, hotels, insurance, medical services, and most importantly, media and communication, where they owned *Ma'ariv*, as well as parts of Matav, Partner and Barak (see Figure 2). Most of their companies, however, were marginally profitable at best. Their main 'value' – if that is the proper term to use – was to help the Nimrodís milk other investors, an enterprise in which they proved second to none. In retrospect, their tactic seemed straightforward: when the market was high, they issued as much new paper as they could; when it fell, they bought on weakness, waiting for the next upswing in order to begin the cycle anew. Remarkably, the Nimrodís not only executed this strategy with great precision, but also used this to profit from their own misfortunes, so to speak.

Between 1992 and 1994, when the Israeli market was carried up on the euphoria of peace and 'emerging markets', the Nimrodís were busy diluting their shares through massive public offering of equity and debt. Secured by their special 'founding shares', they used most of the money to pay themselves huge salaries and dividends. In 1996, however, the market crashed; worse still, Ofer Nimrodi was implicated in a criminal investigation, which caused the shares of Israel Land Development to plunge by even

more. Yet the Nimrodis couldn't help but see the brighter side of things. Their company's stock was down to less than 30 per cent of book value; so cheap, it was worth buying again, *en masse*. And the strategy proved hugely successful. Three years later, with Ofer out of jail, the price had risen more than fivefold, and the Nimrodis were once more busy issuing fresh paper to amnesic investors and large dividends to themselves. The scheme, though, wasn't entirely foolproof: in contrast to the stock market which moved in cycles, Ofer Nimrodi's legal problems looked desperately secular. The chief executive officer of *Ma'ariv* and chairman of Israel Land Development was once again in custody, charged with eight criminal counts, including conspiracy to commit murder.

To better understand these developments, it is useful to briefly consider the background. The Nimrodis, it should be noted, did not completely plunder their companies. A good part of what they raised in the market was ploughed back into *Ma'ariv*, which they view, not without reason, as their most strategic investment. This was the era of 'communication', and newspapers were quickly becoming part of a much broader network of cables, satellites, television, telephony and the internet. *Ma'ariv* was the Nimrodis' stepping stone into this new world of opportunity, but making inroads here wasn't easy. The main problem was *Yediot Aharonot*, which in 1992 accounted for nearly 52 per cent of the daily newspaper market – compared with 15 per cent for *Ma'ariv*, the next in line. Most significantly, *Yediot Aharonot*, largely due to its far higher advertisement revenues, enjoyed gross profit margins in excess of 45 per cent, whereas *Ma'ariv* was consistently losing money (figures from *Ha'aretz*, 6 May 1998). Nimrodi managed to boost profitability somewhat, but this was clearly an uphill battle.

Competition between the two papers was heating up, and soon enough they were both wiretapping one another, as well as many other figures of greater and lesser importance. When the affair exploded in the mid-1990s, Ofer Nimrodi immediately denied any wrongdoing. Just to be on the safe side, though, he also issued a veiled threat to his pursuers: 'They may be laughing now, but believe me, it is only temporary. I'll wipe their smile pretty quickly. I'm determined, and I also have, much to their chagrin, the economic means to back my resolve' (*Ha'aretz*, Weekly Supplement, 10 July 1998). And yet, in 1998, after four years of relentlessly trying to stall and obstruct the investigation, he opted for a bargain plea, admitting all charges in return for eight months in prison. One possible reason for this sudden change of heart, was that Nimrodi realised he could not win, and that the evidence, if revealed in court, would be far more damaging than a few months in jail. But the compromise left him vulnerable, and as we noted, a year later he was charged again in the same affair – this time for conspiring to murder one of his accomplices who 'knew too much'.¹⁷

And the plot thickens. To the press, Ofer Nimrodi announced that 'only a sick, hallucinating mind could invent such [murder] accusations'. Yet, behind the scenes he moved swiftly, allegedly bribing top police officials so that they stalled the inquiry, and even implicating the Minister for Internal Security, Avigdor Kahalani, who ended up himself on the defendant seat (*Ha'aretz*, 22 October 1999; 18 June 2000). During the

¹⁷ Initially, the prosecution alleged that Nimrodi also conspired to murder both Arnon Moses, owner of *Yediot Aharonot*, and Amos Shoken, owner of *Ha'aretz*. These additional charges were later dropped, since according to police evidence, Nimrodi changed his mind, preferring to 'squeeze' the two rather than 'crash' them (*Ha'aretz*, 7 January 2000).

inquiry, it was also revealed that Ya'akov Nimrody asked his old friend and former arms dealer, Israeli President Ezer Weitzman, to absolve his son Ofer and roll back his earlier conviction. When Weitzman refused, a freelance journalist of *Ma'ariv* 'uncovered' evidence of the President's dubious connections with French millionaire Edward Sarusi, including secret gifts of half a million dollars. Six months later, Weitzman was forced to resign. When Shimon Peres announced his intention to replace Weitzman as President, a business associate of Ya'akov Nimrodi put the writing back on the wall, alleging that his partner paid Peres \$150,000 out of his 'Irangate' sales (*Ha'aretz*, 27 June 2000).

Interestingly, the Nimrod's legal woes didn't seem to dent their financial portfolio. On the contrary, by mid-2000, the market value of their Israel Land Development had risen threefold relative to early 1999, when their troubles began to intensify. And perhaps this shouldn't surprise us. As Rosa Luxemburg (1913) argued, brute force was by no means limited to the early 'primitive accumulation' stage of capitalism. And since the key issue here was expected earning capacity, Nimrod's tough tactics, as long as they boosted profit, didn't deter investors. But not entirely. Open violence made it difficult for the Nimrod's to create and capitalise 'goodwill'. In this sense, they stood out not for the use of force per se, but for the *unsophisticated* use of force, still at the level of 'badwill'. In this regard, they had much to learn from their partner, Russian investor Vladimir Gusinsky, who in a relatively short period of time managed to cover himself in a thick veneer of quasi-respectability and 'business as usual'.

The Russian Connection

Ronald Lauder was well connected in Israel. During the 1990s, the former U.S. ambassador to Austria and one-time candidate for mayor of New York, was president of the Jewish National Fund, as well as head of the Conference of Presidents of Major American Jewish Organisations. He was principal financial backer to both Benjamin Netanyahu and Nathan Sharansky, a Soviet 'refusenick'-cum-Israeli politician, as well as founder and board chairman of Shalem Centre, a right-wing think-tank which in 1994 he put \$5 million to establish. He is also reputed to have secretly negotiated, on behalf of Prime Minister Netanyahu, a settlement over the Golan Heights with Syria's President Assad. Last but not least, his 1999 net worth of \$3.9 billion made him one of the richest men in the United States, having inherited, along with his brother Leonard, the fortune of their mother, cosmetics empress Estee Lauder.

In the early 1990s, the Lauder brothers started moving into the hot communication sector. Eager to tap future advertising revenues in the new 'transition' economies, they began in 1991 by establishing Central European Media, a holding company for eleven Eastern European TV stations. Then, in 1994, they founded, together with Yitzhak Fisher, a former financial controller of the Likud, a company by the name of RSL Communication, to provide international dialling services.

In 1998, Ronald Lauder was preparing his third communication investment – a 25 per cent stake in *Ma'ariv*, for which he was willing to pay up to \$33 million. The investment was supposed to boost Netanyahu's poor image in the press, whose owners didn't like watching the Prime Minister put their peace dividends at risk. With a stake in *Ma'ariv*, Lauder could have countered Netanyahu's detractors, perhaps in return for a

nice slice of the telecom monopoly Bezeq, or other such prized assets. But the elections were won by Netanyahu's pale double, Ehud Barak; and Lauder's share in *Ma'ariv* was snapped from under his nose by one of Barak's own financial backers, Russian investor Vladimir Gusinsky.

Who was this Gusinsky? What was he doing in Israel? And why was he willing to pay for his stake as much as \$85 million, a sum equivalent to 45 times *Ma'ariv*'s annual profit? Gusinski's appearance in Israel was part of a broader process of capitalisation and transnationalisation. The centre of this process was capital flight out of Russia and into safer havens. Although the exact figures may never be known, it is estimated that \$150–300 billion, and possibly more, have left Russia during the 1990s. A large chunk of this – again, how much is unclear – moved through, or ended up in Israel, a country which had no money-laundering legislation, and whose governments always welcomed foreign funds to offset their import 'dependency'. The process attracted much attention, primarily for its alleged criminality. With reported violence in Israel rising sharply, there were increasing warnings of Russian organised crime weaving into the country's social fabric. For instance, between 1980 and 1998, the number of police investigations into attacks on human lives rose twelvefold, and into moral offences more than fourfold (Israel. Central Bureau of Statistics Annual 1999: Table 21.11, p. 21.13). The Russian presence was particularly noted in the sex trade; so much so, that Israeli prostitutes were nicknamed 'Natasha'. During 1990s, over 10,000 women were trafficked, often as slaves, from the former Soviet Union into Israel. These women comprised roughly 70 per cent of the local prostitution business, whose annual turnover was conservatively estimated in excess of half a billion dollars (Amnesty International 2000; Hughes 2000).

Seeking legitimacy, illicit money has also penetrated Israeli politics. According to police and media reports, former Prime Minister Netanyahu and his Chief of Staff Lieberman have had contacts with suspected Russian-based criminals, while Nathan Sharansky, a government minister whose party was supported largely by Russian immigrants, admitted having accepted donations from Gregory Lerner, a money launderer who got himself entangled with the Russian mafia and ended up in an Israeli jail. Many of Russia's new businessmen – including notorious mobsters Eduard Ivankov and Sergei Mikhailov, as well as bigger sharks, such as Boris Berezovsky, Roman Abramovitch, Lev Leviev and Vladimir Gusinsky – have actually become Israeli citizens, at least according to their passports.

So far, however, little attention has been paid to the underlying causes of the process, namely the 'capitalisation' of Russia. As it turns out, this transition can shed light not only on the growing integration of Israeli and Russian capital, but also on the similar forces affecting their development. Perhaps the most remarkable thing about Russia's capitalisation is that it happened so quickly. The emergence of the corporation, the formation of a capitalist ruling class through differential accumulation, the pendulum of depth and breadth, and the broader transition from statism to transnationalism, have all unfolded in less than a decade. By the end of the 1990s, business enterprise in Russia was already so centralised that its head figures, now commonly referred to as 'The Oligarchs', were seeking expansion outside their country.

Russia's dominant capital, of which Vladimir Gusinsky was a noted representative, first emerged in the late 1980s, when Gorbachov, as part of his *perestroika*, opened up the banking sector for private ownership. It was then that Gusinsky, a small theatre producer and one-time taxi driver, established his Most-Bank. The number of banks quickly skyrocketed to over 1,360 in 1991, and initially competition was stiff (Schroder 1999). Soon enough, though, the nuclei of dominant capital started to emerge. During this period, the main vehicle for its differential growth was a depth regime of intense stagflation. The Russian government, faced with a collapsing tax base, turned to the printing press, causing prices to rise by 77,000 per cent between 1992 and 1996, according to IMF data. The principal winners of this policy were banks doing business with the government. Initially, their main advantage was being able to borrow from the central bank at interest rates far lower than the rate of depreciation of the rouble, and then use such loans to buy foreign currency. Eventually, when in 1994 the government switched to policy tightening, they shifted gear into buying high-yield government bonds, as well as into 'managing' government budget transfers, on which they paid little interest, and which they often embezzled (Wolosky 2000). At both stages of this lucrative business, political ties proved paramount; and indeed, only a minority of well-connected institutions – perhaps no more than 5 per cent – managed to survive the process (Schroder 1999). Within this group, a smaller cluster of banks – including Oneximbank controlled by Vladimir Potanin; Menatep of Mikhail Khodorkovsky; SBS-Agro of Alexander Smolensky; Inkombank of Vladimir Vinogradov; Alfa Bank of Mikhail Fridman; and Most-Bank of Vladimir Gusinsky – emerged as clear leaders.

The differential position of these leading financiers was further boosted by the devastation of industrial enterprise, whose output according to IMF data dropped by as much as 70 per cent between 1992 and 1996. And the depression was hardly surprising: why engage in production when the institutional structure is mired in a chaotic transition from communism, and when returns on foreign exchange and government debt are far higher and seemingly less risky? And so, Russian capitalism and its dominant capital groups were born not through economic growth, but rather out of a severe bout of stagflationary redistribution, a depth regime in which primitive accumulation was accomplished through massive *de*-industrialisation.

Of course, the highly destructive societal impact of this process meant it could last for only a brief historical moment; and if the differential gains were to be retained, depth had to quickly give way to breadth. The first steps in this transition began in 1992–93, with the incorporation of up to 80 per cent of the country's mid-size industrial cooperatives (Schroder 1999). This new vendibility made possible the beginning of conglomeration via mergers and acquisitions, whose first incarnation were the FIGs, or 'financial-industrial groups'. Some of the FIGs grew from the large banks, while others started from raw materials, or the industrial sector. Regardless of their origin, though, all were now faced with the need to break their existing sectoral envelope, and expand into other fields. Initially, however, this type of breadth movement was barred both by the stagflationary depth regime, as well as by lack of large takeover targets, since Russia's main assets were still state-owned.

In March 1995, the leading bankers, headed by Vladimir Potanin, concocted a brilliant solution. The government, they proposed, would abandon the printing press in favour of debt financing, thus bringing Russia's inflation under control and enabling growth to resume. The finance for the operation would come from Potanin and the other large Russian bankers, so as to avoid 'dependency' on foreign loan-sharks. To secure the deal, the government would temporarily transfer to the bankers' 'custody' the shares of its large state-owned enterprises. The bankers would receive interest payments and management fees, and once the principal was repaid, would revert the shares back to the government. Of course, if the government was for some reason unable to meet its obligations, the bankers would be free to do with these shares as they saw fit. The government jumped on the proposal, dressed it up a bit to look more open and respectable, and then hurriedly, in less than a year, transferred Russia's most prized assets into the custody of the country's dominant capital (Lieberman and Veimetra 1996).

Needless to say, the deal was mired in controversy. There were allegations of massive corruption which priced government assets at ridiculously low prices; of bid rigging which excluded all but select insiders; and of lack of transparency which kept everyone else in the dark. There was a growing feeling that Russia's capitalism was criminal, and that the bankers were running the country like a mafia. Worse still, unlike the 'traditional' mafia which usually provided some protection to its subjects, the Russian bankers seemed to have abandoned the underlying population altogether. And indeed, since the collapse of communism, unemployment skyrocketed, wages, when they were not in arrears, were severely eroded, and public services practically disintegrated. According to the World Bank, average life expectancy, which in 1987 stood at 70 years, dropped to 64 by 1994. An anti-capitalist backlash was brewing up, and, in 1996, opinion polls suggested that the communists may well win the coming elections, putting Russia's flirt with private ownership into question.

This was a defining moment for dominant capital. Clearly, brute force, cunning and criminality were no longer enough, and if differential accumulation were to continue, capitalist power had to penetrate and alter the nature of the state itself. In short, the time had come for collective political action. In March 1996, the six 'bankers' mentioned earlier, along with a seventh capitalist, Boris Berezovsky, gathered for a strategic meeting at the World Economic Forum in Davos. Although Berezovsky himself did not own a bank, he had something far more precious: a very close relationship with President Yeltsin and his family. And so began the *semibankirshchina*, or 'the reign of the seven bank barons', named after the infamous *semiboyarschina*, the brutal regime of aristocratic officials and land owners who ruled Russia in the seventeenth century. As Berezovsky later told the *Financial Times*, the seven bank barons decided to put all their combined weight behind Yeltsin, making sure he won the elections.

