United States Economic Assistance to Israel: 1949-1960

Eldin Ricks

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Abstract
Amidst the cross currents of events that influenced the power centers of the world in the first half of the twentieth century, the State of Israel was born in the year 1948. The new nation was denied the privilege of trading with its Middle East neighbors but succeeded in gaining succor from distant friends, one of which was the United States of America. This treatise is concerned with the motives prompting the U.S. government economic aid to the fledging Mediterranean power, with the nature and magnitude of aid extended, and with Israel’s utilization of that aid. The period under review is 1949 to 1960, although the limits suggested by these dates will be lifted as often as the need arises.

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UNITED STATES ECONOMIC ASSISTANCE TO ISRAEL: 1949-1960

by

Eldin Ricks

A Dissertation

submitted in partial fulfillment of the requirements

for the degree of

Doctor of Philosophy

The Dropsie University

Philadelphia

1970
APPROVAL

This dissertation, entitled
UNITED STATES ECONOMIC ASSISTANCE
TO ISRAEL: 1949-1960

by

Eldin Hicks
Candidate for the degree of
Doctor of Philosophy

has been read and approved by

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While thus expressing appreciation for the kindness and cooperation of the above, the writer declares himself alone to be responsible for the treatment accorded the materials that have been placed at his disposal.
TABLE OF CONTENTS

LIST OF TABLES ........................................... v

LIST OF APPENDICES ....................................... vii

Chapter

I. INTRODUCTION ........................................... 1

PART I. MOTIVATIONS, PROBLEMS, AND AID FORMS

II. MOTIVATIONS AND OBJECTIVES OF U.S. AID TO ISRAEL 14

Domestic Motivations
Foreign Policy Objectives

III. PROBLEMS AND TRENDS OF THE ISRAEL ECONOMY ... 39

Immigration and Population
The Requirements of National Security
Employment and Unemployment
Wages, Prices, and the Cost of Living
Devaluation
Gross National Product
Israel's Import Surplus and How It Was Financed

IV. FORMS AND AMOUNTS OF U.S. AID ................. 63

Export-Import Bank Dollar Loans
Mutual Security Program Grants and Loans
Development Loan Fund Loans
Technical Assistance
Agricultural Surplus Assistance under Public Law 480 Title I
Agricultural Surplus Assistance under Public Law 480 Title III and Prior Authorizations
Informational Media Guaranty
A Chronological Review of Major Programs
The Role of Local Currency
PART II. SOME EVALUATIONS

V. PUBLIC LAW 480 TITLE I ASSISTANCE ....... 101
   Introduction and Background
   U.S.-Israel Sales Agreements under the
   Title I Program
   Some Effects of Title I Local Currency
   Utilization of Title I Commodities
   The Program in Retrospect

VI. TECHNICAL ASSISTANCE ................. 121
   Introduction and Background
   Illustrative Technical Assistance Projects
   Evaluation of Participant Training
   Some Comparisons
   The Rise of Israeli Technical Assistance
   and the Decline of American Technical
   Assistance

VII. INVESTMENT ASSISTANCE ............... 163
   The Country Situation
   Promotion of an Industrial Development Bank
   Assistance to Small Industry
   Encouragement of Private Investment
   An Improved Climate for Private Investment

VIII. LIMITATIONS AND RESTRICTIONS ...... 188
   Israeli Limitations and Restrictions
   American Limitations and Restrictions

IX. REFLECTIONS AND CONCLUSIONS .......... 208
   Relation of the Program to the
   U.S. Balance of Payments
   Relation of the Program to U.S. Purposes

APPENDICES .................................... 216

BIBLIOGRAPHY ................................. 274
**LIST OF TABLES**

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Immigration and Population</td>
<td>44</td>
</tr>
<tr>
<td>2. Consumer Price Index</td>
<td>52</td>
</tr>
<tr>
<td>3. Balance of Foreign Trade</td>
<td>57</td>
</tr>
<tr>
<td>4. Israel's Capital Imports, CY 1949-1960</td>
<td>59</td>
</tr>
<tr>
<td>5. Export-Import Bank Dollar Loans to Israel</td>
<td>70</td>
</tr>
<tr>
<td>6. Breakdown of First Grant-in-Aid</td>
<td>73</td>
</tr>
<tr>
<td>7. Breakdown of Second Grant-in-Aid</td>
<td>75</td>
</tr>
<tr>
<td>8. Uses of Mutual Security Program Grants and Loans by Sector Excluding Development Loans</td>
<td>79</td>
</tr>
<tr>
<td>9. Dollar Value of Aid Extended through Surplus Agricultural Commodities (All Programs)</td>
<td>87</td>
</tr>
<tr>
<td>10. Composition of Total U.S. Dollar Assistance to Israel</td>
<td>94</td>
</tr>
<tr>
<td>12. Dollar Value of Commodities Included in Public Law 480 Title I Sales Agreements with Israel</td>
<td>111</td>
</tr>
<tr>
<td>13. Obligated Uses of Israel Pounds Accruing to the Credit of the United States Government from Public Law 480 Title I Commodity Sales</td>
<td>112</td>
</tr>
<tr>
<td>14. Technicians and Participants by Field of Activity, 1952-1960</td>
<td>159</td>
</tr>
<tr>
<td>Table</td>
<td>Page</td>
</tr>
<tr>
<td>-------</td>
<td>------</td>
</tr>
<tr>
<td>17. Loans Classified by Industry Categories</td>
<td>219</td>
</tr>
<tr>
<td>18. Loans Classified by Character of Ownership</td>
<td>221</td>
</tr>
<tr>
<td>19. Loans Classified by Size (Capitalization) of Enterprises</td>
<td>222</td>
</tr>
<tr>
<td>20. Loans Classified by Location of Enterprises</td>
<td>223</td>
</tr>
<tr>
<td>21. Loans Classified by Export Activities</td>
<td>224</td>
</tr>
</tbody>
</table>
# LIST OF APPENDICES

