

Israel and Point Four

By ROBERT R. NATHAN

MY objective is to talk about Israel's general development and some of her problems and then try to draw out of that experience of the past as well as the prospects and problems of the future some indications of the challenge which Point Four poses for the United States and for the rest of the world. In a real sense, Point Four is not the problem of the United States only, even though the idea came from this country and even though the major implementation in terms of resources and skills will have to derive from this country. It is a problem of all countries, more or less developed.

Israel is, of course, a new country of only two years' duration. Therefore we must consider not only Israel, but also its predecessor—Palestine.

Unfortunately for Palestine and Israel, the overwhelming attention it has attracted has been primarily emotional and political rather than economic and cultural. Rather than observing, studying, and understanding its basic development and problems, we have concerned ourselves primarily with the political implications of the strife that has occurred there, and with emotional aspects related to the saving of refugees and the effort to provide a homeland for those who had become stateless. I want to avoid those phases as much as possible, and deal with the economic problems of that area. For this purpose we need to have some idea of Israel's background and know a little of the facts and characteristics of the country as such.

RAPID DEVELOPMENT OF PALESTINE

Israel accounts today for about 70 per cent of what formerly was Pales-

tine. Palestine was not abundant in natural resources. Some thirty years ago it was very deficient in almost all the natural resources which tend to attract people for settlement. It might have been characterized fairly by three descriptive phrases: it was an area of malarial swamps, of sand dunes, and of eroded hills—extremely unattractive physical characteristics.

Yet in spite of those natural resource deficiencies, the progress in the country over a thirty-year period from the time of the Balfour Declaration at the end of World War I—which really marks the beginning of modern development in Palestine—to the establishment of Israel was amazing. That experience and development may be extremely useful in accelerating and expanding the whole conception and implementation of Point Four.

The economic growth of Palestine may be broken down into two parts. One part is the development from the end of World War I to the early part of the thirties. It was a period of agricultural expansion primarily. Most of the people who came into the country at that time were the Zionists—the people who went there principally to build a home. That was their motivating force. They made tremendous sacrifices in pushing back the frontiers; they drained malarial swamps, they irrigated the sand dunes, they started reforestation of the hills, they did a really basic pioneering job in agriculture.

It was extremely important to the future growth of the country that this agricultural development occurred. Without the devotion of the newcomers to their movement I am convinced that Palestine would never have developed

as it has. Those agricultural pioneers deserve tremendous credit for the progress that was made in Palestine in those fifteen years, let us say, from 1918 to 1933. I am very dubious whether the same results could have been achieved had the motives of the new settlers been entirely material and immediately self-serving.

SHIFT IN EMPHASIS

Then something extremely unfortunate happened in the early thirties in Europe. With the emergence of Hitler and the whole Nazi philosophy and the circumstances that became increasingly untenable for Jews in Germany and central Europe, there began a movement to Palestine of people who had technical skills, know-how, experience, and capital. All these valuable assets, tangible and intangible, were transplanted to Palestine in substantial quantity.

The movement of those people with their twentieth-century techniques and know-how was the real key to what has developed in Palestine since the early thirties, when the emphasis began to shift from a primarily agricultural direction to a balanced agricultural-industrial economy. In fact, one might say it was primarily an industrial economy toward which the country turned in the middle thirties.

INDUSTRIALIZATION

By the end of the thirties, or even before World War II, the statistics clearly demonstrate that Palestine had become an industrial community, in the sense that the proportion of the labor force engaged in industry as compared with agriculture was comparable with the proportions in most advanced societies.

As a matter of fact, you may be surprised to know that the percentage of the Jewish labor force engaged in manufacturing activity is higher today in Israel than in the United States. Con-

versely, the percentage of the labor force in agriculture in Israel is about the same as, or perhaps slightly lower than, that in the United States. So the proportion in which the manpower resources are allocated to various areas of economic activity shows that the country has taken on the characteristics of a modern industrial community.