The bankers' principal weapon was their nearly complete control of the media. According to opinion polls, Russians trusted the media more than the President, more than the government, and even more than the Orthodox Church; and as Berezovsky boasted later on, the bankers understood this all too well. 'Information', he explained, 'is about politics; and politics is a huge part of today's Russian reality' (*Newsweek*, 19 July 1999). The consequence was the end of Russia's free press. Gorbachov's *perestroika*

gave the media several years of relative autonomy; but as inflation started to spiral in the early 1990s, independent newspapers and TV stations rapidly fell prey to takeovers, and soon ended in the hands of the bankers, primarily Berezovsky and Gusinsky (Gessen 1998; Mickiewicz 1999). Having spent a few years perfecting their media skill by attacking each other, the new owners were now ready for the more complicated cooperative task of revitalising Yeltsin. And propping him up wasn't easy. The aging incumbent even suffered two heart attacks (reported as 'colds' by the media), which almost killed him. But in the end, Russians trusted the media, and the operation succeeded. Yeltsin remained 'in power'.

The use of inverted commas here is deliberate, for the lines between business and state were getting increasingly blurred. Yeltsin literally owed his victory to the bankers, and quickly gave them key positions in his administration. Perhaps the most important of these was the nomination of Vladimir Potanin, owner of Oneximbank and custodian of numerous state assets, as Vice Premier in charge of economic policy and privatisation. With these changes, Russia's dominant capital was now ready to enter the second stage of the 'loans-for-shares' programme, the one in which custody was to be converted into hard cash. And so began the twentieth century's biggest robbery.

As everyone expected, the government was unable to, and by now uninterested in, redeeming its shares; it was left to their custodians, the 'Oligarchs', to do with them as they saw fit. The privatisation advanced swiftly, although often without a clear trail to who got what, and for how much. And the opaqueness was hardly accidental. Initially, many Western observers watched the process with reserved approval. The new Russian Oligarch was often ridiculed for being unsophisticated, and criticised for his 'robber baron' tactics. But much like his U.S. counterpart a century earlier, his primitive accumulation was deemed necessary. 'He steals, but he gets things done', was the winning campaign slogan of Adhemar de Barros, a São Paulo politician (Page 1995: 151); and to many in the West, the Oligarchs seemed to be fulfilling much the same role in Russia. Indeed, the prevailing expectation was for this kind of 'wild east' to quickly set the stage for 'proper' capitalist law and order. History, however, worked out a little differently.

The Oligarchs, it turns out, were highly sophisticated, certainly more than many of their Western 'observers' and foreign partners. Unlike most outsiders, they knew Russia was still far from 'law and order', and would remain so for the foreseeable future. Under such circumstances, hard cash was far more attractive than symbolic profit, and better still, when accumulated outside the country. As a consequence, companies were bled dry by first using transfer pricing to redefine as 'cost' what Western companies would normally consider 'profit', and then channelling the proceeds to other holdings and foreign accounts. The oil company Yukos, for instance, has allegedly siphoned in this way more than \$800 million in less than one year to its owner Khodorkovsky, while Aeroflot insiders are believed to have cross-subsidised foreign companies controlled by Berezovsky (Wolosky 2000; *Financial Times*, 28 July 2000).

Equally sophisticated was the way the Oligarchs structured their holdings. In contrast to the interlocking and often recursive organisation of the Japanese *Keiretsu*, Korean *Chabols*, South African conglomerates and Israeli holding groups, where firms sometimes owned each other, the FIGs were typically made 'flat', with one holding

company controlling all subsidiaries, which were otherwise unconnected. Although that made the structure more vulnerable to outside takeover, given that the Oligarchs' goal was often to eviscerate rather than build up their holdings, the benefit far outweighed the risk. Using this structure, FIG owners managed to elevate bankruptcy to a level of high art, transferring good assets to other firms in their organisation, and then leaving the bankrupt company's empty shell for their creditors and minority shareholders to squabble over (Mellow 1999; *Financial Times*, 25 July 2000).

The most publicised victims of this strategy were foreign investors, who, lured by a booming Russian stock market, were crowding in to plant their money in the new promised land. British Petroleum, for instance, paid \$571 million for 10 per cent of Potanin's Sidanko, one of Russia's largest oil companies. The deal, signed with much fanfare in 10 Downing Street under the auspices of Tony Blair, valued the company at 10 times what Potanin paid for it a couple of years earlier. Even George Soros, the wizard of global finance, was tempted to pay \$980 million for 25 per cent of Potanin's Svyazinvest Telecommunication, along with Deutsche Morgan Grenfell, which lent the company several hundred million dollars more (*Business Week*, 1 March 1999). In 1998, however, the market crashed, making these investments practically worthless. And when the minority partners and creditors came looking for remainders, they discovered that most of the leftovers were either taken over by other Oligarchs, or siphoned away, in order 'to protect the company from predators', as a Yukos official carefully explained (Lyons 1999).

At this conjunction, the tone of Western commentators began to change. If Soros could be tricked into losing 1 billion dollars in what he himself professed to be the 'worst investment of my professional career' (Soros 1998: 167), something in Russia must have gone awfully wrong. The Oligarchs were expected to open up Russia for business. Instead, they used one hand to milk foreign investors, while the other sent the money abroad, often with the help of respectable foreign institutions.¹⁸ This charade was supposed to end after the financial crisis of 1997–98, which forced many other developing countries to welcome foreign owners as white knights of corporate salvation. Not in Russia. The Oligarchs, whose net worth was presumably wiped out by the crisis, rose from the ashes, staging what *Euromoney* called the 'waltz of the living dead', and once more taking foreign investors to the cleaners. Clearly, something had to be done, and sure enough, a *Foreign Affairs* article now argued that the real threat for U.S. 'national security' came not from the communists, but from the Russian Oligarchs (Wolosky 2000). According to the author, the Oligarchs should be targeted individually, and there was even room for temporary re-nationalisation, so that the assets could be 'properly' re-privatised.

And, indeed, by the early 2000s, Russia's capitalisation seemed to be entering a third stage. Having first moved from depth through stagflation in 1990–96, to breadth via

¹⁸ The most publicised case involved the Bank of New York, whose officials were found guilty in connection with illegal transfers of billions of dollars, involving Oligarchs such as Berezovsky, Luzhkov and Khodorkovsky, Kremlin figures like Chernomyrdin and Chubais, and last but not least, Semyon Mogilevich, Russia's 'Brainy Don' of money laundering. Recently, the inquiry was extended into the possible embezzlement of \$4.5 billion in IMF loans (*Newsweek*, 6 September 1999; *United Press International*, 11 July 2000; *Financial Times*, 25 July 2000).

privatisation and merger in 1996–99, dominant capital, still in breadth mode, appeared to be taking its first transnational steps. And like previously, this transition also involved political realignment. On the surface, the drama appeared largely as a struggle between ‘politicians’ and ‘capitalists’. Vladimir Putin, the new President, launched a well-publicised campaign against the Oligarchs, whom he accused of stealing state assets. Russia, he declared, would from now on be run not by the mafia, but by the ‘dictatorship of the law’. The Oligarchs, some of whom supported Putin, rejected any wrongdoing, arguing that at the time, there was complete chaos, and, indeed, very few laws to break. Under the surface, however, the ‘struggle’ wasn’t so much a fight between the government and the Oligarchs, as an attempt to alter the very nature of accumulation.

Ironically, one of the principal targets of these attacks was Vladimir Gusinsky, the Oligarch who has done the most to push Russian accumulation toward its next, transnational phase. In contrast to the other Oligarchs for which the media was largely a political weapon, Gusinsky was quick to realise it could also be extremely lucrative in its own right. Initially, though, this realisation put him at odds with his fellow Oligarchs. Unlike in their more ‘traditional’ cash cows of energy, utilities and consumer goods, profit in the media business depended crucially on transnational integration on the ownership side, and on political liberalism on the consumption side.

The need for transnational integration meant that Gusinsky’s foreign dealings were designed more to build ties than to set traps. He courted the friendship of Rupert Murdoch; brought in *Newsweek* as joint owner of his own newspaper *Itogi*; sold part of his NTV and TNT networks to the American Funds Groups; acquired nearly a quarter of the Launders’ Central European Media; and of course, expanded his business in Israel. Here, in addition to his joint ownership of *Ma’ariv*, he also had stakes in Matav, Barak, Bezeq Internet, Dor Energy, as well as other holdings in partnership with Bank Hapoalim and United Mizrahi Bank (*Broadcasting & Cable’s TV International*, 24 January 2000; *Ha’aretz*, 18 July 2000).

The other half of his media success depended on viewers’ ‘trust’, or ‘ratings’ in the business lingo. This type of goodwill could be sustained only within the context of ‘political liberalism’ and ‘freedom of the press’, and, sure enough, Gusinsky became champion of both. Notwithstanding his earlier participation in the staged reinstatement of Yeltsin, Gusinsky’s strong opposition to the war in Chechnya and its chief architect Putin, established him, at least in the West, as maverick and forebear of the ‘New Russia’.

Needless to say, the bureaucracy and several of the Oligarchs didn’t like this excessive ‘openness’. And, so, once Putin became President in 2000, he immediately began harassing Gusinsky, who found himself detained on charges of forgery and fraud. The government also tried to wrestle away his Media Most, although this proved more difficult, since Gusinsky apparently eviscerated much of its assets. He himself settled, at least for the time being, in Spain, from where he continued to operate his increasingly transnational network.

The reach and complexity of this network is worth illustrating, if only briefly. In 1997, Israel was exploring the possibility of a gas project with Russia. One of the principal candidates on the Israeli side was Tahal, a water and infrastructure company, formerly owned by the government and recently acquired by a private consortium owned

by Arison, Kardan and the Leumi Group. The director of the company was retired IDF general Yanush Ben-Gal, who at the time also chaired the state-owned Israel Aircraft Industry. Ben-Gal was closely associated with Dankners, whose Dor Energy was also interested in participating. The Dankners on their part had the right connections with the Likud government. They were also building up their relationship with Gusinsky, inviting him into partnership in Dor and Matav. Gusinsky was closely associated with Gazprom, which financed part of his media operations, and which was likely to take over the project on the Russian side. These connections were forging a year after Gusinsky and his friends reinstalled Yeltsin as President. It was therefore only natural that Victor Chernomyrdin, former Prime Minister under Yeltsin and founder of state-owned Gazprom, was willing to assist Gusinsky in his various undertakings.

Gusinsky was also participating in Russian politics in yet other way, through his involvement with Russia's orthodox Jewish community. The relative cohesion of this community made it a natural interest group, and hence a prized asset to control. Israel on its part created for this purpose a semi-clandestine organisation, named Nativ, whose head, Ya'akov Kadmi, later joined Gusinsky as a business associate. Nativ, on its part, was saddling a struggle between two rival religious factions, both based in Israel, who fought for the hearts, minds and votes of the Russian Jews. One of these factions, the Russian Jewish Congress, was founded and presided by Gusinsky. The other faction, the Federation of Jewish Communities in the former Soviet Union (FJC), was founded and presided by an equally determined businessmen, Lev Leviev, whose religious support was drawn from the Lubavitch clan of Chabad Hassidim.

Leviev, a Russian-born Israeli, began his business career during the 1990s. When the Brodet Committee required that the banks unbundled their 'real' assets, he bought from the Leumi Group a controlling interest in a company named Africa-Israel. Then, using his connections with politicians and former KGB operatives in Angola, he managed to make Africa-Israel a partner, together with the Angolan government and Belgian investors, in the Angola Selling Corporation, or Ascorp. The deal gave him exclusive rights over the country's war-torn and crime-ridden diamond trade. It also increased his political leverage within Russia, where De-Beers' diamond concession was about to expire. And for the time being at least, he seemed to have backed the right horse, teaming up with Berezovsky to support Putin's presidency. Berezovsky on his part, used his ORT TV channel to prop up Leviev's FJC in its successful bid to nominate Russia's Chief Rabbi (*Financial Times*, 11 July 2000).

The 'Fishman State'?

Whereas in Russia, the most demonised businessmen were the Oligarchs, in Israel it was Eliezer Fishman, the new 'Mephistopheles of finance'. Fishman rose to fame in the late 1970s as a highly sophisticated financier who briefly managed to outmanoeuvre the banks in their own stock-market game, only to be buried under \$300 million worth of unpaid obligations in the wake of the 1983 stock market crash. Ten years later, though, he was back, big time. Like a Phoenix rising from the ashes, Fishman managed not only to shake off his debts, but also accumulate a massive portfolio of over a hundred companies – in real estate, commerce, finance and the media, among others. Many found the scope of his ownership, particularly in the 'information' sector, alarming. One

journalist claimed that Fishman's power in this area made him 'the strongest man in Israel', while another went further to classify him as a 'new phenomenon' in Israeli reality, one which embodies centralised ownership and active control in the same person (*Ha'aretz*, 1 February 2000; 2 February 2000). Sooner or later, warned the Fishman bashers, this unstoppable machine would own everything, turning Israel into the 'Fishman State'.

Such fears, although not without basis, need to be qualified. To the extent that the state was being 'taken over', it was not by Fishman, but by transnational dominant capital. Power was indeed becoming increasingly centralised, but not in the hands of any one owner, or even several owners, but rather as an attribute of their *collective coordination*. The earning capacity of Fishman – and for that matter, of Bronfman, Arison, and the Recanatis who owned even more – relied crucially on their direct relationship with all other owners; in addition, and perhaps more importantly, these earnings depended on the broader ideological hegemony of 'market capitalism', which dominated the state on its various organs, and which kept the underlying population, if not by conviction at least by confusion, sufficiently inactionary. Moreover, domestic owners, regardless of their relative power within Israel, could hardly exercise it in isolation from global developments. This was partly because they shared their ownership with foreign investors, but mostly since the process of global accumulation itself was crucial in determining what could and couldn't be done domestically. Indeed, over the past decade, the direction and patterns of Israeli and global accumulation have become increasingly correlated and often indistinguishable, a point to which we return toward the end of the paper.

What made power appear somewhat new and different was the increasing centrality of financial markets, and that was also why Fishman stood out. His exceptional ability to both recognise imminent developments and effectively commodify them into capital made him a true 'captain of solvency'; in this sense, he was much like the legendary nineteenth century U.S. capitalist, Jay Gould, who let nothing detract him from his 'steadfast pursuit of strategic power and liquid assets' (Josephson 1934: 193). Fishman was the archetype 'wave watcher'. He thought, anticipated and acted via the equity and bond markets, constantly seeking to predict the 'next wave' of earning power. And given the 'forward-looking' nature of capitalisation, his success depended crucially on being able to buy such power *before* it became headline news. This ability enabled Fishman to outperform some of the more established groups, making him look omnipotent. Yet, as we shall see, his differential success remained dependent on these other groups' cooperation, consent and, ultimately, mutual fusion.

Fishman's extraordinary foresight was evident already in his early foray into real estate and commerce. After being burnt by the stock market crash in 1983, he preferred, as he put it, to talk to 'bricks and walls rather than people', and for a decade was busy buying only real estate (*Ha'aretz*, 18 February 2000). Most of his assets were acquired at bargain prices. These were obtained from the Kibbutzim (many of which were starving for cash, after having allowed Fishman and his partner Riger to 'manage' their portfolios in the 1980s); from the nearly bankrupt Histadrut, which unloaded the assets of its insurance company Hasnhe; and from the Labour government, which was eager to sell him Jerusalem Economic Corporation and Industrial Buildings. His success in this area

was spectacular. The reason, though, had less to do with his sudden love for bricks, and more with the changing political economy of Russia and the 'new Middle East', which pushed-pulled one million new immigrants to Israel, causing land prices to skyrocket. And indeed, between 1985 and 1995, real-estate stock rose by 178 per cent in real terms, compared with 130 per cent for the market as whole, and Fishman, who bought many of his properties for pennies, made even more (Israel. Central Bureau of Statistics Annual 1999: Table 9.12, p. 9.11). The same demographic change also contributed to his commercial success, particularly in the area of discount megastores, where he teamed up with Canadian supermarket giant Loblaw to challenge the oligopoly of Hamashbir, Blue Square and Supersol. By the mid-1990s, though, the real-estate/commercial wave was clearly receding. 'The Israeli consumer', observed the sarcastic Fishman, 'is no longer content with low prices, and is now demanding a "shopping experience"' (*Ha'aretz*, 10 April 1998). It was clearly high time to look for a new wave.

