SENATOR BYRD ON LOAN GUARANTEES AND U.S.-ISRAELI RELATIONS

[As chairman of the Senate Appropriations Committee and the lone dissenter on resolution 277 (see doc. D4), Senator Robert Byrd (D-WV) was allotted one hour of debate to control in the Senate's deliberation of the resolution. His remarks were taken from the Congressional Record, 1 April 1992.]

Mr. President, I wish to state my respect for the distinguished senator from New Jersey [Mr. Lautenberg] in offering the resolution. I am sorry that I have to oppose the resolution. I respect the views of all those who support it.

It is a sense-of-the-Senate resolution and, therefore, has no legally binding effect. But, Mr. President, it is a policy statement, nevertheless. The distinguished senator from New Jersey [Mr. Lautenberg] himself, stated when he introduced the resolution, it puts the Senate on record in support of loan guarantees to Israel.

I have found in the past that these sense-of-the-Senate resolutions, although they are not binding on anyone, they nevertheless, as I say, do constitute policy statements. Anyone who wishes may interpret the resolution as he wishes to interpret it. But I think it does send a message which is not the right message.

Mr. President, I, therefore, rise to speak in opposition to the resolution now pending before the Senate, and I do so because I have come to the conclusion that the loan guarantee program, as it has been proposed, does not serve the interests of the United States and, indeed, is not in the best interests of Israel. I am taking the Senate's time to outline my views on this important issue in some detail because the United States-Israeli relationship is extremely complicated with an extensive history. That relationship continues to have many ramifications, for both countries, which need exposition and examination. I think it deserves our careful attention and study. There is sometimes a tendency to oversimplify and view such issues from one perspective. I hope to provide a contribution to this debate that shows where we have been and where we are going in our relationship with Israel.

This resolution touches on many important issues for this body and for our country, and I hope that during our debate we will be able to address these issues—the real issues, not red herrings. We cannot be distracted by the false argument of whether this is a vote for or against Israel; we are all for Israel. This body and this country remain committed to Israel's right to exist, and to promoting peace and stability in the Middle East as the only way to ensure Israel's long-term security.

We must also not allow this vote to be cast as a decision as to whether the Senate supports the continued migration of thousands of Soviet Jews seeking to find safety and begin a new life in Israel. The Senate and this country have been rock solid in their support for Soviet Jews during the dark years of virtual imprisonment in a coun-

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try hostile to their faith and way of life. We took many steps, from trade restrictions against the Soviet Union to personal intervention by many of the members of this body, including myself, to relieve the plight of the Soviet Jews. The last thing this Senator would want to do is to prolong this dire situation, or make their escape to freedom from oppression any more difficult. Once again, the most effective way to provide that escape route is to work for a secure and economically viable Israel.

Our overriding concern must always be the interests of the United States. Does the proposal serve our interests and support our policies, which include working for peace in the Middle East and ensuring the well-being of Israel? If our policies help to foster a period of peace in the Middle East, then those policies will benefit Israel, allowing it to reduce defense expenditures and shift to a more steady and stable peacetime economy that will be able to absorb the new immigrants. A real question is whether or not this proposal contributes to that goal. It is not a question of support for Israel.

The real question is this, does the loan guarantee program that we have heard so much about, support U.S. policy by encouraging the ongoing peace process and by contributing to the security and economic stability of Israel? Our position on this issue could have a profound effect on the ongoing peace process in the Middle East; the region of the world most likely to draw the United States and others into continued conflagrations until the underlying causes of friction and poverty are relieved. The question is whether the longstanding policy of the United States opposing Israeli settlements in the disputed zones should be discouraged or encouraged. That issue is a fulcrum of our policy toward the future of the Middle East. The stated and demonstrated policy of the state of Israel is in direct contradiction to that of the United States regarding such settlements.

Our position could also have a major impact on the economic situation in Israel and we must consider a broad range of factors before embarking on such a massive new assistance program. Several important questions come to mind immediately. First, what in fact is the so-called Housing Loan-Guarantee Program money for? Is it as we have heard it described, an important humanitarian program of housing loans for immigrants? Or is it for something else, something much broader? Second, what is the likely impact on the U.S. taxpayer? Is the risk of default substantial and will huge liabilities accrue to our taxpayers? Third, what are the ramifications in terms of U.S. policy toward settlements and ultimate peace in the Middle East?

My view is that the economic rationale is questionable, and most of the funds may not end up as a direct humanitarian program for Soviet immigrants at all. Further, economic reforms which are needed in order for Israel to continue to be able to repay its debts are in some doubt. Infusion of new funds guaranteed by the United States, along with the additional money made available from other sources as a result of United States guarantees, may well work directly against economic reform and long-term stability in Israel, as well as running counter to United States policy toward settlements in the occupied territories and the peace process in the Middle East.