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Case Study of a Local Currency Loan Project for Industrial Expansion</td>
<td>216</td>
</tr>
<tr>
<td>B. Israel's &quot;Third Arm&quot; Concept, January 1960</td>
<td>227</td>
</tr>
<tr>
<td>C. Text of Note Presented by the Ambassador of Israel, Abba S. Eban, to the Secretary of State--Request for Grant-in-Aid</td>
<td>235</td>
</tr>
<tr>
<td>D. Distribution of Public Law 480 Title III Food Surpluses under Hadassah Project &quot;416&quot;</td>
<td>243</td>
</tr>
<tr>
<td>E. Israel: Surplus Agricultural Commodities. Agreement, with agreed minute and memorandum of understanding, signed at Washington November 7, 1957; entered into force November 7, 1957. Agricultural Commodities Agreement between the Government of the United States of America and the Government of Israel under Title I of the Agricultural Trade Development and Assistance Act</td>
<td>249</td>
</tr>
<tr>
<td>F. Israeli Technical Cooperation. Agreement signed at Tel Aviv May 9, 1952; entered into force May 9, 1952. Agreement for a Technical Cooperation Program between the Government of the United States of America and the Government of Israel</td>
<td>258</td>
</tr>
<tr>
<td>G. USOM/I Preliminary Audit Review of Special Account &quot;G&quot; - Audit 61-6</td>
<td>267</td>
</tr>
</tbody>
</table>
CHAPTER I

INTRODUCTION

Amidst the cross currents of events that influenced the power centers of the world in the first half of the twentieth century, the State of Israel was born in the year 1948. The new nation was denied the privilege of trading with its Middle East neighbors but succeeded in gaining succor from distant friends, one of which was the United States of America. This treatise is concerned with the motives prompting U.S. government economic aid to the fledgling Mediterranean power, with the nature and magnitude of aid extended, and with Israel's utilization of that aid. The period under review is 1949 to 1960, although the limits suggested by these dates will be lifted as often as the need arises.

American experience with the business of bolstering alien economies had not had a long history when Israel, soon after gaining statehood, requested economic assistance. For decades, in fact, the American economy itself had been the recipient of large sums of capital from European investors. By 1913, three-fourths of the funds required to build our railways had come from Great Britain, a country that provided altogether $44 billion for various U.S. enterprises.¹ Then, 

with the outbreak of World War I, nations engaged in the struggle against Germany liquidated their U.S. holdings and borrowed, during the conflict and after, over $10 billion from the United States government. These loans helped to finance purchases of supplies and equipment, and almost overnight America made the transition from a debtor to a creditor nation.\(^2\) Part of the assistance given consisted of various forms of direct relief that began with the formation of the Commission for the Relief of Belgium in the fall of 1914. This Commission, headed by Herbert Hoover, served as the buying and shipping organization for all relief supplies to the occupied regions of Belgium and Northern France for the entire duration of the war. Supplies for the needy were also furnished to the allied nations through the United States Food Administration from 1917 to the signing of the Treaty of Versailles in 1919. During the Reconstruction Period that followed, relief was extended to sixteen countries.\(^3\)

One of America's chief relief clients during this period was Soviet Russia. Almost immediately after its declaration of war against Germany, Russia had begun to suffer from want of food. Shortages were not, at first, the result


of crop failure but rather the result of transportation bottle-
nocks and financial problems. In the spring of 1921, however,
Russia was afflicted with a devastating drought, which rendered
a large portion of the nation's farmlands unproductive. Within
a few months an estimated 25,000,000 people were facing famine,
and the situation was out of control. Starving and diseased
refugees deserted the villages by the thousands and poured into
the cities. At length, the Soviet Government, by way of Maxim
Gorky, appealed for help; and in the wake of an agreement
signed August 20, 1921, food and clothing were provided under
the supervision of the American Relief Administration. In
point of tonnage, Russia was the largest recipient of relief
assistance during the Reconstruction Period, the dollar value
of which assistance was over $63 million.

Through the several relief activities of the American
government and its citizenry, aid extended to nations abroad
from 1914 to 1924 amounted to $5.2 billion. Thus through
loans for the purchase of American goods and supplies and
through outright gifts, World War I and its aftermath provided
the United States with its first significant exposure to what
has since come to be called "foreign aid."