And so Fishman started buying media and communication companies. His first major move was to try and get a cellular phone licence, in which he actually failed. By the mid-1990s, Israel already had two such companies – Pelephone, a joint venture of Bezeq and Motorola, and Cellcom, jointly owned by IDB, Bell South and the Safra group. Both of these got their licence for free, and, so, in 1996, the government decided it was time to issue a third licence, this time auctioned for real money. Fishman teamed up for the bid with several big players, including Morris Khan and Koor, as well as Southwestern Bell (SBC), Mannesman, and Compagnie Generale des Eaux (CGE). Eventually, the licence went to the Partner consortium, led by Hutchison Wampoa of the Li family (see Figure 2). The consortium paid \$400 million for this 'goodwill', which it immediately floated in New York, where its value quickly soared to over \$4 billion.

Having lost a cellular battle had hardly dented Fishman's enthusiasm. To the contrary, he was determined to ride the wave by building his own communication empire (see Figure 2). And, indeed, soon enough he could boast that 'there is no one in Israel who is more involved in communication than me; no doubt I'm the biggest' (*Ha'aretz*, 18 February 2000). Although he didn't yet have his cellphone company, his telecom holdings already included phone operator Golden Lines, which he owned together with Khan and Telecom Italia (after SBC left the partnership), along with an aspiration to devour part of the state monopoly Bezeq once the government finally put it on the blocks. His major coup, though, was gaining control over Israel's largest daily, *Yediot Aharonot*. In 1997, he took advantage of a family feud among the Moses clan, who previously controlled the newspaper, to become the outfit's largest shareholder. *Yediot Aharonot* was a cash cow which gave Fishman over half of Israel's newspaper market. It was also a strategic asset which opened for him a gateway into electronic communication. The paper's large stake in the cable operator Golden Channels made Fishman a majority owner of that company; it also linked him to both IDB and UPC, who owned part of Golden Channels through their own cable company, Tevel; finally, *Yediot Aharonot*'s stake in the TV licence Reshet gave him access to television revenues.

Fishman's enthusiasm for communication was, as usual, prescient. Between 1996 and 1999, global telecommunication stock prices rose by over 350 per cent, and so did the shares of many Israeli communication companies. Significantly, though, this spectacular rise had little to do with profits; in fact, earnings per share, largely due to

massive dilution, trended *downward* over the period. Yet, global investors lost none of their appetite. To the contrary. In 1996, they were still willing to pay no more than 20 dollars for every one dollar of current communication earnings (based on price-earning multiples). But as the euphoria spread, this number started rising and rising, reaching 40 dollars in 1997, 70 dollars in 1999, and a record 120 dollars in 2000 – before dropping back to less than 60 dollars by mid-2001, after the market ‘corrected’.¹⁹ The hype was so intense, that, in early 2000, the British government managed to sell five licences of ‘third generation’ cellular operators for as much as \$34 billion, or \$586 for every one of the island’s inhabitants, while in August of that year, the German government auctioned its own licences for \$45 billion (*The Economist*, 8 July 2000; *Financial Times*, 20 August 2000). Around the same time, Vodafone, a telecom company, purchased Airtouch for a price equivalent to \$11,393 per existing subscriber, and Deutsche Telekom offered to buy VoiceStream based on \$18,126 per subscriber (*Financial Times*, 21 July 2000). Excessive enthusiasm is of course not new, being part and parcel of equity markets since their inception (Kindelberger 1978; Galbraith 1990). But the communication-led boom of the late 1990s certainly stood out in its magnitude: in the United States, it pushed the average price-earning multiple to over 30, its most ‘expensive’ level since 1870.

What drove this optimism? Or rather, how was this optimism *rationalised* during the euphoria, before the bitter correction deflated both prices and theory? The common explanation of the enthusiasts was technology. Improving communication, they maintained, would lower cost and increase competition, causing inflation to drop, interest rates to decline and risk premiums to contract. Whether true or not, though, such changes should affect all stocks, so the attraction of communication in particular must have come from expectations for *differential* profit growth. Where was such growth supposed to come from? Part of it, we were told, would come from market penetration. New technology, went the argument, substituted for old ways of doing things, and in the process enriched whoever happened to control it. Although this argument sounded reasonable for less developed countries, where the ‘penetration potential’ has for long kept investors excited, it was less persuasive for countries such as Israel. The number of Israeli cellular phone subscribers, for instance, rose from 130,000 in 1994, to 1 million in 1996, to 2 million in 1998, to 3 million in 2000, and given that Israel had only 6 million inhabitants, the market was clearly approaching saturation. The situation was similar in the cable business, where, in 1997, after seven years in operation, over 90 per cent of all households were already hooked up, compared with 66 per cent in the United States and only 7 per cent in Japan (*Ha’aretz*, 6 April 1997). True, admitted the enthusiasts, but such calculations were hopelessly backward-looking. For example, whereas yesterday’s mobile phones were restricted to voice communication, today they already enabled us to hook onto the internet and e-mail, communicate through instant messaging, and access services such as travel management and yellow pages. Tomorrow, mobile phones would let us into the wonderful world of e-commerce, and after tomorrow, who knows (*The Economist*, 8 July 2000). In other words, although a simple headcount might suggest that markets such as Israel were close to saturation, the constant provision of *new* services was effectively making the process start over and over again.

¹⁹ Computed based on the FTSE UK 350 Telecommunication Services Index, reported in

The Politics of Communication Profits

Unfortunately, such argument confused 'industry' with 'business'. The real question here was not whether communication technology would expand and change everyday life, but would such change translate into *differential profit*? The 2001 crash of 'high-technology' stocks put a dent in such hopes. Communication technology was not easy to defend, and unless you managed to fend off competitors, your distributive share – as well as the whole profit pie – could have easily shrank instead of growing. Even Amazon, the world's largest online retailer, couldn't show a single cent in profit, and after the initial euphoria, saw its market value collapse by 90 per cent. Moreover, as technical change blurred the traditional divides among different industries, there was little to prevent cross-business poaching from further eroding profit margins.

In other words, 'techno-profit', perhaps more than other types of profit, depended crucially on the extent to which technology could be 'protected'; as always, it wasn't technology per se, but the control over technology which mattered. And indeed, at least some of the hype surrounding the communication business was directly correlated with the changing nature of power.

The most important component of such power was undoubtedly the state. The Israeli government, of course, played a totally different tune, singing the praise of 'privatisation' and 'liberalisation'. In the late 1990s, a special committee (Wax-Brodet-Leon) warmly recommended that communication be deregulated into a 'completely competitive' sector; and before long, Likud Communication Minister, Limor Livnat, pompously announced that 'when I'm finished here, nobody will want this portfolio, since there will be little left to do.... The Israeli communication market will soon look like that of every advanced Western country, a completely competitive market' (*Ha'aretz*, 18 June 1998). Needless to say, such statements were misleading, to put it mildly. The state was in no way getting out of the communication business. On the contrary, its involvement was becoming deeper than ever. What changed was the form. Whereas earlier the state was itself an owner, now its policies – or rather, the impact of such policies on expected earnings – was gradually commodified as private capital in the hands of absentee owners. Such change in form should hardly surprise us, of course. The impact on profit of state action (or inaction) has long been commodified as capital, with investors routinely discounting into present value the expected effect of military spending, of protectionism, of lower taxes, and so on. State 'regulation' of communication profit was simply another step in the same direction.

Why was the state so crucial for 'techno-capitalisation'? In some areas, the answer was obvious. The wave spectrum, for instance, was a gift of nature belonging to no one in particular, and until recently indeed hardly a news item. Statist ideology and technological limitations restricted the business potential of broadcasting, leaving much of the spectrum in the hands of governments for purposes such as propaganda and military applications. But with technology advancing and liberalism making a comeback, wireless applications such as telephone, satellite broadcasting and the internet, became lucrative business. Access to the wave spectrum has suddenly become a scarce

‘resource’, complete with its own expected profit and vendible capitalisation. Note, however, that profit and capitalisation here depended not on *accessing* the spectrum, which remained a gift of nature open to anyone, but on *excluding others* from such access. And this is where ‘state regulation’ became crucial, determining who got in and who stayed out, under what conditions, and with what consequences.

In other areas, such as cables, the role of state regulation was slightly different. Here, there were no natural limitations. Technically, anyone could lay down cables, and there was no practical limit on the number of competing wires which could be plugged into the same rational consumer. The consequence of such free-for-all chaos, of course, would be falling profit margins and business ruin, and that is precisely why state regulation was necessary. By restricting the number of cable operators and determining the conditions under which they operated, profits could be calibrated, almost at will. Again, the key question was who was doing the calibrating, how, and in whose interests.

Finally, the state had the broader role of ‘defining’ the proper boundaries between the different markets. The business problem here was that technical change tended to lower and sometimes eliminate entry barriers between different sectors, enabling cross-sector poaching of ‘customer loyalty’. For instance, was cable TV part of the same market as satellite TV? Was television broadcasting a market of its own, or should it be treated together with telephone and the internet as part of a broader communication market? These were all crucial regulatory issues, since they determined the extent to which owners could trespass each other’s territory, and hence the overall level and distribution of profit.

And so the battle for communication profit, in Israel as elsewhere, quickly became the ‘battle for the state’. In 1990, the Israeli government divided the country between six cable companies, corresponding to mutually exclusive geographical regions. This helped, but only as a start. The large owners then took matters into their own hands, and began acquiring their smaller competitors until the number of companies was down to three: Matav owned by Dankner, Nimrodi and Gusinsky; Tevel held by IDB and UPC; and Golden Channels controlled by Fishman, Moses, and IDB/UPC through Tevel (see Figure 2). Although officially distinct, the three companies operated pretty much as a monopoly. On the production side, they used their jointly owned monopsony, ICP, to cut the cost of acquired programmes, while on the sales side, they charged almost identical prices, usually twice as high as those paid by Western European subscribers; the result was operating profit margins as wide as 65 per cent (*Ha’aretz*, 17 December 1999; 2 February 2000).

Most importantly, the three companies began coordinating their public policy stance. Initially, such coordination was unnecessary. Antitrust Commissioner David Tadmor, who previously represented Golden Channels as a private lawyer, was conveniently forthcoming; he did nothing to prevent their centralisation, and then woke up in 1999 to declare the obvious, namely that they were a monopoly. This belated regulatory insult hardly worried the cable companies; they lashed back at Tadmor, arguing that their relevant market was not cables, but television broadcasting in general, which they did not (yet) dominate. What worried them more was that some of their fellow capitalists, enticed by fat profit margins, wanted a share of the pie. The most important challenge came from a new satellite company, chaired by competition prophet

David Brodet. The outfit, incorporated under the imaginative name of YES, promoted itself as a white knight fighting the evil cable barons. The facts, though, showed it was owned by similar heavyweights with much the same aspirations, including Arison, Alovich, AT&T, Telia, Poalim Investment, Bezeq, Migdal-Generali, and even one of the cable owners, IDB (see Figure 2).

And as the battle for profit heated up, the political arena was quickly divided into two opposing camps, both swearing allegiance to the good of the nation and the almighty consumer. On the one hand stood the supporters of YES, led by Finance Minister Avraham Shohat; on the other, the cable advocates led by Communication Minister Ben Eliezer. (Needless to say, none of these 'policy makers' dared voice a third option, let alone propose it as an actual 'policy'.) Wasting little time, the two camps began pounding each other. The cable companies tried to stall the YES licence for as long as possible, levelling veil threats to sue state officials for damages, and keeping the supreme court busy with their petitions. Their 'foreign' partners, UPC and Southwestern Bell (SBC), pressured Prime Minister Netanyahu to annul the YES permit, and even had the American embassy accuse the government of undermining U.S. business interests.

The attack on YES, however, was merely a tactical bargaining chip. Satellite communication was of course too late to prevent, but by putting up a 'fight' and then 'conceding', the cable companies hoped to win a much bigger war. Their goal was threefold: first, to renew their exclusive free licence to deliver cable services for another 15 years; second, to extend this licence into internet and telephone services; and, third, to formally merge their three companies into one, jointly owned by Dankner, Nimrodi and Gusinsky (25 per cent), IDB and UPC (37 per cent), and Fishman and Moses (38 per cent) (*Ha'aretz*, 17 December 1999; 1 February 2000).

The main force behind this transformation was Eliezer Fishman. Although he vehemently denied having any interest in mergers and 'lazy money', exceptions to this rule were numerous and the cable union was surely one of them. Expected profits, he realised, depended not on politically segregating different technologies such as cable, satellite, television, phone and the internet, but rather on integrating them. Merger and conglomeration were therefore essential; and since expected earnings could be sold as current hype, Fishman was eager to move quickly, before the stock market bubble burst away with his premium. Based on comparable 'synergies', he hoped to float the merged company on Wall Street for as much as \$10 billion, or five times its current value. And since time was pressing, he notified Communication Minister Ben Eliser, that 'if the government didn't immediately accept his demands, he would close shop and move his businesses abroad' (*Ha'aretz*, 18 February 2000).

The YES consortium of course realised the pending danger. If Fishman and his partners had their way, their own exclusivity in satellite delivery would be at risk. Wasting no time, they demanded that the cable companies be barred from simultaneously handling delivery and contents, and that they be prevented from merging. They also had their representative, Finance Minister Shoat, strongly object the renewal of the cable licence, and demanding that it be instead re-auctioned for real money. The cable companies retaliated by unleashing their own watchdogs in the Communication Ministry. Their chief spokesman, Communication Minister Ben Eliezer, claimed that YES' stalling tactics not only harmed consumers, but also undermined Israel's technological

competitiveness. Moreover, as he saw it, a cable monopoly was exactly what Israel needed, since its combined force would enable it to effectively 'compete' against the state monopoly Bezeq in telephone and internet. And last but not least, he proposed that, in light of their already massive infrastructure investments, the cable companies be spared the licence fees (*Ha'aretz*, 7 January 2000).

As the bickering went on, however, competition grew increasingly 'unregulated', turning profits into losses. Furthermore, in 2000, the 'high-tech' market finally crashed, making public offerings difficult and debt services burdensome. It was clearly time for a truce. In 2001, the cable companies therefore agreed to forgo any claim regarding satellite delivery, in return for full ownership of their physical infrastructure, including indefinite operating rights. And since the two parties came to an understanding, the government was no longer fussy about money. Whereas initially the Finance Ministry demanded \$1.5 billion for the cable concession, in the end it settled for a mere \$150 million (*Ha'aretz*, 7 December 2001).

High-technology communication, with its centralised ownership and deep government involvement, was obviously neither 'liberal' nor 'competitive', but rather *political* in the wider sense of the term. The key question was *who* wielded power. Was it the 'regulator', who at least in principle could carve the communication sector as he saw fit? Or was the regulator himself becoming part of the capitalisation process? Was Prime Minister Barak, who in 1999 was called to act as a modern Salomon in the cable-satellite dispute, omnipotent? Or was he merely a puppet, an eleventh player in what one journalist called 'a ten billion dollar story that only ten people understand'? (*Ha'aretz*, 19 November 1999). Was Israel's Antitrust Authority, which in 2000 was ranked by *Global Competition Review* as the world's second best after Germany's, indeed almighty? Or did it simply follow the path of least resistance?