The distinguished chairman of the House Appropriations Subcommittee on Foreign Operations, Mr. Obey, held detailed hearings on this matter earlier this year.

I have read the record of those hearings, and a reading of that record suggests that the sums the United States is being asked to guarantee are not just for housing, or even principally for housing. Rather, the record suggests that the money is to be used in a comprehensive program of infrastructure development. Indeed the whole request might be more accurately labeled as a vigorous economic growth package for an economy which is weak, overly dependent on public sector and socialistic practices, and in need of market-oriented economic reforms.

Mr. Obey had three leading economists, all experts on the Israeli economy, who testified unanimously that any additional United States aid to Israel should be conditioned upon implementation of economic reforms. Otherwise, the aid would result in postponement of needed reforms, as has already happened several times in the past. Economic self-sufficiency is just as important as peace for Israel's long-run security. Israel's near economic collapse in 1985 proved that. Out of that experience, the Israeli government has formulated detailed plans for economic reforms. Some have been carried out, but nowhere near as many as are necessary to become self-sufficient. The longer these reforms are postponed, the longer the United States will be called upon for more aid to Israel.

The American people are apparently being asked to underwrite major new economic growth programs for Israel when we cannot develop them for our own desperately-need economy. We are being asked to guar-
antee funding for what appear to be wide-ranging infrastructure projects, running far afield from anything directly connected to Soviet immigration, at a time when United States spending on its own infrastructure is far lower than that being infused by our European allies into their economies. It is no wonder that foreign aid is held in such dispute by the American people.

Mr. Emanuel Sharon, a former Israeli finance minister, testified before Mr. Obey’s subcommittee that we are not really talking about housing guarantees here, but more so about money to be used for a wide variety of economic purposes. This is confirmed in a document provided by the embassy of Israel, “Absorption of Soviet Jewry Immigration,” that indicates that about half of the loan guarantees would go to the private sector for investments, and the rest would be divided equally between housing and infrastructure. There is no agreement between the government of Israel and the government of the United States as to how the money will be channeled, and the specific uses to which it will be put. The fact is that we really do not have any specific understanding as to how the money will be used. That should be an elementary predicate to even the consideration of a loan guarantee request. How many houses will be built? How much money will go for low-income housing, how much for moderate-, and upper-income housing? More particularly, who is going to be living in the housing—Soviet immigrants? Where will this housing be? The document of the Israeli Ministry of Finance is silent on these very salient questions. It does, however, talk about major projects in the infrastructure area, including transportation, energy, communications, and water resources. We have here plans for a new multibillion-dollar road system, a national arterial highway, billions more for a railway system and expansion of civil aviation, ports for $1 to $2 billion, sewer expenditures. What does all this have to do, except in the most indirect ways, with Soviet immigration? Are the American people prepared to simply underline a separate, very substantial, economic infrastructure package on top of the aid we are already giving Israel every year on terms more generous by far than for any other country?

Provision of the loan guarantees by the United States would have wider ramifications by enhancing Israel’s ability to attract additional money. Additional billions of dollars are reported to be available from private credit markets if the U.S. loan guarantee program is approved. Otherwise, these additional resources are reported to be unavailable. As Herbert Stein testified before Mr. Obey’s subcommittee, the money will simply be “in addition to the total resources of the Israeli economy and society.” Indeed, the package being requested by Israel is not really a package at all; it is simply a massive infusion of new funds for a flagging economy, on top of the billions we already provide for such purposes already.

Let us examine what existing Israeli economic policy is and how it needs to be reformed, not only so that we may be assured of Israel’s ability to repay the loans and relieve the United States of the liability such guarantees would incur but, even more fundamentally, so that we can address the question of whether providing these funds will tend to encourage the Israeli government to stand pat on economic reform, or to waffle on it, creating a negative effect on the long-term health of the Israeli economy. Our goal should be to stabilize that economy by weaning it off foreign loans and remittances so that it may stand on its own two feet. We must not encourage Israel to go down the path of deeper and deeper debt.

We have heard and read a great deal about Israel’s outstanding record of debt repayment. The resolution states that loan “guarantees will not result in any cost to the United States taxpayer.” Proponents say we are risking nothing by guaranteeing loans to Israel because it has never defaulted on a loan to the United States government. This, as best I can tell, is a true statement; however, it may not tell the whole story. The 1973 Congressional Quarterly Almanac contains a discussion of the $2.2 billion in emergency aid requested by the president and subsequently approved by the Congress in December 1973. Between the outbreak of the war and the consideration of the supplemental request, Israel had purchased over $1 billion dollars worth of military equipment that we had rushed to them without hesitation. The CQ Almanac points out that “the Foreign Military Sales Act provided that payment was due within 120 days of delivery. During congressional hearings, administration witnesses repeatedly stressed that without United States military grant assistance or credits Israel might default on these payments when they came due in February-March 1974.” In other words, in effect, we gave Israel the money to pay back its debt to us.