I do not want to give any false impression about the scale of enterprise. Israel has no General Motors or DuPont or General Electric corporations in terms of magnitude; but her industrial plants turn out quite a diversity of products and now range in size up to impressive proportions, rather surprising to those who are not prepared to see sizable factories in that part of the world.

THE HUMAN FACTOR

The industrial development in Palestine and Israel was made possible primarily by one factor which I feel we cannot possibly overemphasize in this whole matter of development of backward areas, and that is know-how, skill, and talent. My own travels around the world in recent years have convinced me that the primary factor for the development of any country is the creative talents and the capacity of the people. They are more essential than natural resources.

Israel secured an advantage which very few countries have had—indeed, we might call it a windfall—in receiving a transplantation of skills and know-how quickly, substantially, and ready-made, from the outside. Whereas most countries have to train their people and develop their skills through the hard way of internal education, Palestine was able, because of the external developments, to get outstanding talent, ability, and skills easily and quickly through the influx of leading professional people, scientists, and business-

men. That was the most important factor in the upbuilding of Palestine in the past thirty years.

CAPITAL FORMATION

There are two special aspects of the economic development in Palestine which I should like to emphasize because there have been occasional misunderstandings about the financial process of expansion there.

Palestine did develop to a major extent as a result of the flow of resources and capital from the outside world. There are two ways in which a country can finance its growth. One is through internal savings. A country produces certain quantities of goods and services and the people consume a certain quantity; the rest is saved or invested and put into new plant and equipment and other productive assets. The other way is to supplement those savings by the net flow of resources into the country from the outside world. This inflow increases the possible investment, or amount of assets going into productive facilities to build up the future of the country.

Now, Palestine enjoyed a large inflow of assets from the outside world in the past thirty years, but there is one statistic which surprised and impressed me. A thorough economic analysis of the country shows that in the years between the two world wars, of all the assets and funds that came into Palestine from the outside world, only about one-sixth came in the form of contributions or charity. There has been a general tendency to think that Palestine was developed primarily by contributions or charity grants from the outside world. Actually, the statistics do not bear that out.

Analyzing the balance of payments, we find that almost 70 per cent of all the resources that flowed into Palestine between 1918 and 1943 were brought

by the immigrants themselves—money, raw materials, and equipment. Only about 15 per cent came in the form of contributions. The balance of perhaps 15 per cent represented foreign investment by nationals abroad.

There are amusing stories about that flow of assets. For instance, on my first trip to Palestine I went up to the top of Mount Carmel, the mountain just back of Haifa, and traveled around that vicinity with one of the leading businessmen of the country. He pointed out a house and asked me what was the raw material out of which that house was built. Not being any kind of a technical expert on such matters, I expressed ignorance, and he told me it was a copper house. That was surprising, because, although there were copper mines in King Solomon's time, I knew nothing of copper having become available in that general region recently. He told me there were four such houses on Mount Carmel, all of which were brought over from Germany, having been dismantled and brought by immigrants. The people who came brought with them all kinds of assets and productive resources, and these assets were the primary source of the capital which went to build up Palestine.

Of course, since the end of World War II it has been quite different. The overwhelming proportion of the immigrants who have come into Israel since the establishment of the new state have been completely without resources. Some have come in with minor amounts. Therefore, contributions have played a much larger part in the past three or four years than they did prior to the recent war.

A SELF-SUPPORTING ECONOMY

There is one other statistic which may be of interest and perhaps also a bit surprising to you, as it was to me

when it emerged from the analysis of the economy. For about the last dozen years, since 1938 or thereabouts, the total production by the settled people in the country, that is, those who have been there for a year or more, has been greater than their consumption.

Analysis of the national income, its sources and distribution, the savings and investments, shows that the settled people in Palestine had by the late thirties become self-supporting. That is contrary to the uninformed but still prevalent belief that Israel or Palestine can never become self-supporting. If immigration had ceased at any time during roughly the last twelve years, there is no doubt that the people who were there would have been able to maintain their standard of living and raise it gradually without any outside contributions or investment. This affords a considerable degree of optimism regarding the economic potentialities once the newcomers have been absorbed into the economy.