These questions were by no means limited to Israel. In 2000, for instance, the U.S. government forced Japan, with much fanfare, to have NTT, its state-owned telephone monopoly, cut its connection charges to U.S. telecom companies. Was President Clinton advancing here the vague interest of the 'global economy', as he put it, or was his government part of a much more concrete struggle of differential accumulation? (*Financial Times*, 20 July 2000). On the face of it, with communication prices being decided at the highest level of international politics, it would seem that ultimate power lay in the hands of prime ministers and presidents; and indeed, in a recent gathering of the world's largest media moguls, one of the chief concerns was the 'threat of industry regulation' (*Financial Times*, 20 July 2000). But then, if that was the case, why all the fuss about private ownership? If governments could regulate prices, as well as contents, services, the number of operators, and so on, who needed the Fishmans of the world? The common answer was that private enterprise was more efficient than public ownership, and that its fierce competition ensured the consumers enjoyed the benefits. Yet, supposing this were true, why were governments the world over engaged in 'benign neglect', allowing ownership to become increasingly centralised and therefore less 'competitive'? Was it merely the consequence 'regulatory mistakes' as one Israeli journalist called them, or was it rather a deliberate policy of 'non-intervention', so that the large owners can work out their own arrangements? (*Ha'aretz*, 18 August 2000).

And, indeed, a quick look at Figure 2 above should make clear how difficult it was to even begin talking about competition and ‘free enterprise’ in this context. Although there were now many more ‘operators’ than ever before (and certainly more than during the statist stage of government monopoly), these operators were hardly independent. Instead, they were part of a single ‘ownership alloy’, linking the various segments of dominant capital into a structure which could no longer be disentangled. And this was only one sector. If we were to expand our picture to cover the *entire* business arena, ownership connections would quickly grow so dense that they could not be even deciphered. This also explained why new entrants, even as cunning and aggressive as Fishman, could not really ‘take over’ a business sector. As newcomers, their only way to survive was by building ties with the other dominant groups. And that was precisely what Fishman was busy doing since his comeback. Although he had several opportunities to make large gains by striking the big players, he always preferred to show his power rather than use it. For instance, the ownership battle in which Itzhak Tshuva wrestled Delek away from IDB, was anticipated by Fishman, who for several months accumulated Delek’s shares. Although he could have taken over the company himself, Fishman preferred to let someone else humiliate the Recanatis. Foregoing Delek was peanuts compared to the benefit of future cooperation with IDB.

The first implication is that, far from creating greater competition, rivalry and friction, every successful entrant – from Danker, through Nimrodi, to Gusinsky to Fishman – helped to further consolidate the *combined* power of dominant capital. Unless such entrants became part of the structure, they would be crushed; and becoming part of the structure required that they weaved themselves into it, adding more ties and in the process making the whole structure appear stronger. The second implication is that when coming to analyse the political economy of modern capital, there is no point in looking at different ‘industries’, or even ‘sectors’ defined along *production* lines. Not that these were unimportant, only that they could be misleading unless first situated within the broader structure of *ownership* and its political-economic underpinnings. And when dealing with ownership, the proper framework was quickly becoming global. As we have seen, Israel’s capitalist development has been, from its inception, part of a broader global process. Until recently, domestic and international accumulation were mostly *linked* in various ways; but during the 1990s, the two processes have grown increasingly *integrated* through the transnationalisation of ownership itself. We turn to examine this later process more closely now.

Transnationalism and Israeli Technology

During the 1990s, the discovery of Israel by foreign investors had local politicians elated. Global capitalists were not only hailing the country’s liberalisation and ‘high-tech’ credentials, but also putting their money where their mouth was, sending capital inflow soaring from zero in the beginning of the decade, to 5 per cent of GDP by its end. For former Prime Minister Netanyahu, this was clear evidence that the country was on its way to becoming a ‘high-technology “tiger”’. Israel, in his view, was ‘the Silicon Valley of the Eastern Hemisphere’ and ‘one of the great technological and entrepreneurial successes in the world’. Although the panacea didn’t prevent him from losing the elections, his Labour successor, Barak, was equally enthusiastic. Israel, he declared, was

evidently ‘different from any other place in the world’, a country of ‘enormous vitality stemming from the richest possible genetic pool’, which helped it become ‘the most powerful of all states lying in a 1,500 km radius from Jerusalem’.²⁰

But then was Jerusalem really becoming the centre of the ‘high-tech’ world? Was this language not a bit megalomaniac for a country whose entire population was smaller than Chicago’s? Was Israel indeed so important for foreign investors, and if so, why? What were the underlying forces integrating it into the global political economy? Did these forces justify the hyper-optimism of Israeli politicians? Did ‘everybody’ benefit from these developments, or was it only a minority, with the rest of the population paying the price? So far in this paper we have emphasised developments within Israel, keeping such questions at the background. It is now time to refocus the analysis, putting global developments back at the centre, and Israel, where it belongs, on the periphery.

Why Invest in Israel?

During the 1990s, investors’ interest in Israel stemmed from three basic reasons. The first of these is a simple breadth rationale, reminiscent of the ‘Coca Cola Kid Syndrome’. We name this syndrome after *The Coca Cola Kid*, an ironic film by Dusan Makavejev about a troubleshooting Coca Cola executive, sent to Australia to fix a ‘problem’ in the local subsidiary. The nature of the problem: a ‘blank spot’ in the Australian desert, where Coca Cola apparently had no sales. During the early 1990s, the situation in Israel was similar. For years, many transnational companies stayed away from the country, scared off by regional instability and the Arab Boycott. When the circumstances changed after the 1993 Oslo Accord, they discovered Israel was an empty spot on their maps, and rushed in with their troubleshooters to quickly fill up the void. Entrants in this category included consumer-good giants Kimberly Clark, Nestlé, Unilever, and Proctor & Gamble; food chains such as McDonald’s and Grand Metropolitan (Burger King); raw material investors like British Gas and Volkswagen; financial groups such as Generali, Lehman Brothers, Citigroup, Republic Bank, HSBC, Chase Manhattan and Bank of America; as well as many of the world’s communication giants charted in Figure 2. In addition to these ‘direct’ investments, many large companies and institutional investors began building up an Israeli ‘portfolio’, acquiring stocks and bonds on the open Tel Aviv and New York markets.

The second reason for investing in Israel was the government’s remarkable hospitality. As we have seen earlier in this paper, many assets taken over by foreign investors, particularly those privatised by the government and the Histadrut, were bought at bargain prices. The fullest royal treatment, however, was given to green-field investors, of which the most publicised case was Intel’s. Although the company set up an Israeli subsidiary already in 1974, until recently its activities were mainly in R&D, an area where Israel was reputed to have a comparative advantage. In 1996, however, Intel made an apparently strange decision, announcing its intention to build a \$1.6 billion production facility, nicknamed ‘Fab 18’, to manufacture micro-chips and flash memory. The decision was unusual since production of this sort was considered ‘low-tech’, and

²⁰ Netanyahu is cited from the *Financial Times*, 30 January 1996, 5 July 1996, and from *Business*

was normally carried out in developing countries, where the cost of unskilled labour was far lower. But then this specific decision had little to do with labour. According to the Israeli law of the time, green-field investors putting up factories in special 'development zones' were entitled to a grant worth up to 38 per cent of their investment, or \$600 million in the case of Intel. The government also agreed to supply various facilities worth an additional \$300 million, so all in all, Intel got a state subsidy equivalent to \$900 million, or 56 per cent of its original investment. The public justification for the deal was that the plant created new jobs – 1,500 working for Intel and another 1,500 working for its subcontractors. The jobs were pretty expensive, however, each costing the government \$300,000; for comparison, the average state subsidy per job in investor-friendly Ireland was only \$15,000 (*Davar*, Weekly Supplement, 19 April 1996). But then the purpose of course was never to give this money to the plant's workers, whose annual salaries of \$10,000 were deemed more than adequate. The real goal was more profit.

Exactly how much more was hard to tell since Intel kept this information to itself; the general order of magnitude, however, was easy enough to approximate. Operating at full capacity, the plant was expected to generate \$1 billion or more in annual sales. Assuming pre-tax margins equal to Intel's average of one-third, this meant \$333 million in annual gross profit. Now, in contrast to the United States, where Intel paid over 30 per cent of its income in taxes, in Israel it had until then managed to pay close to none. Assuming this tradition persisted, net profit would be the same as gross earnings; or \$333 million. In relation to the Intel's declared investment of \$1 billion, this represented a 33 per cent rate of return on equity – 50 per cent higher than the firm's worldwide average of 22 per cent (computed from Moody's Online). And that too was probably a gross understatement, since Intel had the habit of using transfer pricing to inflate the value of its investment way beyond what it actually put in.²¹

This 'grant bonanza' was of course hard to ignore, and before long numerous transnational companies, from Volkswagen, through Motorola, to Toshiba, to Tower Semiconductor, were asking the government to support massive subsidy-maximising 'investments'. Even Intel could not resist and tabled expansion plans worth \$2–3.5 billion. The government, although still enthusiastic, was overwhelmed; and being unable to come up with so much cash, reluctantly cut the subsidy down to 20–24 per cent.

Yet, the tidal wave of foreign money, instead of receding, continued, with much of the inflow directed into buying local 'high-technology' companies. This type of inflow was the third, and increasingly most important reason for investing in Israel. And strangely enough, there was nothing Israeli capitalists loved more than this invasion. Indeed, the ultimate dream of most startups and oligarchs alike was having their companies cannibalised by a large transnational firm. From the perspective of the 'victim', the rationale was obvious: buyers often paid hundreds of millions and eventually billions of dollars, making the original owners fabulously rich. The motive of the buyers, however, was less clear. Why did they spend so much, particularly when the

Week, 17 February 1997. Barak is cited from *Ha'aretz*, 19 May 2000.

²¹ In 1984, for instance, Israel's State Controller reported that of the \$123 million Intel declared as investment, \$109 million were financed by the government, with the remaining \$14.5 million actually costing the company a mere \$1.5 million. In other words, Intel's effective investment amounted to slightly more than 1 per cent of what it declared (*Ksafim*, 21 May 1984).

companies they bought often had only a few dozen employees, negligible sales, and little or no profit?

Competition, Power and Waste

As noted earlier, one of the basic tenets of the ‘new economy’ was that technical change bolstered competition. ‘High-tech’, argued the enthusiasts, enabled nimble innovators to challenge corporate dinosaurs; even the Marxists, when examining contemporary conditions, began drawing parallels with the unregulated markets of the nineteenth century; for many people competition was once more a synonym for capitalism. But was this all true? Was technical change in general, and ‘high-tech’ in particular, indeed making the world more competitive? Like all self-evident truths, this one too merits a re-examination.

One basic indicator for the ‘intensity’ of competition is the markup: when firms compete more vigorously, their markup gets squeezed; when they collude, the markup widens. Figure 3 provides some relevant evidence on the evolution of the markup in the United States, which is measured here by the share in value added of non-labour income (comprising pre-tax profit, rent and interest). The upper part of the chart displays two markup series – one for the manufacturing sector as a whole, the other for a selected subset of ten information technology and communication industries (ITC).²²

[Figure 3]

The data indicate that during the second half of this century, the intensity of competition in manufacturing actually *declined*, with the markup rising to 63 per cent in the mid-1990s, up from 45 per cent in the late 1940s. A similar process is evident in the ITC sector, with the markup rising pretty much in tandem with the manufacturing average. Since the early 1990s, however, the two series diverged: while the manufacturing markup continued along its long-term uptrend, in the ITC sector it broke off, zooming from 59 per cent in 1990, to 78 per cent in 1996, the last year for which data are available. The bottom of the chart plots a measure of the ‘degree of monopoly’ of the ITC sector, computed as the ratio of the two markup series (ITC relative to manufacturing, of which it was a subset).²³ Based on this latter index, ITC was generally more competitive than manufacturing until the late 1980s (the degree of monopoly being below one), and less and less competitive than manufacturing since the early 1990s (degree of monopoly greater than one, and rising).

Now, if there was indeed a ‘one-to-one’ link here, leading from technology to competition, according to the chart this link must have been *negative*. As technology advanced over the past 50 years, profit margins rose; and when technical change accelerated since the early 1990s, profit margins – particularly in those sectors where the

²² The U.S. Department of Commerce defines the Information Technology Sector as an aggregate of 40 different industries, covering hardware, software and services, communication equipment, and communication services (Margherio *et al.* 1998). For many of these industries, relevant data are available only since 1987. In our computations here we therefore concentrated on a sample of 10 hardware and equipment industries, for whom the data go back to 1958. These figures are of course not entirely accurate inasmuch as the *industrial* classifications on which they are based do not exactly overlap with the underlying *business* structure of firms.

²³ The ‘degree of monopoly’ concept was proposed by Michael Kalecki (1943) as a way of using income distribution indicators to link microeconomic structures with macroeconomic dynamics.

acceleration was most pronounced – soared. Technical change, so it seemed, actually *undermined* competition.

At first sight, this conclusion seems perplexing. Doesn't the spread of technical 'know-how' work to loosen market power? The answer is yes, it does. But then, technology itself is only one side of the process; the other side is the protection of technology, and it is the *balance* between them which determines power and markups. Of course, neither technology nor its protection can be quantified, so this 'balance' cannot be measured. What can be observed, though, is the 'imprint' it leaves on the markup. A falling markup suggests technical progress out-stepping protection and exclusion, a rising markup implies the opposite. Clearly, neither outcome depends on the pace of technical change per se. Thus, slow technical progress, provided that its protection builds up even more slowly, would end up leading to lower markups, making the world look more 'competitive'. On the other hand, and this is probably what lies behind Figure 3, if technology advances in leaps and bounds, but its protection consolidates even faster, the result would be *fatter* margins.

One way of defending new technology is by enforcing 'intellectual property rights'. And, indeed, such enforcement seems to have expanded in recent decades. U.S. annual patent registration, for instance, increased by 150 per cent since 1980, to 275,000. Moreover, a growing proportion of such patents focus not on production, but directly on the business process, appropriating activities such as 'selling professional advice over the internet', or 'one-click buying'. Recently, some companies even moved into so-called 'strategic patenting', whose declared purpose was to protect *anticipated* technology (*The Economist*, 8 April 2000).

The second, and perhaps more effective counter-force to technical change is corporate amalgamation. The vendibility of capital means that even if dominant firms are unable to develop new technology in house, they could always buy it through corporate takeover. And, indeed, during the 1990s, this latter strategy was adopted by many large ITC firms, such as AOL, Microsoft, Lucent, 3Com, Nortel, and most notably, Cisco. The latter company started in the early 1980s as a local project to connect computer equipment at Stanford University. By the late 1990s, it was already a network equipment giant, with 40 per cent of the big corporate market, 18 per cent of the small and medium firm market, and 33 per cent of the internet service provider market. In 2000, this leading position pushed Cisco's sales revenues to \$19 billion, its net profits to \$2.7 billion, and its market capitalisation to half a trillion dollars, making it the world's most valuable company (Moody's Online; *Business Week*, 13 September 1999). Much of this growth, though, came not from developing new technology, but from buying it: between 1993 and 2000, Cisco took over 55 companies, worth more than \$24 billion, for which it paid mostly with its own shares (Moody's Online; *The Economist*, 8 April 2000). According to its CEO, John Chambers, during the market boom of the late 1990s the company was willing to pay between \$500,000 and \$3 million per 'acquired' employee, and the reason was simple. With the exception of its early invention of routers, almost all of Cisco's subsequent technology came from the companies it bought. And Cisco was hardly alone in this; most 'high-technology' giants adopted the same model, spending on such 'intangibles' as much as \$100 billion in 1998, up from \$15 billion in 1990 (*The Economist*, 4 December 1999).

At the time, the popular explanation for these ‘techno-mergers’ was that the large companies really had no choice. Since innovation was effective only when done in small firms, or so went the argument, the giants had to wait patiently for the innovators to do their job, and then buy them out. There was another possibility, however, and that was that the large firms could certainly innovate, but simply found it cheaper to have others do the work for them. This latter rationale was eloquently described by *Fortune*:

To a certain extent, industry leaders such as America Online, Cisco Systems and Microsoft are just outsourcing part of their research and development to Silicon Valley, letting the free market apportion R&D budget to different products and independent teams. The market also provides a mechanism (called customers) to validate the results. Then the AOLs and the Ciscos use their stock as currency to buy the startup whose products are most in demand; those products then contribute (theoretically, at least) to future revenues and profit growth, giving the behemoths more currency to buy more startups. Many of the companies that aren’t bought simply shrivel and die. (Schonfeld 1999)

The latter process had two important implications. First, it meant a significant income transfer from society to large ITC firms, with massive waste on the way. If Cisco or Lucent were to develop the technology themselves, they would have to bear the cost of both failure and success. But since they let others do it for them and then bought only the best outcome, they ended up paying mostly for success. From their own perspective, whether the price they paid was ‘expensive’ or ‘cheap’ could be judged only in retrospect, relative to future profits. From the viewpoint of society, though, the process was bound to generate enormous waste. The main reason was the absence of any effective mechanism to ‘regulate’ the number of aspiring innovators, who, as a matter of business principle, did not share their knowledge; inevitably, they ended up duplicating each other, only to see most of their inventions – some of which were very good, but not good enough – dumped on the garbage heap.