Again, in 1983, when the Israeli economy was facing a crisis and suffering from hyperinflation, the United States responded with a $1.5 billion supplemental appropriation.
Then in 1988 and 1989, Israel was allowed to refinance high-interest foreign military sales loans owed to the United States government. In an August 1989 report, the General Accounting Office estimated that the cost to the United States government of allowing Israel to refinance these loans was $1.2 billion. This refinancing not only made it easier for Israel to make its debt payments to us, but also saves Israel about $150 million a year in interest charges.

A final point to consider when evaluating Israel's record of prompt repayment is a provision included in every foreign operations appropriation bill since 1985. I will quote from the fiscal year 1991 bill. "Therefore, the Congress declares that it is the policy and the intention of the United States that the funds provided in annual appropriations for the Economic Support Fund which are allocated to Israel shall not be less than the annual debt repayment, interest and principal, from Israel to the United States government." It seems to me that by guaranteeing to make repayment to ourselves, and backing up that guarantee by rushing in with supplemental appropriations whenever there is a crisis, then Israel certainly ought to have a spotless record of repayment. But it also strikes me that this does not mean that loans and loan guarantees to Israel do not cost the United States anything.

The Department of the Treasury reported that, as of 30 September 1991, Israel owed the United States government $4.209 billion directly and we had contingent liability for another $6.199 billion in the form of loan guarantees. This resolution would endorse an increase in the U.S. government's exposure. That endorsement could ultimately lead to a sizable, additional risk to the U.S. taxpayer.

Beyond the question of repayment to the United States, there is a consensus that the Israeli economy needs to reform and move toward a more market-oriented system. Government there is too big. The share of government-owned corporations is still about 15 percent. The focus of reform should be in the direction of liberalizing capital markets, liberalizing trade, abolishing subsidies, privatizing government-owned corporations, easing labor laws and regulations that obstruct the adjustment of wage rates to market conditions, and reducing a web of economic regulations that tend to produce cartels and other inefficiencies in the economy.

These reforms are so important and basic that there has been a general feeling, shared, I know, by the chairman of the Foreign Operations Appropriations Subcommittee in the Senate, the distinguished senator from Vermont [Mr. Leahy] that the reforms must be implemented and that our aid should be conditional upon their being implemented. This is a task that is difficult but can be accomplished, according to informed witnesses, if enough political will is available on the part of the Israeli leadership. Mr. President, the resolution before us, unfortunately, is silent on the question of reforms. There is no requirement here that Israel should begin to put its own house in order as a condition of receiving any guarantees in the future.

Recent actions of the government of Israel do not resolve my doubts on the determination of that government to implement needed reforms. Last year, the government created 16 new monopolies, whereas one would hope that the trend would be in the opposite direction, which is to demonopolize the economy and infuse new competition into it. As Dr. Alvin Rabushka, of Stanford University, testified before Mr. Obey's subcommittee, the worry is that the "whole reform process will get nipped in the bud and the very changes that are required to make that economy grow, the people to be prosperous and free and to make the immigrant system work, will be stopped because there won't be the financial pressure to do it." So, there is an economic case to be made that provision of the loan guarantee package may be undesirable for those reasons, that it will relieve the financial pressure for reform and delay needed change. Other economists may disagree with the assessment, but the economic package itself and how it affects the necessary reform measures need examination and study, and that has apparently not been done. In addition, there is debate over whether there exists in Israel itself the resources that could be made available to substitute for this loan package. In other words, it may not be needed at all.

In February of this year, the GAO released a report, done at my request, that indicates the Israeli government would be able to fully service its external debt if it fully implements its major absorption plans. An internal Export-Import Bank report dated last 10 July states that the "expected buildup of external debt gives rise to concerns about Israel's ability to meet its future debt service obligations on a timely basis." It says the debt service burden should be manageable "if the country's domestic and external political and economic conditions encourage large capital inflows." Such capital infusion from private sources has not yet appeared. It goes on to say that the government has not implemented adequate economic reforms to deal with its looming financial and economic problems.
So the assumptions of repayment are based on implementation of reforms, and that is certainly a big question mark. Where is the evidence that the current Israeli government will implement such reforms?

Israel has maintained a highly socialized economy since its inception in 1948. The government runs every aspect of production, either directly, or indirectly through the Histadrut labor union, which fixes wages for 85 percent of the work force and owns companies which account for 23 percent of business revenue in Israel. The Institute for Advanced Strategic and Political Studies in Jerusalem recently reported that government expenditures will comprise 68 percent of GDP this year.