America's next major excursion into foreign assistance
was a program called lend-lease that was instituted in 1941 a

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4 Ibid., pp. 243-245.
5 Ibid., p. 7.
few months before U.S. entry into the Second World War. The success of the Axis Powers in the early stages of the conflict left Great Britain without effective allies to carry on the fight. Moreover Britain was witnessing the depletion of her dollar resources and the destruction of her merchant marine by the German navy. Because President Roosevelt and the Congress felt that a German victory would endanger the economic and military security of the United States, they determined that help, short of war, should be given to Great Britain. In time lend-lease assistance was extended to Great Britain and several other countries in the form of equipment, supplies, and defense information. 6

An experiment in multi-lateral aid followed the launching of lend-lease. In 1943 the principal allied nations involved in World War II agreed to provide relief to war-torn countries. Although it preceded formation of the United Nations Organization, the international agency created by this four nation accord was designated the United Nations Relief and Rehabilitation Administration (UNRRA). Americans soon lost enthusiasm for the program, however, when certain East European governments accepted relief but declined to report its disposition. The United States, which supplied 70 percent of UNRRA's funds, discontinued contributions in 1947; and the institution came to an end.

Even during the UNRRA period the greater part of U.S. aid was extended on a bilateral basis outside the UNRRA framework and took the form of financing the country's exportable surplus. Such bilateral relief, which was continued after the demise of UNRRA until 1951 to Austria, China, Greece, and Italy, is referred to as Post-UNRRA aid. In addition, from 1946 to 1951 America, as a subscriber to the Geneva Convention, performed relief and rehabilitation work in areas that its armed forces occupied. This program was called "Government and Relief in Occupied and Liberated Areas" (GARIOA).

About the time that the United States stopped supporting UNRRA, a new foreign assistance program, instituted by congressional enactment of the Greek-Turkish aid bill in May 1947, inaugurated the American policy of containment of Soviet Russia. Three months earlier, Britain had made the sudden announcement that she no longer could provide economic and military assistance to the two Mediterranean countries. The disturbing thing about this news was that Russia was demanding of Turkey a share in the control of the Dardanelles, and communist guerilla warfare was being waged in Greece. It thus appeared certain that a precipitous withdrawal of British support would invite Russian domination of the whole area. Being moved to action by these ominous developments, Congress

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approved a request from President Truman for $400 million to strengthen both countries. ⁸

Secretary of State Dean Acheson, in defending the Administration's request before the House Foreign Affairs Committee, said:

I need not emphasize to you what would more than likely be the effect on the nations in the Middle East of a collapse in Greece and Turkey, and the installation of totalitarian regimes there. Both from the point of view of economics and morale, the effects upon countries to the east would be enormous, especially if the failure in Greece and Turkey should come about as the result of the failure of this great democracy to come to their aid. On the other hand, I ask you to consider the effects on their morale and their internal development should Greece and Turkey receive a helping hand from the United States, the country with which they closely associate the principles of freedom. It is not too much to say that the outcome in Greece and Turkey will be watched with deep concern throughout the vast area from the Dardanelles to the China Sea.⁹

Although $400 million was the amount approved by Congress, a large quantity of surplus equipment from the United States armed forces was provided the two countries at a fraction of the original cost. ¹⁰ As a result of this assistance and its implied message to Russia that the United States might be willing to adopt sterner measures to maintain the independence of Greece and Turkey, the crisis soon

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⁸ An Act to Provide for Assistance to Greece and Turkey, Statutes at Large, Vol. 61, 1947, pp. 103-105.

⁹ U.S. Congress, House, Committee on Foreign Affairs, Assistance to Greece and Turkey. Hearings on H.R. 2616, 80th Cong., 1st sess., 1947, p. 5.

passed. Subsequent aid to Greece and Turkey was incorporated in the Marshall Plan.

While the Greek-Turkish Assistance Act of 1947 was still being debated in Congress, plans were being laid for a four-year design for the economic rehabilitation of Europe. This program came to be known as the European Recovery Program or Marshall Plan. Europe had suffered disastrously from the war, and American policy makers were fearful that the economic downfall of Western Europe would lead to its political collapse and communist subversion. In response to this threat, Secretary of State Marshall used the occasion of a commencement address at Harvard University, June 5, 1947, to announce the general outline of a program to solve the economic ills of nations that would cooperate in a regional self-help effort. The proposal was taken under consideration by Congress and led to the passage the following spring of the Economic Cooperation Act of 1948, which was part of the Foreign Assistance Act of that year.11 In the meantime Congress met in special session in November and passed an emergency "interim aid" measure that authorized $597 million to help France, Italy, Austria, and China to get through the winter.12


12 U.S. Legislative Reference Service, Foreign Aid, pp. 35-73.
The European Recovery Program required that benefiting nations engage in joint economic planning and set up a continuing organization for that purpose. In response to this demand a sixteen-nation Organization for European Economic Cooperation came into being in April 1948. This group calculated the joint needs of participating nations and recommended to the United States the allocation of aid funds. America's experience in this cooperative economic planning venture laid the groundwork for yet other schemes that in the post-war years were aimed at the economic unification of Western Europe.