IMMIGRATION PROBLEMS

Now, the country has had very serious problems, especially economic, ever since it came into being two years ago. The difficulties faced by Israel are quite different from those of other countries involved in this Point Four conception, for one major reason—immigration.

When the state of Israel was created, there were approximately 625,000 or 650,000 Jews and about 150,000 Arabs in the country. Since that time, between 375,000 and 400,000 newcomers have arrived. This represents an increase, on the basis of the total population, of about 50 per cent, and substantially above 50 per cent in relation to the Jewish population. The magnitude of this population increase in a period of twenty-three months is probably unparalleled in any other country.

This huge immigration brings the same general character of problems that underdeveloped countries face in the development of resources, the absorption of people, and the raising of living standards.

In the first place, such a rapid growth in population makes it impossible for the settled people of a country to provide for their own needs and also all the capital needs of the newcomers, unless it is a very rich country and also can quickly and arbitrarily redistribute its assets among its much enlarged population. Even in the United States, with all our vast resources, with our very high standards of living, with our tremendous accumulation of capital, if in the next two years we were to increase our population by immigration to the extent of more than seventy-five million, the difficulties would be just about insurmountable. You can well realize the tremendous expansion in public works, public utilities, industrial plants, trade facilities, inventories, agricultural equipment, and literally everything else that would be required. The need would be so vast as to make it practically impossible for us to provide for those capital needs out of our current production and savings. An almost revolutionary increase in assets would be necessary. I think the capital requirements would be so large that even this rich country would have to turn to the outside world for help in order to absorb those people economically. Otherwise the absorption would have to be very much less than complete and very slow.

Israel has not the accumulated assets and the productive capacity of this country, so the job is huge and difficult. The absorption of newcomers is less than complete and is slower than is desired. Of the 375,000 to 400,000 who have come in during the last two years, about 90,000 are still in camps and are not economically integrated into

the community. The other 275,000 to 300,000, or 75 per cent, are outside the camps, in the community. But if one could statistically follow them, it would be found that a sizable number of these latter are not fully integrated; they do not have housing which meets reasonable minimum standards, and they are not fully employed. Fortunately only a small number are entirely unemployed. Many must apply their talents to jobs and with tools which do not challenge their full capacity and do not yield the end products which they are capable of producing.

FINANCIAL PROBLEM

The major problem of Israel today is the problem of capital. That is a major problem in many of the backward countries of the world. There is one difference, however, between Israel and most of the other countries which, I hope, will benefit very materially from the application of Point Four; that is, as pointed out before, Israel has a very considerable degree of know-how which does not prevail in many other countries. I do not mean to imply that Israel has talents and skills and knowledge in the same full degree that prevails in the United States. For instance, the level of productivity of the industrial plants in Israel is substantially lower than that in the United States. Partly, this stems from undercapitalization, lack of modern machinery and equipment, and lack of continuity in the flow of raw materials. Also, in many instances Israel lacks the latest scientific knowledge that is available.

The financial problem of Israel deserves a very considerable amount of attention and a clear understanding if we are to derive benefits from Israel's experience for the Point Four Program. As I said before, the development of any country depends not only on know-how

but also on the ability of that country to save part of its production and to secure added assets from foreign countries. An excess of imports over exports is needed if the rate of capital formation is to be stepped up and accelerated.

Now, most of the countries in the world which are undeveloped or underdeveloped unfortunately have such a low level of total income and total production that they cannot save very much of that production for investment in new facilities.

We often get into a vicious circle. A country which has a very high national income and is very productive has so much total production available that it can cut more deeply and more substantially into its total supply of goods and services for the purpose of expanding its public works and public utilities and industrial facilities than can less productive countries. The more advanced countries therefore can accelerate their development more easily.

A country which has a small stock of goods has great difficulty in setting aside any significant amount for expansion. That is the primary reason why the whole conception of Point Four must be related not only to technical assistance but also to provision of capital that goes along with that technical know-how. One without the other has limited value.