New business ventures arise only after a governmental grant of monopoly power. In 1991, the Israeli government granted 16 new monopolies. Investment capital and debt financing can only be obtained through the government, through government-owned banks, or through the Histadrut. There are no privately-owned banks in Israel. There is very little foreign investment in Israel, and there are no foreign banks. This means that the government is the primary source for Israeli job creation.

To cope with approximately 400,000 Soviet and Ethiopian immigrants since the fall of 1989, Israel offers to pay employers one-third of an immigrant’s first-year wages and one-quarter of their second-year wages. These subsidies result in make-work jobs which are unlikely to survive the end of the subsidy. Even with these subsidies, immigrants have suffered a 30-percent unemployment rate. Another 30 percent are enrolled in language classes. The remainder tend to be severely underemployed. These immigrants are highly skilled—25 percent are engineers, and 6 percent are doctors—but most of them can find only menial jobs. Israeli estimates that 450,000 jobs would have to be created over the next 5 years to accommodate the estimated 1 million Soviet immigrants. Another 170,000 jobs would be needed for normal population growth over the same period. Israel actually created only 132,900 jobs between 1985 and 1990. Israeli unemployment was running at historically high levels, in excess of 8 percent, prior to 1989, and it now stands near 10 percent. Per capita real GDP growth has been less than 1 percent annually for the past 3 years and shows little prospect of increasing beyond that level in the future.

Without job creation, retaining the immigrants will prove difficult. Recent polls find that a majority are advising relatives back in the former Soviet Union against coming to Israel. On 12 July 1991, the Jerusalem Post reported that a Tazpit Research Institute survey of Soviet immigrants found that 37 percent advised relatives to delay immigration to Israel, 15 percent counseled against coming to Israel at all, 8 percent recommended going to another country, 7 percent urged remaining in Russia, and only 32 percent said to come to Israel immediately. A follow-up poll reported in the 8 November 1991 Jerusalem Post found that 30 percent of all Soviet Jews who had arrived in Israel since September 1989 wished to emigrate from Israel, and over half now advised relatives to delay immigration to Israel. Peak monthly immigration in November 1990, reached 25,000, but immigration in January of this year, 1992, fell to only 6,200.

The original $10 billion loan request was apparently based upon an estimate of over 400,000 Jewish immigrants arriving in Israel from the Soviet Union in 1991 and over 1 million over a 5-year period. However, only 175,000 arrived in 1991, and the request has not been adjusted to reflect that reduction, as far as I know, so there is a rather loose connection between the request and the need as demonstrated by the facts. Taking on long-term debts to finance what could well prove to be only a temporary rise in immigration levels would postpone vitally needed economic reforms in the short run and increase the possibility of repayment difficulties in the long run.

Of real concern is the virtual lack of private foreign investment in the Israeli economy. From 1980 to 1990, the whole range of cash transfers from abroad, reparation payments from Germany, personal remittances, United States aid, et cetera, amounted to $40 billion, in comparison with only $1 billion in direct foreign investment. So, the entire economy is dependent on a collection of unilateral grants and transfers, augmented by loans. What is needed is some serious foreign investment in order to tie the Israeli economy to the global economy.

The Israeli economy has been in trouble and has experienced little growth since the mid-1980s. It has become more and more dependent on these external grants and loans. That is not a healthy situation, and we should not be taking action to further such dependence, and allow the avoidance of needed reform measures. Are we helping Israel in the long run to continue its dependence and to delay the implementation of measures which would make its economy more market-oriented and attractive to private investors? In Dr. Stein’s testimony, he said, “If the immigrants are successfully integrated into the Is-
rali economy, and if reasonable prospects of peace are established in the area, Israel will be able to dispense with aid from the United States government."

Certainly an atmosphere of peace would allow the Israeli government to reduce its defense expenditures and make for a more attractive investment environment. It seems clear, therefore, that the road to economic growth will go hand in hand with the creation of a more secure political and strategic environment in the Middle East. Thus, it is the peace process that is the key to political and economic stability, not additional aid programs that perpetuate Israel's dependence, and are conducive to the delay in making reforms.

In the face of all of the uncertainty in Israel, this proposed program would ask the American taxpayer to cosign a total of $10 billion in investment guarantees intended to prop up this unstable foreign economy at a time when we are telling the American people that we cannot afford to invest at home. Last week, the Senate failed to pass S. 2399, a measure that would have allowed us to move savings from the defense budget into the domestic discretionary accounts in order to fund desperately needed investment in infrastructure, housing, and job training, among other areas. These are exactly the kind of programs that Israel will fund with this $10 billion loan that we are being asked to guarantee.

