The conflict in Israel–Palestine will not be settled in the streets of Nablus or the shacks of the Jenin refugee camps. The real wars lay elsewhere, in the boardrooms of the multinationals where the vanguard of the arms and oil industries are leading a resurgence against the forces of the new global capital.

Illustration: www.deloitte.co.uk
Below: arabnews
old story of “religious fundamentalism” against “the market,” of “xenophobic nationalism” against “neoliberalism,” of the “third world” against the “first world.” And there is perhaps some truth to these generalisations.

The idea of a third-world “backlash” against neoliberal globalisation is certainly easy to understand. For most people in the so-called “South” – including the Palestinians – the last decade has brought greater insecurity, deprivation and hopelessness, so their resentfulness could hardly be surprising.

What seems less clear is the sudden bellicosity of “Northern” governments, particularly those of the US and the UK. Over the past decade, these governments have tirelessly glorified the “global village.” What the world needed, they said, was open borders, free trade and capital mobility. So why the sudden shift to “with-us-or-against-us” patriotism? Do they really expect “war on terrorism” to bring global security? Are rising military budgets and cascading attacks against less developed countries the best way to turn the poor and hungry into “free market” acolytes? If the purpose is peace and stability, why not force Israel to comply with UN resolutions and let the Palestinians finally have their state? Is letting Ariel Sharon smash his way back into West Bank a better recipe – or perhaps peace and stability aren’t really the goals in this saga? What type of world order do Bush, Blair and Sharon have in mind, and who stand to gain from this “order”?

From “war profits” to “peace dividends”

On the surface, these are matters of “foreign policy.” But there is a much deeper and often ignored layer here, related to fundamental shifts in the nature of capital accumulation, ownership and intra-capitalist conflict.

In order to understand this broader picture, we need to go back a bit in history. During the 1970s and early 1980s, global accumulation was dominated by an uneasy “Weapondollar-Petrodollar Coalition,” made up of large oil companies, armament contractors and OPEC, and backed by the US and several European governments which supplied arms and encouraged high oil prices. The central accumulation “mechanism” of this coalition was the ongoing cycle of Middle East “energy conflicts” and “oil crises.” The logic of the process was relatively simple. Rising petroleum prices brought massive profits for the oil companies. They also generated huge petrodollar revenues for local OPEC governments, who were only too eager to spend them on expensive weaponry in preparation for the next war. As a result, the Middle East became the world’s largest market for imported arms, absorbing over 1/3rd of the total. The big arms contractors of course loved this arrangement, and the various US administrations – from Nixon’s to Bush Sr.’s – supported it with equal zeal. Indeed, what better way to fight communism, divide and rule the Middle East, and enrich your corporate friends – all in one stroke and without investing a penny?

The consequences of this process were nothing short of dramatic. Rising oil prices threw much of the world into a deep ‘stagflationary’ crisis (stag-nation combined with inflation), conflict bloomed everywhere and there was even the occasional flirt with nuclear exchange.

The Weapondollar-Petrodollar Coalition, however, thrived. As Figure 1 shows, oil and armament companies became the world’s most profitable firms, seeing their earnings rise to 19% of the world total after the 1973 Arab-Israeli war, and to 21% after the 1980 onset of the Iran-Iraq war. “War profits” were clearly the way to go. [See figure 1 on following page]

All of this changed in the 1990s. The cold war ended, the world opened up for business and the Weapondollar-Petrodollar Coalition disintegrated. In its place, a different “Technodollar-Mergerdollor Alliance,” based on civilian high-tech and corporate takeover rose to prominence. Instead of “war profits,” nationalism and conflict, it marshalled a new rhetoric of “peace dividends,” foreign investment and emerging markets. Capital controls gave way to deregulation, protectionism to privatisation and bloody wars to peace deals. And indeed, by end of 2000, the Technodollar-Mergerdollor Alliance seemed victorious. As Figure 1 illustrates, its global profit share soared to 15%, while that of the oil and armament companies sank to a meagre 3%.