It would be absurd to introduce the most modern and advanced machinery in countries where the people do not know how to use it. The people must be taught industrial techniques and processes. On the other hand, just to teach an individual how to use the machinery is not very helpful, indeed it may be very frustrating, if the machinery is not available. That is why this whole Point Four Program must be two-sided, providing technical assistance and also capital and equipment.

The difficulties of Israel in trying to get adequate amounts of capital are probably going to be experienced by many other countries. It is a double job of enlarging internal sources of capital and getting maximum funds and assets from abroad. The Israeli Government, since the establishment of the state, has introduced a severe austerity program, which is designed to divert as large a percentage of the total production to investment and expansion as is possible. But no matter how severe that austerity program may become, I assure you that the amount of production which Israel can divert to capital goods is insignificant compared to its capital needs. That will also be true of many underdeveloped countries.

Let us not deceive ourselves into thinking that if only other people would be a little more cautious in their spending and a little more austere in their living, they could provide fully for quickly and substantially building up a modern industrial system. That is one of the problems we ought to take a second look at when we talk about balancing our international payments by greatly increasing our imports.

Many of these less developed countries do not have a great deal to export if they are going to develop themselves internally. What they need is not only large trade, but a *net* inflow of assets. They must get more from the outside world than they ship to the outside world. That is why we must look to an unbalanced trade relation between this country and the rest of the world in the years to come if we are going to implement Point Four significantly. We must accept as desirable an excess of exports over imports for the United States, and an excess of imports over exports for these countries which are to be developed.

Israel does not have productive capacity to the degree necessary to export

enough goods to bring in all the capital it needs. The country needs all it can produce and much more. It needs a net inflow of goods, of investment funds, of assets; and these needs are great even though the people have done an effective job of curtailing their standard of living by cutting way down on luxuries. That is not enough, and it will not be enough in the less advanced countries in the Far East or South America or the Near East or other parts of the world. We must provide some means for getting capital for them, or the differences in living standards will widen.

Loans inadequate

There are means available for the export of capital, but those means are far from adequate. Israel was able to get from the Export-Import Bank of this country a loan of \$100,000,000. That was highly desirable and very helpful. It is being used to take into that country pipe for irrigation, tractors, industrial equipment—all kinds of assets that are going to help in industrialization and the modernization of agriculture.

However, in relation to the total inflow of population and the consequent total needs, that \$100,000,000 does not begin to fill the gap. Whether Israel is going to get further loans from the Export-Import Bank, or whether other countries are going to get such loans in the magnitude needed, is a question of political views in this country. I fear we are not yet fully and realistically geared to meeting the needs in required amounts. Aside from the Economic Cooperation Administration, the program provided for through our own institutions is not consistent with the whole conception of Point Four, because the setup is on much too small a scale. As a matter of fact it is altogether possible that the Export-Import Bank may soon be getting more funds through repayments than it is disbursing through new

loans. Economically, that is tantamount to capital imports for the United States, and not capital exports.

The limit in magnitude is also true for the International Bank for Reconstruction and Development. That bank has done excellent work in financing many specific projects in many countries, but the total of loans to date is relatively small. Many of these countries need development loans which are not quite up to the standard which private banking practices require. The institutions which have been established to date are inclined to be so severe in their criteria as to apply almost private banking standards for their loans. Much easier terms and much more generous considerations than those being applied at the present time are essential if the job is to be done.

FLOW OF CAPITAL ABROAD

Now, Israel's experience might be valuable as far as private foreign investments are concerned, also. An increased flow of private capital from the United States abroad would be valuable, because when private capital flows out of the United States there is normally an accompanying export of know-how and of management for training purposes. This combination could be more effective and much more successful in stimulating development abroad than the export of governmental capital.

If the DuPont company were to build a plant in Lebanon or Indonesia or Israel, the probabilities are that there would be a better and more efficient export of American know-how than if the funds came through government channels. It is not that the latter would be without know-how, but there may be a more intimate and more effective tie-in between capital and know-how through private channels. Of course, there can be many disadvantages arising out of undue exploitation of local labor or ex-

cessive profiteering or even political corruption relating to private foreign investment. However, these can be controlled, and every effort should be made to encourage private foreign investment by Americans.