The U.S. economy is barely strong enough to support our own needs, let alone to take on additional burdens overseas. This new month of April, our economy entered its 22d month of recession. In this century, only the 43-month Great Depression lasted longer. Unemployment stands at a 6-year high of 7.3 percent, but if we count discouraged workers, who have given up looking for work, and underemployed workers, who want full time jobs but cannot find them, then the unemployment rate is really 13.3 percent.

The duration of this recession and the weak recovery expected from it are not temporary phases in the business cycle. This structural weakness will be with us for a long time—too long. This weakness arises from our failure to invest on a par with our trading partners. Reversing these trends will not be accomplished easily. We need to retrain our work force and make the public and private investments necessary to keep up in an increasingly competitive world economy. We must upgrade our own infrastructure and our own work force first, before we start worrying about similar problems in Israel or elsewhere. Our effort to restore the health of the Ameri-

can economy will require resources which dwarf the administration's paltry $50 billion peace dividend, and which will force us to reconsider our budgetary priorities on a number of fronts, including this one.

At this point, I think it might be instructive to review the history of the relationship between the United States and Israel, and to examine in a little more detail exactly what support we have provided to Israel in the past and continue to provide at present.

In fiscal years 1949 through 1991, the United States provided $50.5 billion starting with a "B," billion dollars, in military assistance, economic support and food aid to the State of Israel. This represents approximately 13 percent of total United States foreign aid to all countries since the end of World War II, despite the fact that Israel did not become a major aid recipient until the early 1970s. Their $50.5 billion is more than we gave to Vietnam or Korea, and more than we provided to Great Britain during the Marshall plan. During the time period of 1949 to 1991, Israel also received an additional $2.5 billion in other aid programs. Of the $53 billion in total aid, $40.1 billion has been given since the Camp David Accords were signed in 1978.

We can see on this graph that during the 1950s and 1960s, the United States provided a small amount of assistance to Israel. This started as primarily food aid and loans for economic development. In the 1960s, we introduced a modest level of military assistance, also in the form of loans. That level increased significantly, to around $500 million a year, in the early 1970s. Then, following the 1973 Arab-Israeli war, we saw a major policy shift as total aid rose from $492.8 million in 1973 to $2.6 billion in 1974, a jump of 427 percent. The composition of the aid also began to shift from loans, for which we expected repayment, to outright grants. Of the $2.6 billion in aid which we provided to Israel in 1974, $1.6 billion was in the form of grants. The aid level then bounces around a little for the next 3 or 4 years, but averages out to around $1.85 billion, almost $2 billion a year. Then in 1979, following the Camp David Accords, the Congress approved a huge supplemental aid package for Israel and Egypt. Israel's assistance for fiscal year 1979 was $4.9 billion, almost $5 billion; 1980 saw the aid level drop back to just over $2.1 billion, but it has increased steadily since then to $3.7 billion in 1991. In 1985, we responded to an economic crisis in Israel by converting all military and economic support assistance to cash grants instead of loans, and by passing a
$1.5 billion supplemental aid package bringing the total appropriated in 1985 to $4.1 billion in grants.

Since 1979, Israel has accounted for 21.5 percent of our total foreign aid budget, including all multilateral as well as bilateral aid. During these years, the United States has pursued foreign policy objectives around the world and dealt with many crises. Over the 13-year period from 1979 to 1991, we pumped $2 billion into Honduras while that country was serving as the base for the United States-backed Nicaraguan Contras. During that same period, we gave El Salvador $4.2 billion in aid to fight the leftwing insurgents there, and we provided $3.9 billion in support for the Philippines. We also spend $5.9 billion in combined aid to the Afghan freedom fighters and the Pakistan government. More recently, we have bolstered the failing economies of Nicaragua and Panama as they continue to struggle with the transition to democracy. Since 1979, we also have provided almost $8 billion in assistance to Turkey, another important strategic, democratic ally in the Middle East region. Yet, during that period, 1979 through 1991, Israel has not only remained the No. 1 recipient of American largess, it has received $14.7 billion more than all of these other countries taken together. I repeat, Israel's 13-year total of $40.1 billion was $14.7 billion more than Honduras, El Salvador, the Philippines, the Afghan freedom fighters, Pakistan, Nicaragua, Panama, and Turkey combined.

Nor have we forgotten Israel in times of crisis. I have already mentioned the 427-percent jump in aid following the 1973 war, and the $1.5 billion supplemental appropriation during the economic crisis of 1985. And, of course, in 1990, the United States responded to the increased immigration of Soviet and Ethiopian Jews by providing $400 million in housing loan guarantees.