Marshall Plan aid was administered by the Economic Cooperation Administration (ECA). Assistance was extended mainly in the form of grants of credit for the purchase of American goods through private trade channels. Such commodities were sold to citizens for local currency that went into counterpart funds equal to the value of the American grant. Whereas 95 percent of such proceeds was available to the government of the recipient nation for recovery purposes, 5 percent was available to the United States for American administrative expenses and for the stockpiling of raw materials.¹³

Marshall Plan countries responded positively and quickly to the stimulus of American aid, and both industry and agriculture soon were soaring above their prewar production levels. It would be a mistake, however, to overestimate

¹³Morley, Patchwork History, pp. 21-22.
the role of U.S. assistance in the economic recovery of Europe, for Europe had the will, the know-how, the managerial talent, the labor force, and the markets merely waiting to be tapped. As appraised by the Legislative Reference Service of the Library of Congress,

One of the clearest conclusions that emerges from examination of the Marshall Plan is that the high achievements that were obtained came in large measure from the initiative taken by the receiving countries rather than from the billions of American grant aid. American dollar aid was of critical importance, particularly in providing scarce materials at the right time and in creating the bases for financial stability, but without wholehearted European drive for recovery this dollar aid would have been of little significance, for at no time was it more than a small fraction of the gross national product of most of the receiving states.

The year following passage of the Economic Cooperation Act of 1948 which launched the European Recovery Program, the North Atlantic Treaty Organization (NATO) was formed to forestall the possibility of a military takeover of western Europe by Russia and her allies. The United States' participation in the new alliance then called for passage of additional foreign aid legislation to provide military supplies. The Mutual Defense Assistance Act of 1949 was the congressional answer to this need.

At the same time that the North Atlantic Treaty was being negotiated as a military defense against communist expansion in Europe, American foreign policy framers were seriously considering what they believed to be a further

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11U.S. Legislative Reference Service, Foreign Aid, p. 45.
economic defense against the appeal of communism in underdeveloped countries. This device was the sharing of technical knowledge and skill with needy nations on a bilateral basis and also the giving of greater support to multilateral programs of technical assistance. Under the official but euphemistic label of Technical Cooperation, this policy represented the next step in the unfolding drama of America's economic efforts in the "cold war." The new long range program, inaugurated with the passage of the Act for International Development June 5, 1950, was incorporated in the Foreign Economic Assistance Act of 1950. And because, when originally broached to the American public, it happened to be the fourth point of a statement on foreign policy by President Truman in his 1949 inaugural address, it came to be known popularly as the Point Four program. The new legislation now opened the doorway for a considerable number of foreign governments to apply for U.S. assistance.

The sudden outbreak of war in Korea in 1950 was regarded by the "free world" as evidence that the communist camp was still willing to resort to force to achieve its goals. The new threat brought about a shift of emphasis in the European Recovery Program from purely economic aid to military support. In December a spokesman for ECA made this change clear with an announcement that commodities essential

to rearmament would henceforth be given priority and that the 
agency was turning to the task of bolstering European de-
fenses. Eight months later Congress passed and the President
signed into law the Mutual Security Act of 1951, which
brought programs of military, economic, and technical assist-
ance (excepting only the Export-Import Bank) under the
Mutual Security Agency (MSA). Not only was the goal of
security embodied in the title of this new instrumentality
of the U.S. government, but it was also set forth as follows
in the Act itself:

No economic or technical assistance shall be supplied
to any other nation unless the President finds that the
supplying of such assistance will strengthen the security
of the United States and promote world peace, and unless
the recipient country has agreed to join in promoting
international understanding and good will, and in main-
taining world peace, and to take such action as may be
mutually agreed upon to eliminate causes of international
tension.16

It was with passage of the Mutual Security Act of 1951
that economic aid to the state of Israel emerged into the
limelight. It was then that Israel became a full-fledged
beneficiary of American largesse. This is not to say that
the young country had not already received sizeable hard cur-
rency loans--$135 million, to be exact--from the Export-
Import Bank in 1949 and 1950 and upwards of $23 million in
U.S. government owned surplus agricultural commodities by
way of private charitable relief agencies in 1950 and 1951.

16Mutual Security Act of 1951, Statutes at Large,
Vol. 65, sec. 511 (b), 1951, p. 381.
The new legislation, however, specifically spelled out Israel's eligibility to obtain grant funds, which amounted to $63.5 million during the ensuing fiscal year. U.S. technical assistance also was extended for the first time to Israel under authorization provided by the 1951 legislation.¹⁷

From 1949 to 1960 the United States government provided Israel $741.6 million in economic benefits of various kinds. Although this figure is unimpressive when compared with the magnitude of aid extended to a number of larger countries, it should be noted that the $355 per capita that it represented¹⁸ exceeded the level of assistance provided any other foreign recipient of American beneficence. This relatively generous outpouring of economic aid calls for an analysis in the next chapter of some of the influences that prompted Washington to help Israel along the road to economic independence.

¹⁷ The kinds of economic aid extended to Israel and the annual monetary value of each kind are set forth in Chapter IV.

¹⁸ Calculated on the basis of population figures as of December 31, 1959.
PART I

MOTIVATIONS, PROBLEMS, AND AID FORMS
CHAPTER II

MOTIVATIONS AND OBJECTIVES

OF U.S. AID TO ISRAEL

John D. Montgomery, in The Politics of Foreign Aid, observes that international politics are the raison d'être of foreign aid. Whether the fundamental purpose be to stop communist expansion or to develop healthy relations with receiving countries, aid programs are part of general political strategy. He also notes that domestic American politics have a strong influence on foreign aid legislation:

American shipping interests, small businessmen, farmers, and marine insurance companies are protected by the law. Foreign aid legislation has also paid homage to the sentiments of those opposing the seating of Communist China in the United Nations, those favoring the political federation of Europe or a joint organization of Asian states, and those who hope that the competitive free enterprise system will be used overseas to achieve the economic development for which U.S. aid is proffered. . . .