If we in America have any illusions about the size of the export of private capital in the coming months, we had better correct them now. A study of the statistics of the flow of private capital out of the United States for the last twenty years reveals an extremely discouraging picture which may well be indicative of future prospects unless new techniques are followed. Outside of mining and oil and a few assembly plants of some of our large enterprises, there has been little American capital going abroad through private channels. I have serious doubts whether the flow can be made very substantial without much more attractive incentives and greater security.

We must do everything in our power to stimulate private investment overseas, and I am certainly in favor of government measures to support convertibility of profits into dollars and to guarantee against loss from political confiscation or wars. But even with the maximum incentives which the United States Government and other governments may provide, my guess is that the export of private capital from this country to foreign lands will be small in relation to needs.

FOREIGN INVESTMENT ENCOURAGED

Israel has taken steps to encourage foreign investors, and not entirely without success. She recently passed the New Investment Law, which provides incentives for private capital. It allows, for instance, convertibility of profits and depreciation up to 10 per cent a year into the currency in which the investment is made. In other words, on an investment of \$1,000,000

in United States currency, Israel will assure the transfer back into dollars of as much as \$100,000 of profits and depreciation each year. This is certainly not unattractive, especially for an area where the currency situation is such as to make this provision a costly one.

Israel has agreed to allow investors to depreciate assets at double the normal rate in the first three years and 50 per cent above normal in the next two years. She has agreed that individual income tax will not exceed 25 per cent of income for the first five years on earnings of foreign investors. She has also provided quite a number of other incentives that are attractive.

The Israeli Government is hopeful of attracting foreign capital for industries to meet domestic demands so as to minimize imports, and also industries for export markets. There are real possibilities for American investors in Israel to take advantage of the soft currency markets by producing in Israel and selling in the soft currency countries. Israel needs all kinds of foreign currencies and can repay investors in dollars if the earnings in other foreign exchange for Israel are sizable.

In the past two years there has been a rather significant flow of private capital from the United States to Israel, in relation to the total flow of private capital from the United States; but it is insignificant compared to Israel's requirements. Some large companies like Kaiser-Frazer, and many smaller companies have entered Israel, and I believe they will find a favorable environment for substantial business opportunities.

But with all the incentives Israel provides, and no matter how liberal the interpretation may be, it is likely that the total flow will still be modest in relation to what is really needed. On the other hand, the fact that a flow of private capital is actually under way may start

a significant trend toward other countries, too. The flow of capital from the United States to Israel in the last year or two has been phenomenally large as compared with that to other countries. Part of that investment may have an emotional basis, but most of it has not. In organizations like Kaiser-Frazer, there is no emotion; they are businessmen. The fact that there has been a sizable increase in the private investment flow to Israel may lead the way to better understanding of the foreign investment problem and a testing of the incentives that may be necessary to achieve substantial investment by Americans in many foreign countries. But it seems to me that the overwhelming preponderance of capital funds that must go to any country under Point Four will have to come from government sources.

ECONOMIC ORGANIZATION

There is another point which I would like to add with respect to Israel, and that is the internal characteristic of its economy. Israel has a mixed economy which goes all the way from the ultimate in capitalism to the ultimate in communal life. In some of the agricultural communities the people practice a complete communal existence, where no assets at all are owned by individuals. They live together, work together, share together, and all the assets and production go into a common pot on which they live. They practice democracy, and one person is selected to be the bookkeeper, another the dishwasher, and another the mayor of the community. That is the extreme in one direction. On the other hand, 85 per cent of industrial activity in Israel is in the hands of private enterprise. There is profitability, very good profitability, in most industries. Yet even in the industrial sphere there are co-operatives which are owned and operated by the labor movement.

The economic organization of Israel is a fascinating mixture, and out of it may emerge something that will be useful and significant for other countries to adopt. But today we must concentrate on the international matter, and there Israel is going to be extremely interesting.