The United States also rushed to provide additional assistance during the Persian Gulf war. Early in the war, President Bush used his emergency authority under section 506(a) of the Arms Export Control Act to transfer to Israel two Patriot missile batteries valued at $117 million. The Congress appropriated an additional $650 million economic assistance grant, allowed the use of $200 million of Economic Support Fund money for the purchase of military equipment, and earmarked $300 million for the prepositioning in Israel of United States defense equipment that can be used by Israel in an emergency. Congress also authorized the President to transfer another $700 million in United States military equipment to Israel. Although the president has yet to make use of this authority, the Defense Department is preparing to transfer 10 F-15 aircraft, valued at $45 million.

Despite this unmatched foreign aid program, this is only part of the story. Israel derives many other benefits, both direct and indirect, from its special relationship with the United States. In addition to the $3.7 billion already identified in fiscal year 1991, Israel also received another 80 million dollars' worth of excess military equipment under the authority of section 516(c) of the Arms Export Control Act. So far in 1992, DOD has transferred $5.2 million using this same authority. And, as I mentioned, during the Gulf war the president used emergency authority to transfer to Israel two Patriot missile batteries valued at $117 million.

Additionally, items of assistance or special treatment that were contained in fiscal years 1991 and 1992 legislation are: Continued participation in the American Schools and Hospitals Grant Program representing $2.7 million for 1991; $7 million for Arab-Israeli cooperative programs, of which approximately half is spent in Israel; $42 million for joint research and development on the Arrow antitactical ballistic missile follow-on program. This amount increased to $60 million in the fiscal year 1992 Defense Appropriations Act; also, authority to use up to $475 million of its military aid in Israel instead of spending it in the United States. Although the president has the authority to allow countries to engage in non-United States procurement in certain limited cases, Israel is the only country that receives specific legislative authority and a designated dollar amount for such procurement; moreover, priority over every other country, except Turkey, to receive excess defense articles; additionally a major new petroleum reserve of 4.5 million barrels, worth $180 million, which is available for Israel's use in the case of an emergency; furthermore, $15 million to improve military facilities at the Israeli port of Haifa in 1991 and another $2 million in 1992 to study the costs of further improving the facilities to allow for full-scale maintenance and support of an aircraft carrier battle group; in addition thereto, specific inclusion in the Overseas Workload Program, allowing Israel to bid on contracts for the repair, maintenance, or overhaul of United States equipment overseas; and additionally $1 million in investment insurance in Israel, provided by the Overseas Private Investment Corporation.

Other, earlier legislative initiatives that provide continuing benefits to Israel include:
Immediate transfer each year of the $1.2 billion Economic Support Fund grant and the $1.8 billion military assistance grant. Thus, our grants to Israel are turned into interest-bearing assets for Israel while our own budget deficit is increased, resulting in higher interest charges to us. This immediate transfer created approximately $86 million in interest income for Israel in fiscal year 1991. Such an arrangement has been in place for the Economic Support Fund since 1982 and was extended to military aid in fiscal year 1991 and applies to no other country; moreover, debt restructuring that took place in the late 1980s allowed Israel to lower interest payments by an estimated $150 million annually; additionally, the fair pricing initiative within the Foreign Military Sales Program that allows Israel to avoid certain administrative fees normally charged on foreign military sales. This benefit saves Israel an estimated $60 million in 1991.

Mr. President, I have gone through this litany of aid, assistance, and special treatment not necessarily because I feel that any particular program is unwarranted or excessive, but because I think it is important, if we are going ultimately to endorse a huge new assistance program, to remain aware of the current high level of support that we already provide to this single nation. We have provided Israel with multibillion-dollar aid packages since 1974, and both the United States and Israel have very little progress to show for it. Israel has become dependent on both our economic and military assistance. Our aid has enabled Israel to maintain its enormous military capability, put off much needed economic reforms, and avoid making serious progress in solving its problems with its neighbors. Israel must, for its own good, start to stand on its own and cut itself free of a dependence that is really a roadblock to progress, both economically and from the standpoint of achieving security, and it is a dependence that will have no end otherwise.

As we consider increasing Israel's reliance on the United States and conversely, United States involvement in Israel, we should examine how well another aspect of that friendship has been functioning recently. Over the last 2 weeks, the press has been rife with reports of questionable arms transfers from Israel to such countries as China and South Africa—transfers that may involve United States technology, in violation of agreements between our two nations.