That a multiplicity of interests have been served by the United States assistance programs applies with particular force to its aid-to-Israel policy. This policy has been a mixture of diverse motivations and aims that probably has not always been completely logical, consistent, or clear even to the policy makers themselves.

Domestic Motivations

Sentimental and Humanitarian Interests

The Balfour Declaration of 1917 announced that the British government viewed with favor the establishment of a Jewish home in Palestine. The statement was approved in advance of its publication by President Woodrow Wilson and approved thereafter by five of his successors in the presidency. Congress also, on June 20, 1922, gave a unanimous bi-partisan endorsement to a joint resolution in behalf of "aspirations of the Jewish people to rebuild their ancient homeland." Although roots of American good will toward Zionism lie deep in America's past, it is sufficient to note that these repeated governmental endorsements contributed to a climate of public opinion favorable to the formation of a Jewish state.

Sympathy for Zionist goals was strengthened enormously by the sense of outrage that burst upon the world by the slaughter of nearly six million Jews in German occupied Europe during World War II. Compassion for these victims of wilful destruction led many people in the United States to subscribe to the yearnings of the survivors for a home of their own. Mixed with compassion were also feelings of guilt for the failure of their government and other governments to provide a place of refuge for oppressed German Jews before the outbreak of war blocked their escape.

One can but conjecture how the course of history in
the Middle East might have been affected if Americans had been better acquainted with the Arab people. To many Americans Arabs were vague, mysterious, romantic princes of the desert existing in a world unrelated to reality. Such inaccurate imagery contributed to the fact that neither Arabs nor the Arab case were ever very clearly understood by the American people. Furthermore, Jews in Palestine were seen as underdogs in a contest with Arabs, which further provoked sympathy in their behalf. And after the State of Israel was formed, the same feelings that had supported Jewish aspirations in Palestine continued to form a warm, emotional atmosphere in which Congress and the Administration considered economic assistance to the struggling young nation. How much of a role such attitudes played in the formation of American policy is, of course, impossible to measure, but it can scarcely be doubted that they had some influence. Economic aid to Israel both coincided with and gave expression to American sentimental and humanitarian identification with the Zionist dream.

A Moral Obligation Formed by U.S. Endorsements of Jewish Aspirations in Palestine

On December 19, 1945, Congress passed a resolution advocating development of Palestine as a democratic commonwealth and favoring unrestricted Jewish immigration thereto. A few months later President Truman publicly urged the admission of 100,000 Jews into Palestine and, on July 2, 1946, announced that the United States was willing to pay their
transportation costs. October 4th of the same year he went so far as to say, "Furthermore, should a workable solution for Palestine be devised, I would be willing to recommend to the Congress a plan for economic assistance for the development of that country." 2

American pressure on Britain led to the United Nations' consideration of the whole Palestine question in 1947, and it was significant in bringing about the November 29 decision to partition the country into a Jewish state and an Arab state. Subsequently, the United States was the first government to extend recognition to Israel when the Jews of Palestine declared their independence May 14, 1948. Through these several steps and through American collaboration with the British and French in the 1950 Tripartite Declaration, which guaranteed Israel's borders, America helped to lay the groundwork for the existence of the modern State of Israel. Undeniably, U.S. policy contributed greatly to the infant nation's existence.

Having committed itself in favor of Israel, the United States Congress now found itself faced with some kind of obligation to make that state succeed. Intimations of this attitude were expressed by virtually every witness who testified in reference to aiding Israel in the 1951 Mutual Security hearings conducted by the Foreign Affairs Committee.

House Minority Leader, Joseph W. Martin, stated it this way:

The plain fact is that American foreign policy gave political support to the establishment to the State of Israel for some years. But we did not back up this political aid with the economic assistance this struggling State so urgently needs despite our close friendship with them and the significant role we played here in Congress and at the United Nations to bring this State into being.³

When Congress considered the possibility of helping Israel in 1951, it did so in response to a note received from the government of Israel requesting such help. The document is of interest here for the subtle and persuasive way that it ties anticipated U.S. assistance to previous American policy. The following is the concluding portion of the note:

In the last three decades successive Presidents of the United States have associated the American people, by close bonds of sympathy and support, with the rebirth of Israel as a modern embodiment of an ancient tradition which bequeathed to the world some of the basic moral ideals on which western civilization is founded. At every decisive stage in Israel's recent development, the efforts and sacrifices of Israel's people, and of Jewish communities working for Israel's welfare, have received notable support from the President, the Government, and the Congress of the United States of America. American representatives in the United Nations have carried this policy into the highest international forum. Israel will always feel the most profound gratitude for the memorable steps taken by President Truman and the Government of the United States in favor of the reestablishment of an independent Israel, its official recognition, and its formal admission to the world community. In seeking the support of the United States for its arduous task of economic development and consolidation, and for its unprecedented efforts in providing homes for so many within so short a time, the Government of Israel is advocating the maintenance and extension of a traditional relationship

firmly established in the hearts of both peoples.4

The tactfully worded Israeli note does not explicitly speak of a moral obligation on the part of the United States government to assist Israel. It implies such an obligation, however, by suggesting that the formation of the Jewish State could scarcely have seen the light of day without the American effort and that economic aid is a continuation of this "traditional relationship." A further affirmation of this thought is the American Zionist Council's equally polite reminder to Congress in 1951 that "Aid to Israel means . . . continuation of the American policy of friendship for the new State which our country helped to create."5