The Israelis are going to resent any tendency on the part of foreign governments or foreign people to come in and try to change their economic structure. If American private interests go in there and say, We will invest only if you get rid of your co-operatives, then private investment will not be welcome. If the American Government comes in and says, We will loan only to private enterprise and not to co-operatives, I do not think that will be welcome. The Israelis are trying to work out in their own democratic way the kind of economic organization which they feel will best fit their needs, and it will be well for us to encourage that policy everywhere.

There are other experiences in Israel that are extremely valuable, such as the developments in agriculture. One of the disturbing characteristics of Arab agriculture was that the land was divided into small parcels which did not permit effective production. What has been accomplished in Israel in irrigation and soil conservation may be useful to that whole area.

SUMMARY OF ISRAEL'S EXPERIENCE

Let us summarize the aspects of Israel's experience that may be useful in the Point Four conception. First there is the fact that Israel has developed amazingly with very meager natural resources. This is primarily because of the know-how, skills, and talents of her people. I would emphasize again and again that this human factor is the most important single requirement essential to the development of countries.

That is why the United States must do a real job in terms of technical assistance.

On the other hand, I would emphasize that the availability of capital from the outside world is highly essential for the application of skills that are present or can be developed to productive equipment and facilities that can bring about the rapid development of the country.

Therefore we in America, if we are going to think realistically and constructively in terms of helping backward areas, must never forget that those two sides of the story must fit together—the technical assistance on the one hand and investment funds on the other hand.

The experience Israel has had in attracting foreign capital, the investment law she has adopted, the way she has improved her agricultural system, the diversity of her industrial products—all of these can be really valuable examples to the United States.

IMPLICATIONS FOR MIDDLE EAST

Now, very briefly, what are the implications for the Middle East of this whole problem of economic development that has occurred in Israel? I have a feeling that the bases for economic relations between Israel and the Arab countries will improve month by month. Whether there will be political peace reasonably soon is a matter of conjecture, but there is such a mutuality of economic interests that peaceful relations are bound to emerge in the not too distant future. And if peace does come to the Middle East, which I hope it soon will, then the talents and the know-how and the industrialization that exist in Israel can be extremely helpful in speeding the industrialization of the adjacent areas—however, not in any imperialistic sense.

I would resist any tendency toward imperialism in the Middle East on the part of Israel or any other country.

However, the very proximity of Israel's know-how and industrial economy to those adjacent areas, some of which are hardly developed at all and some moderately developed, cannot help accelerating the industrialization of the whole Middle East.

The standards of living are very, very low in most Middle East countries, with variations from one country to another. Lebanon has the highest standard of living among the Arab countries and enjoys the highest degree of modern development. In the Hashemite Kingdom of Jordan, in Iraq, and in Saudi Arabia, the standards are extremely low. I share very firmly with the officials of our Government the conviction that very low standards of living will be in time and even now are the greatest threat to the democratic process and to maintaining peaceful relations with the democracies of the West. If low stand-

ards of living persist and deprivation and depression permeate the communities, the receptivity of the people to communism and other kinds of totalitarianism will necessarily grow rather than diminish. Therefore it is very important that the Middle East be industrialized and standards of living be raised there.

The possibilities of raising standards of living are great; the challenge and the difficulties of accomplishing it are even greater. If we in America want to have a strong force for democracy as compared with totalitarianism in the Middle East, we must begin to look there just as vigorously, just as aggressively, just as constructively, and on as large a scale as we have looked to western Europe under the Marshall plan. We have tremendous opportunities in the Middle East, but they will not be fulfilled without a great effort.

Robert R. Nathan, Washington, D. C., is president of Robert R. Nathan Associates, Inc., consulting economists, and is an attorney at law. He served in various departments of the United States Government over a period of twelve years, having held such posts as chairman of the Planning Committee of the War Production Board and deputy director of the Office of War Mobilization and Reconversion. In recent years he has been consultant to foreign governments, business concerns, and trade unions. He has written widely on economic matters and is the author of Mobilizing for Abundance (1944) and co-author of Palestine: Problem and Promise (1946).