Second, the process serves to explain how profit margins in the ITC sector could soar, despite the springing into life of millions of startups. In reality, most startup companies did not compete with the large ITC firms, but rather catered to their needs. The main reason for this bifurcation was the *integrative* nature of the ITC technology. Since ITC was inherently about ‘connectivity’, profit in this business depended crucially on controlling the various links. Now, given the availability of many connection paths, only those with so-called ‘complete solutions’ stood a chance; this in turn meant that ITC companies must be *very large*, and that they must *cooperate*, openly or tacitly, on matters ranging from common technical standards to the transnational politics of intellectual property rights. Under these circumstances, most small companies had neither hope nor desire to challenge the inner circle of ITC giants. Their main promise to riches was to serve rather than fight, which they did by developing *specific* technologies to augment the giants’ *overall* differential power. The result was a two-tier competition, with small firms fighting each other in a life and death trench war, only to bolster the differential accumulation of big ones. And, indeed, according to a recent study by

Multex, a consulting company, during 1995–99, the top three firms – Intel, Microsoft and Oracle – managed to pocket half the profit of Nasdaq’s leading 4,200 companies (*Ha’aretz*, 16 August 2001). This combination of competition, waste and power is crucial for understanding the development of ‘high-technology’ in Israel.

Israel’s Silicon Wady: The Big ‘Sale’

During the bull market of the 1990s, global ITC executives loved to praise Israel as the ‘core of the internet industry’, the place to be for any ‘meaningful internet player’. And why wouldn’t they? Israeli engineers and programmers developed for them new ITC technologies on the cheap, and praising the ‘employee of the month’ was always a good way to encourage harder work and further government support. But describing Israel as a ‘core’ was a bit excessive. The business core was still the United States and Europe. Israel was of course connected to this core, but largely as a ‘putting out’ system. Its companies were setting neither the pace of events, nor their trajectory. Indeed, for the most part they were simply trying to guess where the global bandwagon was going, and what technology to develop so that the giants would take them over for the ride.

This ‘putting up’ relationship began to emerge in the mid-1990s, with the acquisition of firms such as Nicecom by 3COM (for \$53 million), of Uvic by AOL (\$14.5 million), of Scorpio by US Robotics (\$80 million), and of Orbotech by Applied Materials (\$285 million) (*Ha’aretz*, 28 November 1997). But it was only in 1998, with the publicised acquisition by AOL of Mirabilis for \$407 million, that the true nature of the process came into focus. When it was sold, Mirabilis was a small outfit with no sales, no profits, and no idea how to generate them. In fact, even its software – an instant messaging system named ICQ (and pronounced ‘I-see-U’) – was hardly sophisticated, having cost a mere \$3 million to develop. But the buyer was after a totally different prize: ICQ’s 14 million users. Mirabilis could do little with these users; for AOL they were a gold mine. Internet service providers such as AOL lived and died by the number of subscribers, and ICQ, distributed freely on the internet, gave them exclusive access to millions, with hopefully many more to come. And indeed, by 2000, with ICQ already part of AOL, the number of registered users soared to 70 million, of which 20 million were hooked on regularly for three hours a day. Notably, in this struggle for ‘consumer loyalty’, timing was everything. Mirabilis and AOL succeeded because they were the first to understand it and quick to act. Had they waited a while longer before signing their deal, newcomers with better products could have easily depreciated their underlying ‘goodwill’ to nil. And indeed, Microsoft, having entered instant messaging only a year later, found itself fighting an uphill battle, trying to wrestle AOL ‘loyalists’ away from their ICQ addiction.

After the Mirabilis deal, the pattern was set, with more and more takeovers of Israeli startups by ITC giants, some of which – such as the \$1.6 billion sale of DSPC to Intel, the \$4.5 acquisition of Chromatis by Lucent, and the \$4.5 takeover of MMC by AMCC – ranging in the billions. In most cases, the target was not a production facility, but rather an R&D outfit with some type of ‘goodwill’. These ‘immaterial assets’, however, be they special technology or customer loyalty, were valuable only insofar as they could be protected; in other words, the acquisition was not of technology, but of

power over technology. Most importantly, such power was typically ineffective unless embedded within the bigger mega-machine of the acquirer.

Indeed, size was so important here that even Israel's largest ITC company, ECI Telecom, found it was too small for the brave new world of 'high-tech'. Controlled by Koor, with IDB as a minority shareholder, ECI employed 5,000 workers, who in 1999 generated \$1.1 billion in sales and \$102 million in net income. Its market value, however, was a mere \$3 billion – less than what Lucent paid in 2000 for Chromatis's few dozen workers and their cyber-optic technology. The comparison is particularly ironic not only since many of Chromatis's workers came from ECI, but also because, at the time, ECI already possessed a better technology in this very field. ECI, however, was caught off guard, and in this business late often meant never. After the Chromatis deal, both Lucent and Cisco had the required technology in their armoury, so ECI could not sell it to them again. And so Koor threw in the towel, announcing it would break ECI into five separate companies, list them in New York, and pray for 'release' of value.

But then here lay the problem. Since what the large buyers acquired was specialised knowledge, they tended to need only 'one of each'; and given that there were only so many AOLs, Intels or Lucent around, there could be only so many happy Mirabilises, DSPCs and Chromatics. For all the rest, the prospects were dim. And indeed, even at the height of the 'high-tech' euphoria, Israel had already begun to accumulate 'living dead' startups, companies whose technology was deemed inferior, and to whom venture capital was no longer available. In 2000, the value added of all startup companies, mostly in R&D, accounted for as much as 2 per cent of Israel's GDP. Yet, to the extent that this R&D aimed at making the companies attractive for takeover, it was much like treasure hunting. Sometimes, a lucky hunter would hit the jackpot and be promptly bought out by an ITC giant; but for the most part, the R&D effort would be entirely wasteful.

Of course, not all Israeli 'high-technology' companies sought a buyer. Many have in fact tried to make it alone, and some even managed to gain global prominence. In all cases, though, their fate was decided by power, not technology. During the early 1990s, Israeli 'high-tech' startups were a hot commodity on Wall Street. Technical innovations from the likes of Scitex, Indigo, Netmanage, Madge, IIS and Sapience, were seen as revolutionary, and the companies owning them were valued in the billions. The most promising was Geotek, which used military-turned-civilian telecom technology to attract half a billion dollars in venture capital from George Soros, Claridge, Vanguard, and General Motors. Within a few years, however, these companies managed to accumulate well over \$1 billion in combined losses, and in most cases saw their share prices beaten to pulp. The reason was simple. They all had 'cutting edge' technology, but none of the global power to protect it.

In contrast, the few Israeli ITC companies which did grow into 'independent' stars all had this order reversed, with technology *subordinated* to power. The most noted of these were Comverse, Amdocs, and Check Point. By the end of the 1990s, the three companies, all listed in New York, had a combined workforce of more than 13,000, sales of \$1.7 billion, net profit of \$400 million, and market capitalisation of \$50 billion – equivalent to 77 per cent of the entire Tel Aviv Stock Exchange. Their growth was both

rapid and consistent: from 1996 to 1999, Check Point's net profits rose by 85 per cent annually; Comverse's by 83; and Amdocs' by 60 (Moody's Online).

And yet, although successful, all three companies were in fact far less 'independent' than they looked. Take Amdocs. The company, founded in 1982 by would-be Israeli billionaire Morris Khan, was the world's leading provider of billing services to large telephone operators. It had only several dozen clients, with the top six accounting for over half the sales. Most importantly, its biggest customer, U.S.-based SBC, was also its largest owner, having bought half the company from Khan in 1984, and as of 1998 still owning the largest stake of 26.5 per cent (*Ha'aretz*, 1 June 1998). Comverse, like Amdocs, was also a world leader in its field of voice messaging systems, having its voice cells embedded in 45 per cent of all mobile phones sold around the world. The company, founded in 1984, grew rapidly, and in 1998 was included in the Nasdaq 100 and S&P 500 indices, the first Israeli firm to have had the honour. However, since the mid-1990s, its field began to attract giants such as Lucent and Unisys who acquired Comverse-like companies, forcing the latter into similar amalgamation tactics. Its founder and CEO, Kobi Alexander, began talking about turning his company into an 'Israeli Cisco'. And, indeed, during the 1990s, Comverse took over eleven companies, including an \$860 merger with its main competitor, U.S.-based Boston Technologies, and a \$550 acquisition of eXalink, an Israeli startup (Moody's Online). Until recently, Check Point remained the most 'independent' of the three. Founded in 1993, the company became famous for its 'Firewall' software which protected internet systems from outside invaders. Defending profit growth, however, was a bit trickier, and here Check Point had to rely on ITC giants such as Sun, Hewlett Packard, IBM, MCI, Nokia and Deutsche Telecom to sell its software. The arrangement worked well, since, by giving these firms a 'cut' of its sales, Check Point effectively turned them from potential foes into allies (*Ha'aretz*, 25 January 1998).

Perhaps most importantly, none of these three firms could be easily labelled as 'Israeli'. They were registered and traded in New York, their head offices were in the United States, and most of their shares were owned by global investors. In Check Point, for instance, only 28 per cent of the stocks was held by the Israeli founders and managers; in Comverse 10 per cent; and in Amdocs a mere 5 per cent (in 1999 Morris Kahn sold much of his stake for \$1.1 billion to U.S. investors). Last but not least, by the end of the 1990s well over half their workforce was already outside the country.

End of the Road?

The 'de-Israelisation' of Israeli firms has been going on for some time. By 2000, there were already 110 'Israeli' companies listed in New York, with a market value twice that of the 665 companies listed in Tel Aviv. An estimated 60 to 90 per cent of all new Israeli startups filed for a U.S. charter, and the state of Delaware even opened an office in Jerusalem to facilitate the process (*Ha'aretz*, 2 August 2000). Much of the haemorrhage has been blamed on the convenience of American tax laws and regulations, which made mergers and acquisitions – the *raison d'être* of most Israeli startups – easier and cheaper for U.S.-based companies. Trying to 'correct' the problem, Israel has unilaterally recognised corporate registration in the United States (naturally without asking for the same in return). It also moved to facilitate outward transfers of state-financed

technology, as well as to lower capital gains tax on foreign takeovers of Israeli companies. And yet, legal reform alone could hardly reverse the trend.

In a world of free capital mobility, corporate location is primarily a question of differential profitability. Now, from the viewpoint of 'high-tech' companies, conditions in Israel could hardly get any better. This is illustrated in Table 1, which puts selected Israeli R&D indicators in a broader context. Consider first civilian research and development. In 1996, the last year for which data are available, Israel devoted 2.3 per cent of its GDP to this end, roughly the same as the OECD average. Focusing on civilian R&D alone, however, is highly misleading. Most of Israel's successful ITC companies were intimately linked to the military. The more established of these, such as Tadiran, ECI, Elbit and Elron, owed their initial success to IDF procurement, whereas younger ones, such as Check Point, Comverse, DSPC and Libit, were founded by veterans of IDF communication, intelligence, and computer units. (One of these military units was aptly labelled by its members as 'The Secret Unit for Producing Millionaires'.) Since the IDF did not protect its research and development by patents, its veterans took the liberty to do so instead, creating, according to one count, over 40 companies, with profits in the hundreds of millions and market capitalisation in the billions (*Ha'aretz*, Annual Supplement, 15 December 1999). The Israeli government keeps secret the amount it spends on military R&D; this, though, could be roughly estimated in the order of 2 per cent of GDP, putting Israel's overall R&D at 4.3 per cent of GDP – 85 per cent above the OECD average, and 30 per cent more than Sweden, the next country in line.²⁴

[Table 1]

Looking more closely on civilian R&D, in 1996 the Israeli government accounted for 41.9 of the total, somewhat higher than the OECD average of 35.5 per cent. But then that too is misleading. For a business firm, the key issue is how much of its own R&D is shouldered by the government, and here the Israeli state was exceptionally generous. Whereas in the OECD, governments financed on average 6.9 per cent of private R&D, in Israel the comparable figure was 25.8 per cent. According to the Institute for Advanced Strategic and Political Studies in Jerusalem, a right-wing think-tank advocating 'lean government', between 1968 and 1998 the Office of the Chief Scientist passed on to private firms a cumulative subsidy of \$3.8 billion, measured in 1999 prices; less than 15 per cent of this money was repaid in royalties (Raskin 1999). Officials at the Industrialists Association readily admitted that 'the grant money of the Chief Scientist was the "life line" of Israeli high technology' (*Ha'aretz*, 17 August 1999); and indeed, based on Raskin's study, in 1997 the subsidy accounted for almost 20 per cent of the pre-tax profit of ten leading 'high-technology' firms. Last but not least, the Israeli tax authorities were especially lenient with 'high-tech' companies, which typically enjoy tax holidays of 2–10 years, extendable indefinitely for rapidly growing

²⁴ In the US, UK and France, the three OECD countries with major defence budgets, roughly 15 per cent of the R&D is military (Israel. Central Bureau of Statistics 2000). Now, assuming military R&D is proportionate to overall military spending, and given that the share of military spending in GDP is three times larger in Israel than in these three countries, the implication is the military accounts for 45 per cent of Israel's total R&D. With civilian R&D being 2.3 per cent of GDP, overall R&D – civilian and military – should then be in the order of 4.3 per cent of GDP.

firms. The result: an effective tax rate of around 15 per cent, compared to 30–45 per cent in the United States and Europe (*Ha'aretz*, 22 June 1999).²⁵

During the 1990s, Israeli 'high-tech' firms also benefited from exceptional labour market circumstances. The rapid drop in domestic military spending and the cancellation of major military projects since the late 1980s provided civilian companies with a pool of highly skilled workers. This pool was further augmented during the 1990s by the massive inflow of highly educated immigrants from the former Soviet Union. As a result, Israel recorded the highest proportion of engineers in the world (135 for 10,000 people, compared with 85 in the US and 75 in Japan); the largest proportion of science PhDs in the world (15 to 10,000 people); and the third highest proportion of graduates in Mathematics, Natural Sciences and Engineering, after Germany and England (Bank Hapoalim 2000).

Yet, despite these favourable conditions – or perhaps because of them – ITC firms have begun leaving Israel. Even before the 'high-tech' meltdown of 2000/01, it was already hard to see how these greenhouse conditions could *get any better*. But, then, that was precisely what firms needed in order to stay. During the late 1990s, with the transition from military to civilian production and the economic integration of Russian immigrants more or less complete, Israel started to experience 'shortages' of skilled workers. Unlike legal and policy matters, however, these limitations were not easy to 'fix'. Israeli spending on education already accounted for 9.4 per cent of GDP, compared with an OECD average of 6.1 per cent, and was difficult to increase. Furthermore, discrimination against Israeli Arabs (20 per cent of the population) and the non-technical bias of religious education (roughly 40 per cent of secondary school students) effectively kept over half the labour force out of ITC jobs.