Of the more than $40 billion that the United States has provided in aid to Israel since 1979, $23.3 billion has been military assistance. As we can see on this chart, Israel's arms exports have grown considerably during that time, and our assistance has certainly helped promote the arms export industry in Israel. Since 1984, Israel has been allowed to use a portion of its foreign military financing credits for procurement of Israel-made military items. Unlike other countries that receive United States military assistance, Israel does not have to spend all of those funds to purchase United States equipment. In 1991, of a $1.8 billion military assistance grant, we allowed Israel to use $475 million to buy the output of its own defense industry instead of American-made products. Moreover, Israel was allowed to spend an additional $150 million of the 1991 grant for its own research and development in the United States. We also have provided $126 million in funding for the development of the Arrow antimissile defense system in Israel, with another $60 million appropriated for the Arrow follow-on in fiscal year 1992, and the prospect of several hundred million more dollars in the future.

Given our involvement with, and support of the Israeli defense industry, I think it is quite proper for us to fully air these charges of improper arms transfers. An article in the Wall Street Journal of 13 March 1992, lays out the charges that will reportedly be made in an upcoming report by the State Department inspector general. The Wall Street Journal article says that the report "will summarize intelligence reports of the apparent Israeli violations of United States regulations and agreements." It goes on to say that "The classified intelligence provides 'overwhelming' evidence, according to senior U.S. officials, that Israel has re-exported weapons containing United States technology without first obtaining Washington's approval for the sales, as the United States requires."

Israel is accused of taking United States components and including them in its own products and then selling those products to third countries. The kinds of products we are talking about are such things as the Israeli versions of the United States-made AIM-9L Sidewinder air-to-air missile and TOW-2 antitank missile. Obviously, we want to maintain strict control of this kind of sophisticated technology, and, if the reports are true, Israel certainly has violated the spirit, if not the letter, of agreements between our two countries. The staff of the inspector general's office has informed my staff that they expect to release the report and a classified annex within days. I look forward to that release so that any further discussion on this topic will not have to
be based on press reports only.

To whatever extent these charges have merit, I consider them to be symptomatic of the problems caused by the attitude that Israel is somehow exempt from the laws, rules, regulations, policies, et cetera, that apply to other countries. Those who hold this view seem to think that we are still immersed in the cold war, when Israel was a bulwark against Soviet expansionism in the region, when Israel's strategic importance in the East-West conflict may have outweighed the necessity to focus on a solution to the region's own intractable, internal problems. We should wake up to the reality which has been slow to dawn on many, including our own Pentagon, that the cold war is over and the real threat to stability in the Middle East lies in the tension between Israel and its Arab neighbors. And that tension only increases as a result of the continued expansion by Israel of settlements in the occupied territories.

Every United States President since Lyndon B. Johnson has called for Israel to withdraw from the occupied territories with the caveat that some adjustment might be made to ensure Israel's security. The Congress has always supported this policy, and, in 1990, when the United States provided $400 million in housing loan guarantees, it was explicitly linked to the settlements so that none of the money could be spent in the occupied territories. Unfortunately, this linkage was not enough to influence Israeli policy in any way. The GAO report issued in February found that the guarantee program, as restricted, "did not influence the Israeli government's decisions on where to build new housing or on how much settlement activity to undertake in the occupied territories." Indeed, the number of settlers in the occupied territories has risen from 75,000 in 1989 to 104,000 in 1991.

I would like to point out, Mr. President, that the Israeli government's policies and practices regarding the settling of the disputed territories—the West Bank, East Jerusalem, the Golan Heights and Gaza Strip—is very clear: settlement has greatly accelerated during the last 2 years; two to three times, in comparison with a period a year earlier. There is no restraint, as one might reasonably expect with the development of the peace process and the rising concerns from the United States over the settlement policy—no restraint whatsoever. There is clearly a clash of policy goals between the current government of Israel and the United States.

The problem is that the recent policy of the Israeli government is to aggressively promote settlement in the disputed territories. There is the appearance of preemption here—fill the territories with Israeli settlers and thus exert maximum leverage to forever keep the lands and have de facto sovereignty over them. According to Geoffrey Aronson, of the Foundation for Middle East Peace, who testified before Mr. Obey, the government of Israel in 1991 allocated $2 billion for settlement-related purposes, funding construction of 19,999 housing units in the West Bank and Gaza. This figure is larger than the combined construction expenditures from 1968 to 1984. According to Mr. Aronson, there is a government of Israel plan for 106,000 housing units in the West Bank, which would increase the Israeli population in the West Bank by 400,000, at a cost of some $13-$14 billion. The Israeli government will not publish statistics on its plans, but enough information is available to raise the alarm over the accelerated pace of settlement taking place at the same time that a historic negotiation is underway with the Palestinians over the future of those lands. Public information and reports put the Israeli investment in settlement activity in the occupied territories at more than $3 billion in 1991.