That an American obligation to render some assistance to Israel existed in the light of previous commitments of the U.S. government was pointed out by a State Department spokesman in 1953. In conjunction with new hearings on the Mutual Security Act, Arthur Z. Gardiner told a Congressional committee that he felt the United States was committed "by acts of this Congress going back to 1922, to the maintenance of the State of Israel."6 Gardiner at this time was the State Department's politico-economic advisor, Bureau of Near Eastern, South Asian, and African Affairs. When a Congressman

4Ibid., p. 655. See "Text of Note Presented by the Ambassador of Israel, Abba S. Eban, to the Secretary of State--Request for Grant-in-Aid," Appendix C.

5Ibid., p. 651. Italics are mine.

later argued that aid money could be better spent at home than in the Middle East, Gardiner replied that the United States not only had commercial and strategic interests in the area but that:

I also know that we are held to blame for this seething problem of humanity.

Mr. LeCompte. Are we altogether to blame?
Mr. Gardiner. Well, I do not know whether we are or not, sir, but I do know that it has been the decision of the United States Government for at least 30 years to establish a Jewish National Home in Israel and it is partly the result of those decisions. You have introduced into the area another 800,000 people, and it is a poor area, and these people will not be able to make their living unless there are reclamation and irrigation projects.  

The following year Gardiner was again a witness before the House Committee on Foreign Affairs and again put forth the State Department's point of view on aid to Israel:

Mr. Gardiner. We feel . . . that the United States had a larger measure of responsibility in establishing Israel in the first place, and we are committed to the maintenance of the State of Israel and giving those people who have been persecuted for so many years, by others, a chance to reestablish themselves.

We are also committed to the proposition--
Chairman Chipperfield. I wish you wouldn't use that word "committed."

Mr. Gardiner. Well, in 1950 a statement was made by the United States, French, and British Governments, which has since been reaffirmed by the Secretary of State and the President to the effect that we would take measures within and without the United Nations to prevent changes in the current boundaries except changes that came about through negotiations.

So, if I may use the word, I will say that we are committed to maintaining but not necessarily permitting it to expand.

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7Ibid., p. 1036.

Whether the 1950 commitment to maintain boundary lines may be equated with a commitment to provide economic support is debatable. Nevertheless, when the several official U.S. declarations in favor of Jewish aims in Palestine are considered together, there can be no doubt but what they served to create a sense of obligation on the part of many American leaders to help Israel gain economic and political viability. Israel was regarded as owing its birth largely to American paternity, and with paternity came the responsibility to help provide the necessities of survival. This sense of obligation appears to have been one of the constant motivations of the U.S. aid effort in the decade of the 1950's.

Jewish Pressures in America

In an article entitled "Backgrounds of American Policy Toward Zion," Selig Adler comments as follows on Woodrow Wilson's response to the proposed Balfour Declaration:

Here was a chance to stand up for a suppressed nationality and to promote the Allied fortune at the same time. Nor was Wilson blind to the domestic political implications. Despite two successive victories, the Democratic party was still in an essential minority and Wilson had gained valuable Jewish support in his snug reelection. Over and above these material considerations, Wilson had strong convictions on the subject. His early academic writings, certainly innocent of political ambition, reveal the old Christian American respect for the Jewish contribution to civilization. A Calvinist by heritage and temperament, Wilson found it agreeable to picture himself as the agent of providence. "To think that I, a son of the manse," he once said half aloud to Stephen Wise, "should be able to help restore the Holy
Land to its people!"  

A mixture of political motives with sentimental and strategic considerations, such as allegedly influenced Wilson's support of the Balfour Declaration, probably has been a factor in every major U.S. decision leading to Israel's statehood. This phenomenon is not unusual in a society in which aspirants to public office customarily seek to cultivate the good will of minority groups and in which each such group is free to make its views felt. Americans of German extraction, for instance, in 1888 sought to influence their government to support Germany's stand on the Samoan Island question in a controversy involving the United States, England, and Germany. Irish-Americans, on the other hand, helped bring about the defeat of the Anglo-American Arbitration Treaty of 1897. Americans of Dutch ancestry sought to get the United States to intervene in the Boer War. Catholics in America worked to keep America from becoming involved in the Spanish Civil War. American Jews after World War I and more especially in the wake of Hitler's atrocities during World War II actively sought U.S. support of a Jewish commonwealth in Palestine. 