To complicate things further, the emergence of less developed countries, particularly India, as ITC sites, was beginning to draw attention away from Israel. India has only recently begun shedding off its statist protectionism, so its corporate grants, subsidies and tax holidays to 'new economy' firms had much more room to expand. Similarly with educational infrastructure and labour skills. Although these were inferior to Israel's in relative terms, in absolute terms they were not only far bigger, but could also expand faster. During the late 1990s, India accounted for a mere 2 per cent of world software exports. These exports, however, were growing at more than 50 per cent annually, roughly twice the world average, and if that differential were to continue, by the late 2000s India's global share could reach 20 per cent. Most importantly, these developments were already evident in the bottom line. Whereas in Israel, consistent profit growth of 70 per cent was recorded only by a select number of ITC companies, in India this was the *average* (Khozem Merchant et al. 2000).

The impact of these domestic and global forces was to further transnationalise Israel's political economy. Even without counting the arrival of over a million immigrants from the former Soviet Union, Israel's labour force was already one of the world's most transnational, with foreigners, mostly unskilled workers from poor countries, accounting for over 10 per cent of the total. During the boom years of the late

²⁵ The average tax rate for Israeli firms here pertains to 1996–98, and is based on a sample of ten leading 'high-technology' companies: ECI, Comverse, Check Point, Gilat Communication, Orbotech, DSPC, Mercury, Nice, Teva and Elbit Systems.

1990s, business groups also began demanding the ‘importation’ of skilled workers. This hasn’t happened yet; but whether more foreign workers came to Israel, or Israeli companies continued to go global, the impact on ‘de-nationalising’ accumulation was the same.

Global Accumulation, Domestic Depletion

Since the early 1990s, Israel’s ruling class incorporated itself into the new breadth order of transnational accumulation. The transition was presented, ostentatiously, as a victory for the country’s enlightened leadership. ‘Liberalism’, ‘peace’, and ‘high-tech’, they said, finally put Israel on the road to prosperity, and, initially, many were caught by the slogans. But soon enough reality set in. Neoliberalism, people discovered, was really a new power structure; peace, a cover-up for corporate peace dividends; and ‘high-tech’, a way to redistribute income and wealth.

For most people, prosperity remained elusive, and the reason was simple: during much the post-war era, material standards of living had to do not with ‘liberalism’, ‘peace’, or ‘high technology’, but with *demographics*. In fact, in both developing and developed countries, Israel included – and regardless of whether they were liberal or autocratic, peaceful or militaristic, industrial or agricultural – per capita GDP growth could be almost entirely ‘explained’ by population growth.²⁶ Of course, population growth itself does not ‘create’ higher standards or living, nor is it the only ‘factor’ at play. Whatever the explanation, however, it must lie with the broader, societal nature of production. Material standards of living are a matter of *social* productivity; that is, of the *interaction and integration which link people together*. And insofar as Israeli population growth created greater social ‘fusion’, it also acted as a catalyst for rising societal productivity.

From this perspective, Israeli prospects in the 1980s looked dismal. Annual population growth fell to 1.5 per cent, down from 5 per cent in the 1950s–1970s, and GDP per capita growth sunk. During the 1990s, the picture seemed to finally brighten. Immigration from the former Soviet Union raised population growth rates dramatically, if only temporarily, rekindling hopes for rising productivity growth. And, yet, this failed to happen. Academics and journalists insisted it was just a matter of time; demography, they observed, was on Israel’s side, and with the fresh backwinds of ‘free markets’, ‘high-tech’ and ‘peace’, prosperity was surely around the corner. Or was it?

For dominant capital, the neoliberal order of high-tech peace was of course a bonanza. Population growth provided the needed breadth; ‘peace’ and ‘high-tech’ attracted transnational investors; liberalisation opened up the world to capital flight; and the hype generated by these developments created immense capital gains. But the differential nature of the process was inherently *redistributional*, working to both re-

²⁶ Over the past half century, the correlation coefficient between Israeli per capita GDP growth and population growth, with both series expressed as 10-year moving averages, was 0.79. For comparison, in developing Asia, the same coefficient for 1967–96, with both growth series expressed as 10-year moving averages, was 0.85. For the industrialised countries, the correlation coefficient between the growth of industrial production and the growth of population during 1951–97, again expressed as 10-year moving averages, was 0.86 (based on IMF and World Bank data).

divide the pie and restrict its growth. For the majority of the population, therefore, the new order was the problem, not the solution.

And, indeed, in this sense the new prosperity scheme was more of a scam, built on foundations of sand. The reason is perhaps best explained through negation. Consider first the following hypothetical scenario. Suppose for the moment that the neoliberal prophets had their way, and that the entire Israeli business sector was busy developing new ITC technology. Clearly, only the best innovations emerging from this effort would be potentially usable; of these select few, only a fraction could be 'protected' by intellectual property rights; and of that fraction of a fraction, only some would end up being successfully capitalised, either as 'independent' companies, or as takeover targets. In other words, most of the effort would be wasteful. And, yet, from a global viewpoint the expense was relatively modest, and if transnational capitalists were willing to indefinitely subsidise it with their venture capital, most Israelis would have enjoyed very high standards of living, some becoming fabulously rich and the rest earning high salaries.

The global 'high-tech' crash of 2000/01 put a big dent in this blueprint. But even if growth in this sector were to resume, the idea that this could engender lasting domestic prosperity was still far fetched, to put it mildly. First, as we have seen, Israel was rapidly approaching the labour limits on further 'high-tech' expansion. In other words, even if venture capital continued to flow in, for the unlucky 80–90 per cent of the population, who just happened to be permanently stuck in 'low-tech' jobs, the benefits would be limited at best. The most they could hope for were 'trickled down' crumbs from the upper world of 'high-tech'. And even that was probably too much to expect. As it turned out, and here we come to the second fallacy of the 'high-tech' dream, Uncle Global was far less generous to Israel than he looked. In fact, it wasn't at all clear who was subsidising whom. During the 1990s, most capital inflow was earmarked for takeover, not green-field expansion. Moreover, in return for the limited green-field investment which they did make, the 'investors' demanded, on the threat of going elsewhere, that the government foot up much of the bill through grants, subsidies and tax holidays. They also insisted on broader liberalisation and tight macroeconomic policies. And the government seemed hardly in need of persuasion, with both Labour 'left' and Likud 'right' competing on who would better squeeze the underlying population in order to cater to these 'needs'.

In short, the only miracle in this 'high-tech' drama, was the ability of dominant capital to suck in resources from the rest of society, while making everyone believe this was somehow in their best interest. And, indeed, for most of the population the consequences, illustrated in Figure 4, were dire. Unemployment, which reached a record 11 per cent in 1992, declined somewhat during the early years of the immigration boom, but has since resumed its uptrend. In parallel, there has been a massive increase in income inequality, indicated in the chart by the soaring Gini Coefficient.²⁷

[Figure 4]

The reasons for these developments are not difficult to see. On the one hand, capital gains, profits and salaries in the 'high-tech' sector have risen rapidly. On the

other hand, the decline of traditional industries, the disintegration of organised labour, competition from cheap foreign workers and imports, and regressive government income policies to subsidise the few by the many, have together caused unemployment to soar and income to stagnate. During the early 1950s, 'socialist' Israel was still one of the more egalitarian countries, with the top 20 per cent of the population earning only 3.3 times the income of the bottom 20 per cent. This was certainly impressive, particularly relative to 'free market' countries such as the United States, where the comparable ratio was as high as 9.5. By 1995, however, after two generations of 'Americanisation', the situation was reversed. Israel was now the most unequal of all industrialised countries, with the ratio of the top to bottom 20 per cent reaching 21.3, compared with 'only' 10.6 in the United States.²⁸

The broader consequences of this 'high-tech dilemma' were of course hardly unique to Israel. Inequality, unemployment and insecurity have increased in most countries. And as disenchantment with neoliberalism spreads, even the more vocal warriors of global breadth, such as Intel's chairman, Andi Grove, have begun to worry:

Suppose everything in the middle gets eliminated and society becomes [comprised of] high-paid information workers and low-paid service workers. You get into situations where the living standards and costs of the former are imposed on the latter.... I don't quite know where it will end up going, but it has become really problematical. Yet, everybody wants to emulate Silicon Valley. As they do so, they will turn the world into more islands with the same problems. (*Business Week*, 28 August 2000)

The nature of the 'problem', though, was not technology as such, but the modern power structure to which it was subjugated. Indeed, current technical know-how could not only greatly improve the material and social welfare of most people, but also eliminate some of the greater evils of poverty and insecurity around the world. And, yet, under the rule of vendible capital, it tended to create 'winner-takes-all' situations, whose impact was to heightened inequality and suffering instead of alleviating them.

The common political response to this was to reiterate the 'trickle-down' liberal argument, augmented by government initiatives to boost 'knowledge'. And here, too, Israel was hardly different. The most outspoken on the issue was Benjamin Netanyahu, who often spelled out aloud what his Labour and Likud competitors were careful to hide. There was indeed a 'scary gap between rich and poor in Israel', he admitted, but the way to resolve it was certainly not by handouts. 'I don't want to create jobs,' he declared, 'I want the entrepreneur to want.' The government, of course, was not planning to pull out completely, but rather to concentrate on education. Recognising that handing out state assets to private capitalists was bound to increase social disparity, Netanyahu concocted

²⁷ The Gini Coefficient measures inequality on a range from 0 (full equality) to 1 (full inequality with one person pocketing all the income).

²⁸ Data in this paragraph are computed from the U.S. Census Bureau and from Israel's State Revenue Administration. Israel does not publish statistics on the distribution of assets, but here, too, we may well expect the extent of inequality to exceed that of the United States.

a brilliant solution. The state, he proposed, would plow some of the privatisation proceeds, along with donations from the lucky tycoons, back into a 'special fund designed to close social gaps', and into creating 'thinking schools' to help 'balance the intellectual makeup of Israeli society' (*Ha'aretz*, 28 January 1996; 26 November 1996; 27 May 1997).

This so-called 'strategy' was highly suited for the new world order of free capital mobility. Income inequality could sometimes boost growth in the initial stages of capitalist development, or at least this is what many came to believe following the empirical works of Simon Kuznets (Kuznets 1965, 1973). Once the economy matured and urbanised, however, the impact often became negative, since it increased savings by the affluent, while limiting consumption by the masses. In the relatively closed economies of the Cold War era, investors were forced to accept 'government intervention' and 'demand management' in order to prevent this 'imbalance' from politically undermining the capitalist order. But as the economies opened up, domestic demand was no longer a problem. If there was not enough of it at home, there was always the world. Of course, global competition was often tougher than domestic; but, then, for those able to 'merge' into transnational capital, the differential benefit usually outweighed the cost.

This process of transnationalisation, and its consequences for Israeli accumulation, are illustrated in Figures 5 and 6, respectively. The first of these figures charts the inflow and outflow of foreign direct investment (FDI), expressed as a per cent of GDP.²⁹ During the 1990s, inflows, which indicate the extent to which foreign owners increased their holdings of Israeli assets, have soared to an average of nearly 2 per cent of GDP, surpassing their previous record of the 1960s. At the same time, Israeli capital also began moving out. The large local firms, which earlier formed the core domestic dominant capital, have for long been 'too big' for the domestic market. But it was only during the 1990s, with the relaxation of capital controls and the realignment of tax laws along U.S. standards, that their outward movement began in earnest. Their recent 'exit' rate was roughly 1 per cent of GDP, but if local conditions continue to stagnate, the pace could accelerate.

[Figure 5]

And as the process unfolded, with foreigners buying local assets and Israelis acquiring them outside the country, the 'nationality' of capital got more and more blurred. The impact of this transnational fusion is illustrated in Figure 6. The chart shows the five-year moving correlation between the annual rate of change of the Tel Aviv Stock Exchange index (TASE), and the corresponding rate for the Nasdaq index, both computed from monthly data expressed in U.S. dollars. Each point on the series, therefore, represents the correlation prevailing during the previous 60 months.

[Figure 6]

The gradual increase in this correlation, illustrated by the straight regression line going through the data, shows the growing convergence between the rates of return in the

²⁹ Recall that FDI figures could significantly underestimate the extent of transnational ownership changes, since these changes could also be financed through portfolio flows and local credit.

two countries.³⁰ Until the mid-1980s, the correlation was very low, and at some point even negative. Israel was still locked in its depth regime of militarised stagflation, 'high-tech' was not yet a buzz word, capital flows were restricted, and the exchange rate regulated. But as depth gave way to breadth, and Israel moved toward ITC, liberalised its capital account, and brought inflation and currency depreciation 'under control', the correlation between the two markets rose significantly, approaching a value of 0.7 in the five years ending in 2001. Correlation does not imply causation, but in this case it is pretty clear which market is driving which.

At a Crossroads

By the end of the twentieth century, then, it seemed as if Israel's dominant capital finally realised its American dream of a 'New Middle East': local by denomination, global by accumulation. But there was a fly in the ointment. Although the transnationalisation of ownership has generally strengthened the power of dominant capital, it also made its differential accumulation vulnerable to grassroots challenges. And when the local elite sought to respond to these challenges, it found itself hampered by both inner conflict and the uncompromising dictates of global capital.

Consider first the domestic scene. The 1990s boosted the differential performance of the core groups. The underlying population, on the other hand, both Israeli and Palestinian, was rendered defenceless against the vagaries of global breadth. During the early part of the decade, this divergence was camouflaged by the growth euphoria of neoliberalism, 'high-tech' and 'emerging markets'. Toward the end of the decade, however, with the euphoria subsiding and the breadth regime running out of steam, the conflict between transnational accumulation and local well-being came back with a vengeance.

This conflict may well mark the beginning of the end of Zionism. Until recently, Israeli capitalism went well with the Zionist project. The country's ruling class, from its colonial beginnings, through its statist institutions, to its emergence as dominant capital, managed to interweave Jewish colonial ideas with capitalist praxis. During its 'militaristic' stage, it skillfully harnessed the 'national' interest to its differential accumulation. The social cohesion needed to sustain the war economy was cemented by religious and racial rhetoric, authoritarian welfare institutions, and frequent armed conflict against external enemies. The cheap labour force in the equation was provided by the Palestinians.

The shift toward transnationalism upset this delicate 'equilibrium'. With the elite increasingly focused on the Nasdaq, the 'high-tech' business, and markets in the rest of the world, the prospect of peace dividends began to look much more attractive than dwindling war profits. Dominant capital was less and less receptive to the 'garrison state', and calls for an end to the Arab-Israeli conflict mounted. Once the 'peace process' started and the globalisation wagon began rolling, however, the Zionist package began to unravel. The domestic population, no longer needed for 'national' projects, was left exposed to the harsh reality of neoliberalism. And the Palestinians, whose cheap

³⁰ The correlation coefficient ranges from -1 to 1, with a value of 1 indicating the two series moving exactly together; -1 meaning they move inversely as a mirror image of one another; and 0 denoting no systematic connection.

labour was now outbid by even cheaper 'guest workers', were given their 'Palustan' – a semi-autonomous entity, with half its original territory, no army, no economic sovereignty, limited water, complete dependency on Israeli infrastructure, and hundreds of Jewish settlements and roads crisscrossing their land.

The consequences of this unravelling were quick to emerge. In 2000, the Palestinians revolted. And, yet, the Israeli elite, perhaps for the first time in its history, was caught in limbo. Torn between its Zionist past and transnational aspirations, it tried to ride both horses. Alarmed by the Palestinians' loss of fear, anxious that its army may be unable to win a guerrilla war, and aware that conflict would shatter the hard-won business confidence, it hesitated, tending to respond rather than initiate. At the same time, its fear for loss of 'Jewish cohesion' prevented it from accepting a democratic, non-racial solution for the conflict. Indeed, since the Oslo 'peace' agreement of 1993, the various Israeli governments have removed *not a single* Jewish settlement in the Occupied Territories. On the contrary, they added more.

Paradoxically, though, the demographic cohesion they were so keen on preserving was by now more a myth than reality. Massive immigration from the former Soviet Union, the importation of foreign workers, and the rapid natural growth of the local Arab population, made Israel less and less of a 'Jewish state'. Furthermore, many of the country's poor, ravaged by neoliberalism and disillusioned with the doublespeak of both Labour and Likud, shifted their allegiances to religious and ethnic political parties, such as SHAS and Yisrael Ba-aliyah. The emphasis of such parties on ethnicity, racism and religion has been welcomed by the elites as a cheap way of diverting attention from class divisions. And yet, if the underlying causes of pauperisation remain unchecked, 'containment' of this sort could easily unravel into a backlash.