Israeli capitalism goes global

Israel’s U-turn of the 1990s, from a warfare-warfare state to liberalism and regional reconciliation, is part of this global shift. Until the late 1980s, private business and national security went hand in hand. Israel served the Weapondollar-Petrodollar Coalition by engaging in seasonal wars and various clandestine operations, this in return for massive US military assistance, a tacit acceptance of Israel’s nuclear build-up and a license to
to run a closed war economy. During the mid-1970s, Israel’s military expenditure soared to 33% of GDP – with roughly 15% imported from U.S. and the remaining 18% spent locally. The large local firms lunched at the military procurement table while benefiting handsomely from the resulting inflation which ravaged much of the economy, but fuelled the stock market which they helped rig. The social cohesion necessary for sustaining this war economy was cemented by welfare spending, Zionist nationalism and frequent armed conflict. The Palestinians provided the cheap labour force in this equation and were pacified by a combination of relatively higher standards of living and a large dose of force.

By the early 1990s, though, the arithmetic changed. Following George Bush’s announcement of a “new world order,” Israeli military spending came under the axe falling to 10% of GDP by the mid-1990s, weapon exports went into a tailspin and pressures to open up the domestic economy mounted. To complicate things further, the Palestinians revolted and the mounting cost of squelching their Intifada now seemed huge compared with rapidly vanishing war profits. It was clearly time to shift gears.
The loss-making welfare-warfare state was ceremonially dumped, replaced by the new and more lucrative alternative of transnational neoliberalism.

The political front window of the process was of course the Oslo peace accords, but there was more here than meet the eye. Normalising relations with the Palestinians paved the way to peace agreements with other Arab countries; these agreements brought an end to the Arab boycott; and with conflict quickly receding, Israel was able to remove capital controls—the main barrier to globalisation. During the earlier period of strife, capital controls were necessary to prevent capital from flying out of the country en masse. When conflict receded, these controls could be removed, the currency floated and the globalisation of ownership begin in earnest.

And sure enough, within a few years the local business elite has shifted its attention outside the country, increasingly aligning itself with and integrating into an emerging transnational business class. The evidence of this integration is overwhelming. Foreign institutional investors now own 35% of the Tel-Aviv stock market. Many of the country's largest corporations have been taken over by non-Jewish “Israelis”—such as the Arison family of Carnival Cruise who bought the leading Bank Hapoalim, the Bronfman family of Vivendi-Seagram, who bought the conglomerate DRI.

Most of the buying, leading high-tech firms, such as Converse, Clorox, and Merck, are Israeli, mostly by name. Their share prices listed in New York and much of their shareholder base outside the country. The vast majority of the high-tech startup companies have been driven by “inversion” and “sectors” desperate for a global giant to take over. The need of the whole outlook of the Israeli business model overseas. Until the late 1980s this was managed in rising exports which have recently reached a plateau. If they didn't—well, that was no longer GDP, but since the early 1990s capital too free to move and outflowing investment accounting for roughly a 3% of GDP and growing.

The results of this globalisation are evident in Figure 2. A rising trend in the increasing correlation between the Tel-Aviv stock market and the Nasdaq. Over the past two decades, that correlation has reached 0.8 from 0.5 in the early 1980s. This suggests that 80% of accumulation depends more on what happens in the global high-tech market. Israeli companies have basically realised their American dream of a Middle East: local by denomination, global by operation. (See figure 2)

Abandoning the Development Model

And yet, the transition wasn't as easy as the elite assumed it would be. While the capitalist elite increasingly focused on the global high-tech business and markets within a world, domestic and regional markets diminish in less and less important.

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Jews. The orthodox population is commonly poorer and although supportive of a hawkish stance against the Arabs, many of its members do not serve in the army. The secular segment is often more conciliatory, although its increasingly individualistic outlook limits its willingness to kill and be killed for anachronistic nationalist goals. The increasing individualism of this majority, however, undermines its group cohesion, thus making it more difficult to act in unison against the xenophobic minority.