An illustration of the influence exerted by Zionism

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may be drawn from the U.S. political arena immediately after the Second World War. On August 31, 1945, President Truman wrote Prime Minister Attlee proposing that 100,000 Jews be admitted to Palestine at once to relieve the suffering in Europe. Attlee declined to accept the proposition but suggested, in turn, that an Anglo-American Committee of Inquiry be appointed to study the subject. In April, 1946, the Committee recommended adoption of the Truman proposal while rejecting the partition of Palestine as a solution. This was an election year, and President Truman, seeking endorsement at the polls for Democratic candidates, declined to wait for any further study of the matter but called for the immediate admission to Palestine of 100,000 Jews. In the same declaration he announced himself in favor of a Jewish state that would have control of its own immigration and economic policies. Two days later the Republican candidate, Dewey, not to be outdone, called for the admission of "not 100,000 but several hundreds of thousands" of Jews into Palestine.\footnote{Kermit Roosevelt, "The Partition of Palestine: A Lesson in Pressure Politics," \textit{The Middle East Journal}, January, 1948, pp. 10-12.}

After the formation of the State, Zionist influence was instrumental in persuading the American Government, together with Britain and France, to announce the 1950 Tripartite Declaration guaranteeing Israel's gains. From this time forth, however, in the political and diplomatic area
Jewish influence has not been conspicuously successful. Jewish influence, for example, has never been sufficient to cause the United States to enter any kind of alliance with Israel. It has not been strong enough to induce the State Department to take steps to cause Arab countries to discontinue the boycott of Israel or to lift the blockade of the Suez Canal to Israeli shipping. Neither did it prevent the American Government from initiating a resolution in the Security Council condemning Israel's attack on Egypt in 1956 or letting it be known that it would support the imposition of sanctions if she did not withdraw. In the realm of economic assistance, however, Jewish influence continued to assert itself. Israel came into being at a time when the United States was embarking upon a foreign economic policy that was to mean massive assistance to friendly nations around the globe. In this unprecedented moment of world history a rich nation was employing aid as a "cold war" technique to halt the spread of world Communism. The door was officially open to any country to plead its case for economic aid, and, in the decade of the fifties, Israel's American Jewish as well as non-Jewish friends sought every opportunity to articulate her needs.\footnote{Safran, Israel, pp. 279-280.}
Foreign Policy Objectives

To Promote the Economic and Political Development of a Western Oriented Middle East by Making Israel a Pilot Plant of Such Development

In the summer of 1951 discussions of aid to Israel in Congress reflected the widespread optimism that some peace settlement between the Arab States and Israel was on its way. Some advocates of assistance spoke enthusiastically of the little state's future usefulness as an example of economic progress and democracy in the Middle East. In the process she would help convince the peoples of the area that their best interest lay with America and the free world. Typical of such expressions is the following by House Minority Leader Martin:

The expanding industrial plant in Israel, steadily growing in quantity and diversity of output, can make that country the industrial workshop of the Near East. By word and by deed, the young State of Israel has demonstrated its willingness to stand firmly and resolutely against the forces of tyranny and despotism. It can be an outpost of American strength and influence in the Middle East.13

Although Congressmen realized that there were neither trade nor diplomatic relations between Israel and the Arab States, the belief persisted that old fears and prejudices would vanish and an energetic Israel would spread abroad its techniques for attaining the abundant life. Then in due time the Middle East and the West would work together as a team.

Martin's statement reflects something of the thought earlier presented to the State Department in a note by the then Israeli Ambassador Abba Eban. One of the reasons that America should grant aid to Israel, he argued, was that:

Israel has established a parliamentary democracy in an area where democratic ideals and principles have not yet struck deep roots. . . . The success of Israel's efforts to combine political freedom with economic progress will certainly affect the prestige of democracy in the crucial area of which Israel is a part. Israel's experience and achievement in soil conservation, land development, irrigation, technological research, industrial progress, as well as in cooperative organization and social freedom, are intimately relevant to the most acute problems which afflict such wide areas of the Near East with conditions of backwardness and dearth. Thus, any strengthening of Israel's efforts to achieve a high degree of development must be regarded as a contribution to the progress and stability of the entire Near East. For, despite the transient political conflicts which now divide it, the Near East cannot in the long run fail to be affected by progressive examples. 14

The government of Israel would demonstrate to other nations of the area how to gain economic advancement within a democratic framework. Presumably this would contribute to a pro-western orientation of the region.

It may be symptomatic of more realistic thinking on the part of members of Congress that very little appears in published Mutual Security hearings after 1951 in support of the hope that the Middle East would advance politically and economically in the wake of Israel's example. The following exchange between Representative (subsequently Senator) Jacob J. Javits of New York and Henry A. Byroade, Assistant Secretary of State for Near Eastern, South Asian and African

14Ibid., p. 655.
Affairs, illustrates rather the opposite viewpoint. It comes from the 1954 Mutual Security hearings:

Mr. Javits. Now, Mr. Secretary, do you find that the example of Israel in connection with wages, industrial development, engineering skill, representative government, and western ideas generally is having an effect in the Near East upon what is happening in the Arab States and if so, what effect do you find?

Mr. Byroade. I think probably the most prominent effect is resentment of her neighbors against the progressive ways of this new state that has entered the Middle East.

Mr. Javits. Do you find them, themselves, moving in the direction of greater modernism because of, let us say, the challenge of competition from Israel to the Arab States?