The Israeli government's key policy priority seems to be that of settling the occupied territories at the fastest possible pace, a policy priority that seems to be ahead of absorbing Soviet immigrants per se. It seems fair to conclude that the loan guarantee money may well be used to further that key Israeli policy, rather than primarily for immigrant housing.

How many of these settlers are Soviet immigrants? Perhaps 10 to 20 percent. The Israeli government has put together a package of mortgage and other financial incentives to entice Soviet settlers into the occupied territories. So, Mr. President, we have a right to ask how much of the housing guarantee, or economic development package, that is before us in this amendment will go toward creating a market for settlement on the West Bank and in other occupied territories.

There are some who argue that settlement activity enhances Israeli security. That is a somewhat dubious theory. The Israeli army would be hamstrung in its defense efforts if it first had to deploy to the settlements and protect the settlers. The choice would be to defend the State of Israel from an invasion and leave the settlers to their own devices, or to split its forces to include defense of the settlements. This is a security nightmare and a military planning nightmare. It is not an enhancement of Israel's security.

The Bush administration's policy, as I understand it, is that any loan guarantees must
be accompanied with a complete and permanent freeze in Israeli civilian construction and related expenditures in the occupied territories. There is no freeze provision in the resolution before the Senate. A freeze has been rejected by Mr. Shamir. So the question raised by the pending resolution is clear: Do we support Mr. Shamir's policy of rapid settlement of the occupied territories through provision of U.S. financial largess even though such policy runs counter to longstanding U.S. policy? If the answer is yes, then the prospects for a negotiated settlement, including the disposition of those lands between the Israelis and the Palestinians, would, in my opinion, be dealt a severe blow. If the negotiations fail and there is not any prospect for a lessening of tensions in the Middle East, all of the negative long-term economic consequences follow: little or no foreign investment in Israel, high Israeli defense spending, continued confrontations with Israel's neighbors, further delay of economic reforms, and continued long-term dependence on United States aid. This is a formula to continue a cycle of dependency. The administration is working hard to break that cycle, and I believe this Senate should endorse that policy by rejecting the resolution before us.

We have poured foreign aid into Israel for decades at rates and terms given to no other nation on Earth. And we are the only nation to have done so. Our European allies provide, by comparison, nearly nothing. Beyond the massive economic and military aid, however, in our so-called strategic relationship with Israel, we have served as a protector almost in the same sense as the government of the United States would protect one of its 50 states.

Now, we hear the disturbing allegations that Israel has made a market of weapons around the world with the aid of components provided by the United States, violating bilateral export control agreements under which the technology was provided. It has also become clear that the previous housing guarantees of some $400 million provided by the United States had no effect on settlement policies in the disputed territories, and that no restraint has been evident in connection with those guarantees, according to the February GAO report.

It is clear that despite this massive infusion of foreign aid, Israel is no closer to economic sufficiency than it ever was. The United States must take steps to wean Israel from the pipeline of United States foreign aid, and to discourage that government from relying on arms exports to help shore up a flagging economy. Likewise, it is just as important for the United States to encourage Israel's Arab neighbors to demonstrate a commitment to the peace process. The Arab states should immediately end their economic boycott of Israel, and I would encourage President Bush and Secretary Baker to push hard for the removal of this barrier to peace. The boycott is a continuing reminder of Arab hostility toward Israel, and we should work to bring it to an end.

In summary, Mr. President, my principal objection to this resolution is that it puts the U.S. Senate on record in favor of American financial support for a policy which is in direct opposition to the central pillar of standing U.S. policy on land disputes in the Middle East. It could easily be interpreted as support for the continued establishment of Israeli settlements in the occupied territories. This will work against an equitable negotiated settlement on the status of those lands, which is a keystone to peace in the Middle East.

Second, provision of yet more financial transfers, via a loan guarantee program, perpetuates Israeli dependency on nonmarket factors to prop up its economy. Israel's dependency on the United States is too deep, and such an overly dependent situation inevitably breeds resentment on the part of the dependent entity. Everyone agrees that market-oriented reforms in Israel are desperately needed to infuse real economic growth from within and attract foreign investment from abroad. Only economic reforms, not continued transfers of money, will put Israel on the road to true independence and economic stability.

In essence then, there is no reference or conditionality in the resolution linking loan guarantees either to the need for fundamental economic reform of the Israeli economy or to an end to the settlement practices in the occupied territories of the current Israeli government.

Mr. President, my opposition to this resolution is about our commitment to the deeply important values that underpin U.S. policy aimed at peace in the Middle East. The resolution does not further the peace process, and if loan guarantees were in fact issued, they would increase Israel's dependence on foreign assistance and make it easier to delay much needed economic reforms. Let us carefully weigh the consequences of our decision and send a message which is in the best interests of both Israel and the United States.