To complicate things further, the Israeli elite, by endorsing transnationalisation, made itself subservient to broader processes over which it had no control. Presently, the most important of these processes is the cresting of the global breadth wave. During the 1990s, merger activity has reached all time highs. The ensuing corporate centralisation, along with informal networking and state-managed 'deregulation', helped boost cooperation and collusion among the world largest business alliances. But globalisation also unleashed the demon of green-field growth, particularly in the developing countries, where rapid proletarianisation contributed to the gradual build-up of excess capacity. Initially, the centripetal mechanism of internal breadth was stronger than the centrifugal forces of external depth. But toward the end of the decade the tables turned. Disintegration and cut-throat competition substituted for coordination and collusion, pricing power was eroded, and the profit margins of dominant capital started to feel the pinch.

The disturbances first hit the periphery of global accumulation, where corporate coordination was the weakest. A series of cascading crises, beginning with the Mexican peso crisis of 1994, and continuing through the Asian crisis of 1997, the Russian meltdown of 1998, and the Brazilian crisis of 1999, were a clear indication that corporate amalgamation was losing the war on green-field investment. In 2000, the crisis finally reached the core Western countries, beginning with the 'high-tech' sector and quickly spreading throughout the economy. Global stock markets, anticipating the ensuing drop in earnings, went into a tailspin, and merger activity, having rose for two decades,

collapsed. And then, as if to push the breadth order off the cliff, came the attacks of 11 September 2001. The breadth order of the 1990s came down crashing.

The impact on Israel was immediate and brutal. Escalating guerrilla warfare with the Palestinians, attacks in the United States, and the global 'war on terrorism' beginning with Afghanistan, delivered the rude awakening. Clearly, expectations for a 'New Middle East' and vast 'peace dividends' were a bit premature. Tourism into Israel has fallen sharply, green-field investment came to a halt, and capital inflow turned into a trickle. Most seriously, the global 'high-tech' meltdown buried many Israeli companies under mountains of losses. Some of the largest players, such as Koor, IDB, Fishman and the Dankers, were forced to write-off expensive acquisitions. And given that many of their acquisitions, along with green-field R&D investments, were heavily leveraged, the large banking groups were also feeling the pressure.

Israeli capitalism is clearly at a crossroads, and its future, perhaps more than ever, is bound up with global developments. Up until recently, transnationalisation lent strong support to reconciliation with Arab neighbours, and to 'peace', if only paternal, with the Palestinians. The recent stalling of global breadth, however, has thrown a monkey wrench into the process. If the reprieve proves temporary, there may still be a remote chance of resolving the regional conflict. Breadth requires political stability, and dominant capital, both in Israel and globally, would seek a settlement to calm things down. But with religion winning the hearts and minds of the underlying population, time is running out. And if instead of renewed breadth, global capital settles in for an extended period of depth, the conflict and violence associated with such a regime could prove devastating for Israel and for the region.

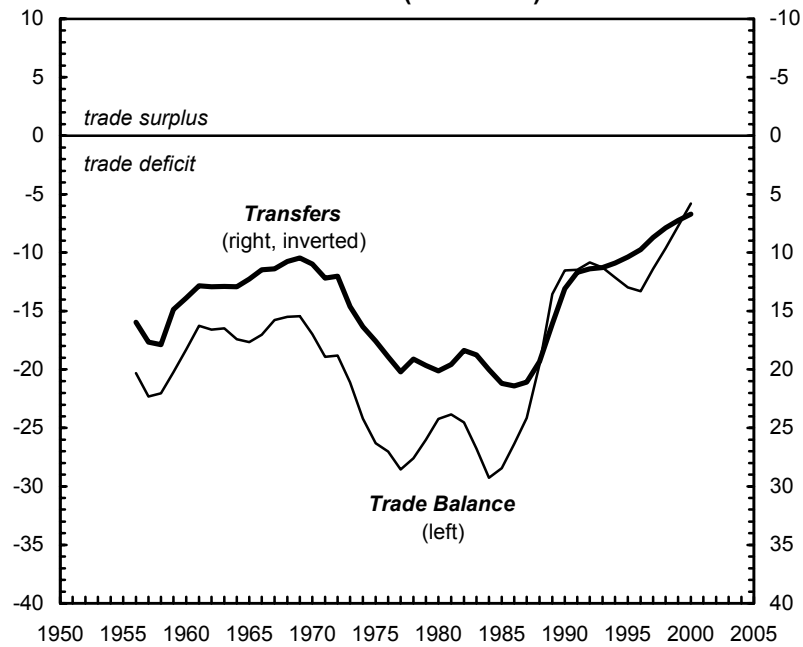
References

- Abramov, Kobby, and Yuval Zuk. 1999. Groups Controlling Listed Companies. *This Month in the Bourse* (August): 3-9.
- Amnesty International. 2000. *Israel: Human Rights Abuses of Women Trafficked From the Commonwealth of Independent States*: Amnesty International.
- Bank Hapoalim. 2000. High-Tech In Israel -- A Status Report. *Economic Report* July: 11-20.
- Bank of Israel. Monetary Department. 1998. The Money and Capital Markets, Annual Report. Jerusalem: Bank of Israel.
- Bichler, Shimshon. 1991. The Political Economy of Military Spending in Israel. Unpublished Doctoral Dissertation, Political Science, Hebrew University, Jerusalem.
- Bichler, Shimshon, and Jonathan Nitzan. 1996. Putting the State In Its Place: US Foreign Policy and Differential Accumulation in Middle-East "Energy Conflicts". *Review of International Political Economy* 3 (4): 608-661.
- . 2001. *From War Profit to Peace Dividends. The Global Political Economy of Israel*. Jerusalem: Carmel.
- Brodet, David, Avi Ben Bassat, Raphi Barel, Ya'acov Gadish, Zvi Zussman, and Dov Lautman. 1995. *The Committee for Examining Aspects of Bank Holdings in Real Corporations*. Jerusalem: State of Israel.
- FIBV, International Federation of Stock Exchanges. 2000. Number of Companies With Shares Listed (Table 195), <http://www.fibv.com/statistics.asp>.
- Frenkel, Shlomo, and Shimshon Bichler. 1984. *The Rich Families. Israel's Aristocracy of Finance*. Tel Aviv: Cadim Publishing House.
- Galbraith, John Kenneth. 1990. *A Short History of Financial Euphoria*. New York: Penguin.
- Gaon, Benjamin. 1997. *The Daring Wins*. Tel Aviv: Yediot Aharonont.
- Gessen, Masha. 1998. De-pressed. *The New Republic*, September 28, 16-17.

- Hirschman, Albert O. 1970. *Exit, Voice, and Loyalty. Responses to Decline in Firms, Organizations, and States*. Cambridge, Mass.: Harvard University Press.
- Horowitz, David. 1975. *Life at the Centre*. Ramat Gan: Masada.
- Hughes, Donna M. 2000. The "Natasha" Trade: The Transnational Shadow Market of Trafficking in Women. *Journal of International Affairs* 53 (2, Spring): 625-651.
- Israel. Central Bureau of Statistics. 2000. *National Expenditure on Civilian Research & Development, 1989-1998*. Jerusalem: Central Bureau of Statistics.
- . Annual. *Statistical Abstract of Israel*. Jerusalem: Hemed Press.
- Josephson, Matthew. 1934. *The Robber Barons. The Great American Capitalists. 1861-1901*. New York: Harcourt, Brace and Company.
- Kalecki, Michal. 1943. Costs and Prices. In *Selected Essays on the Dynamics of the Capitalist Economy, 1933-1970*. Cambridge: Cambridge University Press, pp. 43-61.
- Khozem Merchant et al. 2000. Survey of Indian Information Technology. *Financial Times*, July 4.
- Kindelberger, Charles P. 1978. *Manias, Panics, and Crashes. A History of Financial Crises*. New York: Basic Books, Inc. Publishers.
- Koestler, Arthur. 1941. *Darkness at Noon*. Translated by D. Hardy. New York: The Macmillan company.
- Kotler, Yair. 1988. *The National Team*. Tel Aviv: Yarden.
- Kuznets, Simon Smith. 1965. *Toward a Theory of Economic Growth*. New York: W. W. Norton & Company Inc.
- . 1973. *Population, Capital, and Growth. Selected Essays*. New York: Norton.
- Lieberman, Ira W., and Rogi Veimetra. 1996. The Rush For State Shares in the "Klondyke" of Wild East Capitalism: Loans-For-Shares Transactions in Russia. *The George Washington Journal of International Law and Economics* 29 (3): 737-768.
- Lyons, Ronan. 1999. The Waltz of the Living Dead. *Euromoney*, September, 295-304.
- Margherio, Lynn, Dave Henry, Sandra Cooke, Sabrina Montes, and Kent Hughes. 1998. *The Emerging Digital Economy*. Washington DC: US Department of Commerce.
- McGraw-Hill. Online. *DRI Database*.
- Mellow, Craig. 1999. Working It Out. *Institutional Investor*, July, 121-124.
- Mickiewicz, Ellen. 1999. Russian Television News: Owners and the Public. *Nieman Report*, Fall, 27-30.
- Moody's. Online. *FISonline*.
- Naylor, Tom R. 1987. *Hot Money and the Politics of Debt*. Toronto: McClelland and Stewart.
- Nitzan, Jonathan. 2001. Regimes of Differential Accumulation: Mergers, Stagflation and the Logic of Globalization. *Review of International Political Economy* 8 (2): 226-274.
- Nitzan, Jonathan, and Shimshon Bichler. 1995. Bringing Capital Accumulation Back In: The Weapon-dollar-Petrodollar Coalition -- Military Contractors, Oil Companies and Middle-East "Energy Conflicts". *Review of International Political Economy* 2 (3): 446-515.
- . 2000. Inflation and Accumulation: The Case of Israel. *Science & Society* 64 (1): 274-309.
- . 2001. Going Global: Differential Accumulation and the Great U-turn in South Africa and Israel. *Review of Radical Political Economics* 33 (1, Winter): 21-55.
- . 2002. *The Global Political Economy of Israel*. London: Pluto Press.
- Page, Joseph A. 1995. *The Brazilians*. Reading, Massachusetts: Addison-Wesley Publishing Company, Inc.
- Raskin, Adam. 1999. Israeli Government Research and Development Subsidies to High Technology Companies. *IASPS Policy Studies* 42: 1-25.
- Recanati, Harry. 1984. *Recanati. Father and Son*. Jerusalem: Caneh.
- Rowley, J. C. R., Shimshon Bichler, and Jonathan Nitzan. 1988. Some Aspects of Aggregate Concentration in the Israeli Economy, 1964-1986, Department of Economics Working Papers 7 (88), McGill University, Montreal.
- Schonfeld, Erick. 1999. Choice Morsels. Born to Be Bought. *Fortune*, 166-174.
- Schroder, Hans-Henning. 1999. El'tsin and the Oligarchs: The Role of Financial Groups in Russian Politics Between 1993 and July 1998. *Europe-Asia Studies* 51 (6): 957-988.
- Sharet, Moshe. 1978. *Personal Diary*. 8 vols. Tel Aviv: Ma'ariv.

- Soros, George. 1998. *The Crisis of Global Capitalism. [Open Society Endangered]*. New York: PublicAffairs.
- Standard & Poor's. Annual. *Compustat Research Insight CD ROM*.
- Wolosky, Lee S. 2000. Putin's Plutocrat Problem. *Foreign Affairs* 79 (2): 18-31.
- World Bank. Annual. *World Development Indicators CD-ROM*. Washington DC: World Bank.
- Yadlin, Asher. 1980. *Testimony*. Jerusalem: Idanim.

Figure 1
Israeli External Indicators (% of GDP)



NOTE: Series are expressed as 5-year moving averages.

SOURCE: Israel's Central Bureau of Statistics; IMF through McGraw Hill (Annual).

Figure 2

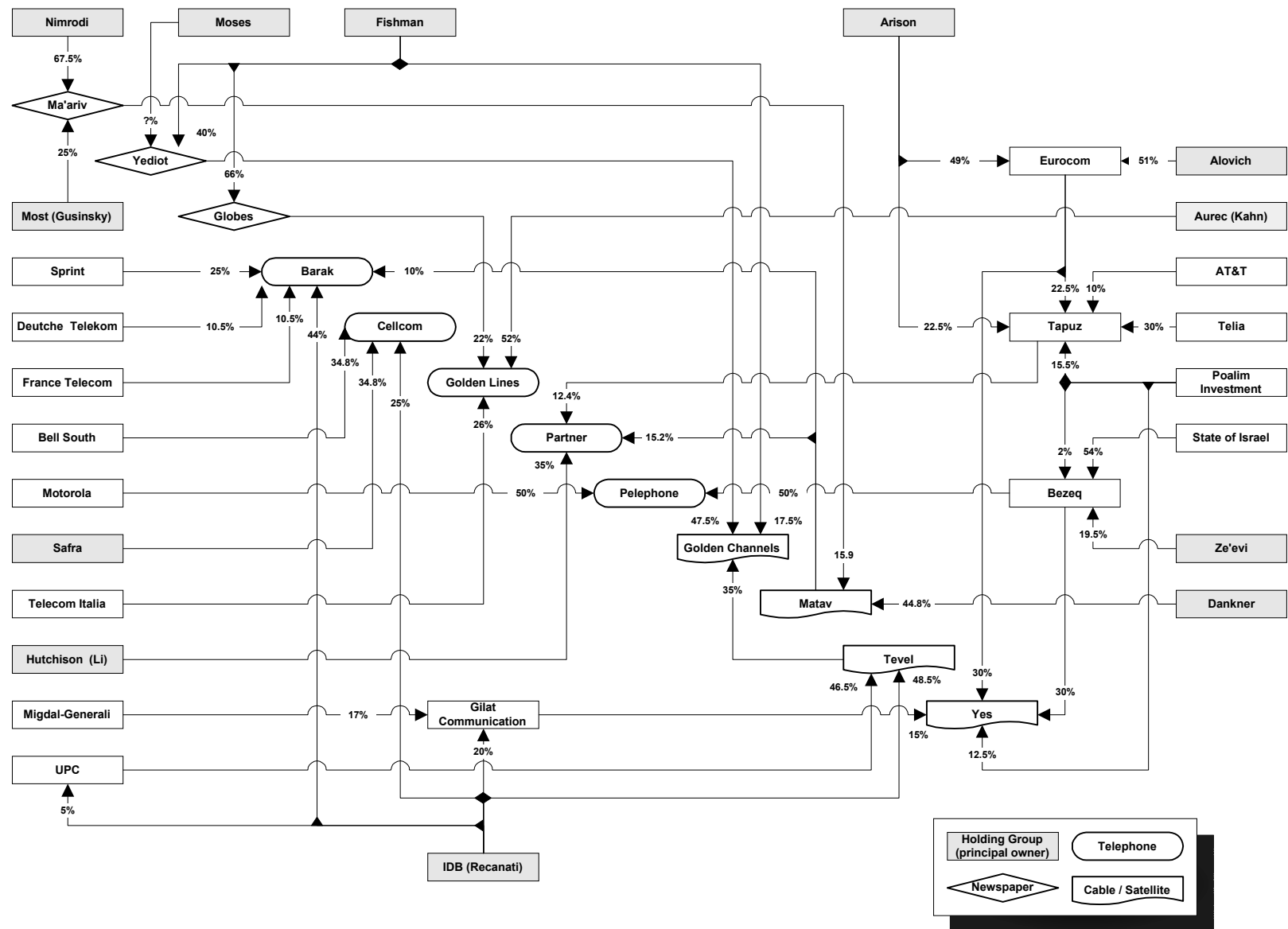
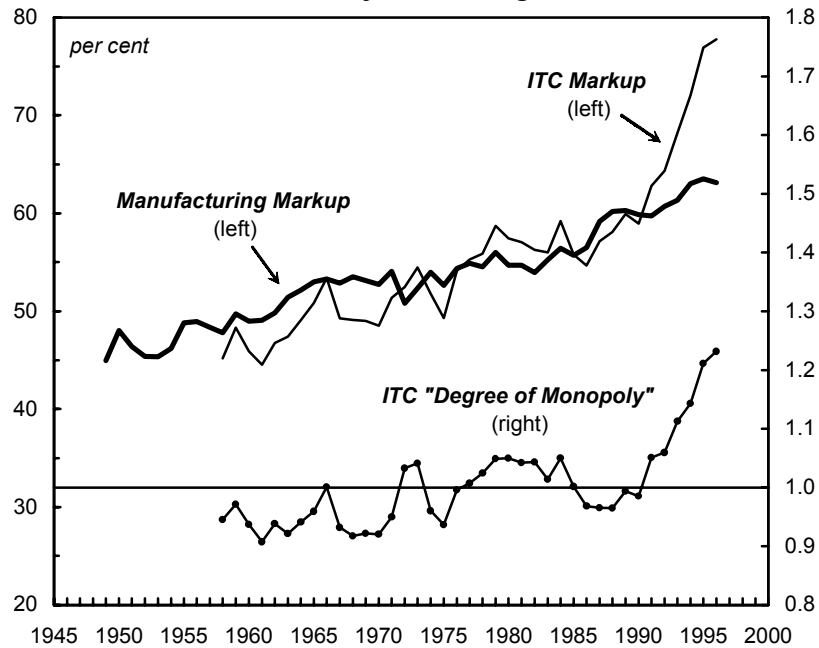
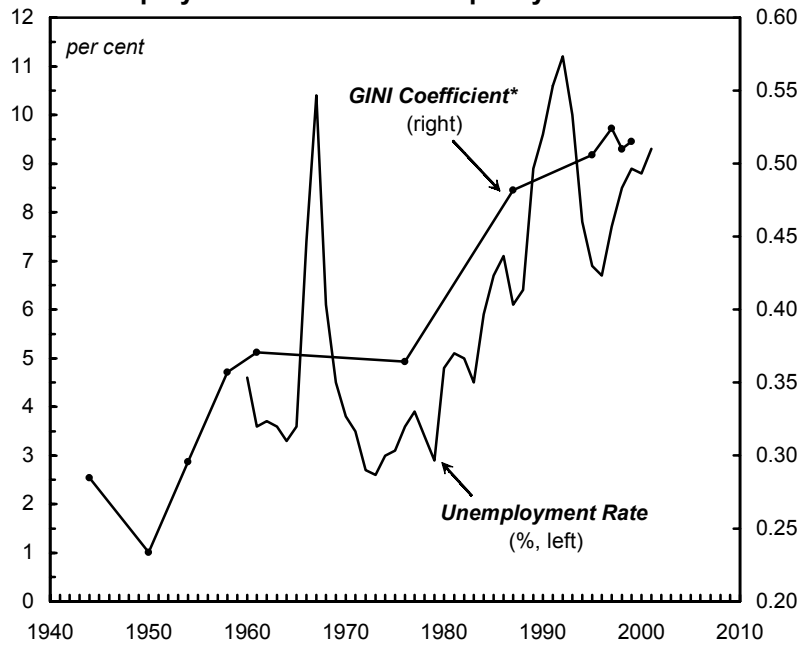