And so just as Israel’s business elite become transnational, it also lost the domestic stability on which to base itself. At the same time, the elite lacked any clear ideas on what to do about it. Globalised business ties required peace, yet globalisation itself was contributing to the conditions that undermined the prospects for such peace.

The real issue is neither Sharon nor Arafat

When the second Palestinian Intifada broke out in October 2000, - Prime Minister Barak, representing an elite torn between its Zionist allegiances and transnational aspiration, seemed unsure as to what to do. Alarmed by the Palestinians loss of fear, anxious that his army may be unable to win a guerrilla war (let alone a fully-fledged one), and aware that conflict will shatter the hard-won business confidence, he hesitated, tending to respond rather than initiate. At the same time, his apprehension about disintegrating “Jewish” cohesion made it impossible for him to accept a democratic, non-ethnic solution to the conflict. His successor in the job, though, had no such hesitations. Once in power, Ariel Sharon immediately escalated both the rhetoric and military pressure, eventually all but re-conquering the West Bank.

Many have attributed this shift to personality and ideology. Sharon never wanted peace, they pointed out. On the contrary, his plan was always to kick out the Palestinians in order to establish a “Greater Israel” west of the River Jordan, and now was his last chance to do it.

Perhaps. But, again, there is a far bigger picture to consider here.

When Sharon came to power, the neoliberal high-tech order was already on its last legs. The first signs of trouble appeared several years earlier in the global periphery, with excess production triggering a series of crises which spread from Asia in 1997 to Russia, South Africa, Brazil and the rest of the developing world. Then,
the price of oil shot up, soaring from $10 in 1999 to $30 in 2000, and throwing a monkey wrench into the longest post-war economic expansion. The Nasdaq and other high-tech markets, having already reached valuation extremes, were punctured, going into a nose-dive, and in early 2001 a hawkish administration with deep ties to oil and armament interests took over the White House. In short, everything seemed ready for a reversal of fortunes. And indeed, as the new century took off, high-tech profits dropped like a stone while the earnings of oil and armament companies soared (Figure 1).

Seen from this broader perspective, the escalating conflict in the Middle East – much like "September 11" and the attack on Afghanistan – may well be part of yet another global shift in accumulation. Central to this process is the renewed struggle between the two massive business formations. The Weapondollar-Petrodollar Coalition, having been in decline for more than a decade, is now once more trying to stir up conflict and stagflation; and so far, the political backwind is clearly on its side. But the jury on this contest is still out. The Technodollar-Mergerdollor Alliance, whose fortune rest with open-border neoliberalism, high-tech growth and cross-border mergers, stands to lose big time from such developments. And having recovered from the September 11 shock its representatives, both in Europe and the US, are beginning to voice their objection to further escalation, including Washington’s plan to attack Iraq.

The real issue, then, is neither Sharon nor Arafat, but the pattern of global accumulation. With religion winning the heart and minds of the underlying population, time may be running out. And if the oil and arms interests prevail, conflict and violence could prove devastating for Israel and the region. However, the neoliberal accumulators haven’t given up the fight, at least not yet. Peace dividends require political stability, and those who wish to earn these dividends – in Israel and elsewhere – would need to calm things down. Perhaps the most effective way of achieving this goal is to remove all Israeli settlements from the occupied territories and establish an independent Palestinian state. By eliminating the main justification for continued conflict in the region, such a move would seriously undermine both the Petrodollar-Weapondollar Coalition and religious fundamentalism, opening a window for a more sane alternative.

*Note that during the early 1950s, ‘socialist’ Israel was still one of the most egalitarian countries in the world, with the top 20% of the population earning only 3.3 times the income of the bottom 20%. This achievement was certainly impressive, particularly relative to the ‘free market’ countries such as the United States, where the comparable ratio was a high as 9.5. But Israel learnt fast and after two generations of ‘Americanisation’ it had already outperformed its tutor.*

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