Figure 3
The 'New U.S. Economy': Knowledge or Power?



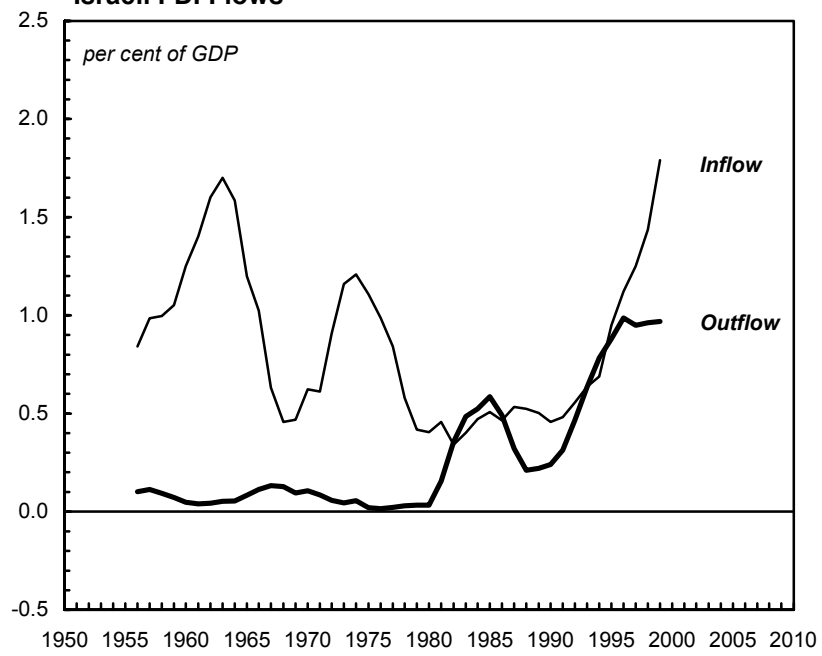
NOTE: ITC stands for Information Technology and Communication. The index here comprises hardware and equipment firms in the following 10 sectors (with SIC codes in parentheses): calculating and accounting equipment (3578), office machines nec (3579), radio & TV receiving sets (3651), semiconductors & related devices (3674), electronic capacitors (3675), electronic resistors (3676), electronic coils & transformers (3677), electronic connectors (3678), process control instruments (3823), instruments to measure electricity (3825). (definition based on Lynn Margherio et. al. *The Emerging Digital Economy*, US Department of Commerce, Washington, DC, 1998, p. A1-19). The Markup is defined as the per cent share of non-labour income in value added. The 'Degree of Monopoly' is given as a ratio between the ITC and Manufacturing markups. SOURCE: US Department of Commerce through McGraw Hill (Online).

Figure 4
Unemployment and Income Inequality



* GINI Coefficient pertains to the distribution of pre-tax income of all earners from all sources. Missing data are interpolated linearly.
SOURCE: Israel's Central Bureau of Statistics; Israel Finance Ministry, State Revenue Administration.

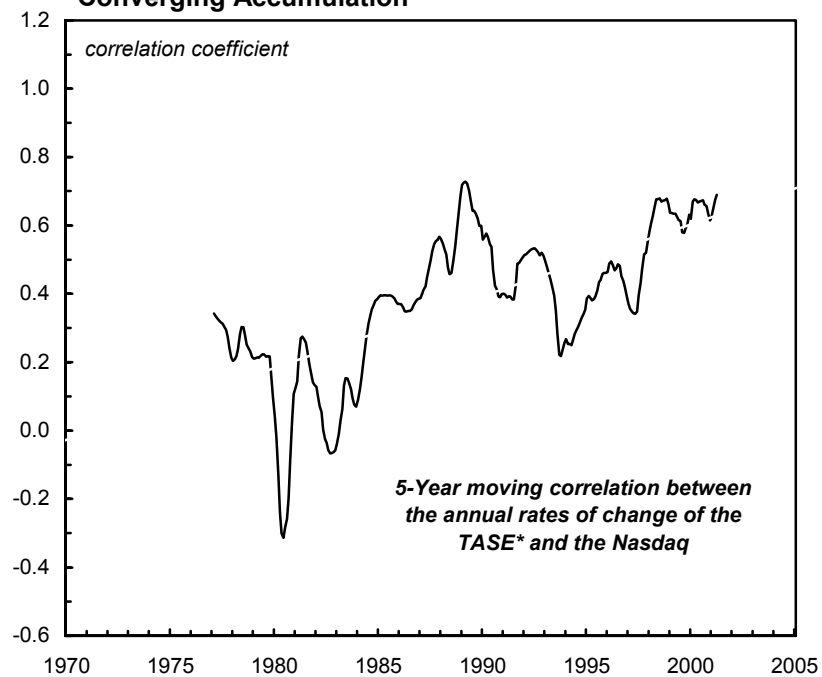
Figure 5
Israeli FDI Flows



NOTE: Series are smoothed as 5-year moving averages.

SOURCE: IMF through McGraw Hill (Online).

Figure 6
Converging Accumulation



* The TASE (Tel Aviv Stock Exchange) index is based on splicing of IMF data (till December 1976), the General Index (January 1977- March 1993) and the Mishtanim Index (April 1993 onward). Both the TASE and Nasdaq are expressed in US\$.

NOTE: Series display monthly observations. The straight line going through the observation is a linear regression.

SOURCE: IMF and Nasdaq through McGraw Hill (Online); Tel Aviv Stock Exchange.

Table 1
Israel's Dominant Capital, circa 1999

| Group (controlling family / interest) | MCAP* \$ billion (1999) | Principal Holdings (majority and minority control) |
|--|-------------------------------|---|
| Israel Discount Bankholding (IDB) Recanati family Carasso family Goldman Sachs William Davidson | 10.8 | <p>Banking: Discount Bank, Discount Mortgage Bank, Industrial Development Bank, Mercantile Discount Bank.</p> <p>Finance: Ilanot-Batucha, Albar-Mimunit, Visa, Y.L.R. Capital Markets</p> <p>High technology: Barak, Celcom, ECI Telecom, Elbit, Elron, Gilat, Liraz, Nice, R.D.C. Rafael Development, Scitex, Telad, Tevel, United Pan European Communications.</p> <p>Industry: American Israel Paper Mills, Gadot Chemical, Granit Hacarmel, Kitan, Klil, Nesher, Ormat, Polgat, Sonol, Tambour.</p> <p>Provident funds: Tamar.</p> <p>Real estate: Azorim, Property and Building Corp.</p> <p>Retail, services & transportation: Clal Insurance, Clal Tours, , El-Yam Ships. Supersol, Overseas Shipholding Group, Zannex Securities</p> |
| Ofer Offer family | 3.5 | <p>Banking: Bank Adanim, Bank Tefahot, United Mizrahi Bank.</p> <p>Finance: Melisron, Almog Beach</p> <p>High technology: Tower Semiconductors</p> <p>Industry: Dead Sea Bromine, Dead Sea Periclase, Dead Sea Works, ICL-Israel Chemical, Koor Industries, Ofer Development, Oil Refineries, Omni, Priclass.</p> <p>Provident funds: H.L. Finance</p> <p>Real estate: Elram, Ofer Development</p> <p>Retail, services & transportation: Judea Hotels, Ofer Trading, Royal Caribbean, Tanker Pacific Shipmanagement, Zim Lines, Zodiac</p> <p>Cross-holdings: Koor</p> |
| Koor Bronfman family Kolber family Bank Hapoalim | 2.8 | <p>High technology: ECI Telecom, Tadiran, Telrad</p> <p>Industry: Machteshim-Agan, Mashav, Middle East Tubes, United Steel Mills.</p> <p>Real estate: Koor Properties</p> <p>Retail, services & transportation: Knafaim, Sheraton Moriah</p> |
| Dankner Group Dankner family | 1.2 | <p>Banking: Bank Hapoalim</p> <p>High technology: Matav</p> <p>Industry: Carmel Chemicals, Dor Chemicals, Dor Energy, Israel Salt Industries</p> <p>Real estate: Dankner Investment</p> <p>Cross-holdings: Koor, Clal (IDB)</p> |
| Arison Holdings Arison family Nechama family | 1.1 | <p>Banking: Bank Hapoalim</p> <p>High technology: Biomedical, El-Ar, Eurocom, Euronet Gold, Hamlet, Medsim, Mirabilis, Partner, Polaris, Steps, V-CON.</p> <p>Real estate: Herouth, Housing & Construction Holdings (Shikun Ubinui), Lime and Stone, Orbond, Or-Yam, Secom, Shikun Ovdim, Solel Boneh.</p> <p>Cross-holdings: Clal (IDB), Koor</p> |
| Israeli Government | 7.2 | <p>Banking: Bank Hapoalim, Bank Igud, Bank Leumi, Discount Bank, Industrial Development Bank</p> <p>High technology: Bezeq, Israeli Aircraft Industry</p> <p>Industry: Ashot, Rafael, Israeli Military Industries, Oil Refineries.</p> <p>Retail, services & transportation: Coal Supply Company, El-Al, Israel Electric Corporation, Mekorot, Shekem</p> |

* Market capitalization comprises only domestic holdings, and includes the total value of majority holdings (including what is held by minority owners and the public) and the pro-rated value of minority holdings.

SOURCE: Authors' archive; Dun & Bradstreet Israel, *Israel's Largest Enterprises 1999*, *Standard & Poor's Israel's Leading Public Companies* (<http://www.standardpoor.co.il/bankhapoalim/>), the U.S. Securities and Exchange Commission (<http://www.sec.gov/>); Moody's (Online); and Abramov and Zuk (1999).

Table 2
Control Indicators by the Five Largest Groups and the Government, 1998

| SEGMENTS (No. of top firms) | NUMBER (% of segment) | | SALES (\$BN) (% of segment) | | NET PROFIT (\$MN) (% of segment) | | EMPLOYEES (% of segment) | |
|--------------------------------|--------------------------|------------------|--------------------------------|------------------|--|------------------|-----------------------------|------------------|
| | Top 5 | Top 5 & Gov't | Top 5 | Top 5 & Gov't | Top 5 | Top 5 & Gov't | Top 5 | Top 5 & Gov't |
| Conglomerates (17) | 12 (70%) | 13 (76%) | 9.2 (79%) | 9.5 (82%) | 619 (89%) | 621 (90%) | | |
| Commercial banks (19) | 10 (53%) | 13 (68%) | | | 375 (56%) | 609 (91%) | 26,103 (60%) | 39,876 (92%) |
| Mortgage banks (9) | 3 (33%) | 4 (44%) | | | | | 942 (48%) | 1,295 (66%) |
| Provident funds (10) | 6 (60%) | 10 (100%) | | | | | | |
| Industrial (100) | 30 (30%) | 31 (31%) | 11.4 (38%) | 15.4 (52%) | 226 (33%) | 301 (45%) | 56,320 (32%) | 86,495 (50%) |
| Service (100) | 17 (17%) | 22 (22%) | 5.4 (22%) | 8.9 (36%) | 47 (12%) | 278 (70%) | 16,407 (15%) | 30,742 (29%) |
| Listed abroad (94) | 23 (24%) | 23 (24%) | 8.1 (51.9%) | 8.1 (51.9%) | 157 (23%) | 157 (23%) | | |

NOTE: The Top 5 groups comprise IDB, Ofer, Koor, Dankner, and Arison. All companies under direct or partial ownership of the Top 5 and/or the government are counted, and their data are measured in total, rather than on a pro-rated equity basis. Companies under the joint control of more than one of the Top 5 and the government are counted once. Profit data are based on incomplete reporting and should be interpreted as rough estimates. Analysis for each segment is focused on the largest firms, whose number is indicated in parentheses in the first column. Segments are not mutually exclusive.

SOURCE: Computations by the authors bases on data from Dun & Bradstreet Israel, *Israel's Largest Enterprises 1999*, K. Abramov and Y. Zuk (1999); *Standard & Poor's Israel's Leading Public Companies* (<http://www.standardpoor.co.il/bankhapoalim/>); the U.S. Securities and Exchange Commission (<http://www.sec.gov/>); and the authors' archive.

Table 3
Comparative R&D Indicators

| | Israel | OECD |
|--|---------------|-------------------------------|
| R&D as a share of GDP | 4.3 % | 2.3 % |
| Government finance of private R&D | 25.8 % | 6.9 % |
| Engineers per 100,000 people | 135 | 85 (U.S.A.) 75 (Japan) |
| Education spending as a share of GDP | 9.4 | 6.1 % |

SOURCE: Israel. Central Bureau of Statistics (2000); and Bank Hapoalim (2000).