Mr. Byroade. No, I don't, because there is practically no intercourse between these States. The opportunity to see what one's neighbor does isn't there.¹⁵

The goal of raising the living standards of the Middle East by way of Israel and, in so doing, winning friends for America, was a dream that Israel's supporters entertained with diminishing fervor as the years passed. Before the 1951 Mutual Security hearings were concluded, King Abdullah of Jordan was assassinated by alleged opponents of his lenient policy toward Israel. More importantly, in the early fifties the Middle East became inextricably enmeshed in the "cold war" between East and West. By the middle of the decade Soviet Russia became the champion of the Arab nations and voted with them in the United Nations Organization. Russia also condemned Israel as a tool of western imperialism and in various ways seemingly sought to perpetuate the breach between Israel and her neighbors.

To Strengthen America's Position in the Middle East vis-à-vis Soviet Russia and the Communist Bloc Nations

During the Mutual Security hearings of 1951 the Korean War intensified American suspicions concerning the expansionist aims of Soviet Russia. At that time the average American still recalled the long-delayed removal of Soviet troops from Iran after World War II in violation of treaty commitments. The tardy withdrawal had been an ominous reminder that Russia still possessed a keen interest in the oil-rich Middle East and that she had never renounced her historic quest, dating from the time of Peter the Great, for all-year-round port facilities on the Persian Gulf. Also fresh in mind was the communist guerilla campaign in Greece and the Russian demands on Turkey that had prompted U.S. aid legislation in favor of those countries in 1947. Furthermore, captured documents showed that the Germans had planned a campaign in the spring of 1943 that would carry them to the Persian Gulf. The German assessment of the strategic importance of the region also may have contributed to the post-war determination of the West not to let it slip into Russian hands.

American foreign policy planners, though, needed little help from outdated war plans to cause them to recognize the tremendous value of the area. They were acutely aware that if Russia gained control of the Middle East, she would pose an immediate threat to Southeast Asia. Of even greater concern was the nightmarish thought that Russia, astride the seas of oil that lie beneath Iran, Iraq, Kuwait, and Saudi
Arabia, would be in a position to deprive Western Europe of the stuff that lubricates and provides the fuel for its industrial economy. Such deprivation would impose a drain on European treasuries that would inevitably be felt in America. At best, the deficit would be transferred to the United States treasury for financial assistance to purchase oil from the Western Hemisphere. At worst, American reserves would be used fast enough to jeopardize hemispheric defense. For these reasons the Korean War lent a sense of urgency to the Congressional hearings on the Mutual Security legislation that were held in the summer of 1951.

One of the witnesses to testify before the House Committee on Foreign Affairs was A. A. Berle, Jr., former Assistant Secretary of State. Berle stressed his conviction that America was approaching the greatest crisis that it had yet encountered and that the strain in the deteriorating world situation was going to be centered in the Middle East. Open hostilities in Korea had been stopped by armed force, but two complementary moves were appearing. One was in Iran, where the oil nationalization issue was a wedge that the communist Tudeh party, administered by a large staff at the Russian embassy in Tehran, hoped to use as a means of subverting organized government. The other move was in Burma. Berle saw these as a two-pronged move to flank India on both

the East and the West. He noted that the combination of these moves would go a long way toward denying the Indian Ocean to western naval power and that seizure of the Persian Gulf would mean that fleets sailing the Indian Ocean would have to bunker with oil in the Dutch East Indies or all the way back to Venezuela. He maintained that little more than two years remained before peace would be replaced with force. He also said it was his impression that the Soviet plan envisioned a challenge in Western Europe last because Russia would expect military resistance there but that the Middle East was wide open to conquest. The Soviet aim, he affirmed, very probably was to shut off Western Europe from its raw materials and bring it to its knees economically without invasion.17

House Minority Leader Joseph W. Martin, Jr., testified before the Committee that he believed that aiding Israel would make the Middle East more secure and, by extension, strengthen the position of the United States in the region. As he viewed the situation, there was danger that the area would become a vacuum into which totalitarian forces would flow unchecked. As for Israel's role in the vulnerable area's defense, Martin said:

They live in a tense and troubled area; they know that they are on the frontier of danger. They are prepared for any eventuality. The young army of Israel,

with more than 200,000 men and women, is one of the strongest forces for the survival of freedom in the Near East. . . . It can be an outpost of American strength and influence in the Middle East. There is no doubt in my mind that to help Israel is to make America more secure.18

The testimony of military representatives before the House Committee on Foreign Affairs emphasized that in case of conflict between East and West, the Middle East must be defended mainly because of its oil resources. The following is an extract from the remarks of Admiral Forest Sherman:

In addition to these large resources of oil, the area possesses a high degree of strategic importance because of its geographical situation. This area involves three continents and controls critical land, sea, and air communications. If war should come, the free nations must be able to control these communications and deny them to the enemy. In addition, this area, under allied control would provide the bases for offensive operations by which we could strike directly and quickly at the heart of the enemy.

Today, we plan to defend Western Europe in case of attack. The practicability of execution of such plans is increasing each day as the free nations augment their total military potential. As our strength in Western Europe increases, it becomes more practicable to plan for a defense of the Middle East which will insure, as a minimum, a continuous flow of oil to the Western World from that area and a denial of this oil to the enemy.19

George C. McGhee, who was then Assistant Secretary of State for Near Eastern, South Asian, and African Affairs, affirmed that both the strategic importance of the Middle East and the Soviet Union's intention of dominating the area were abundantly clear. This goal, he explained, was expressly stated in negotiations between Germany and Russia in 1940 and was also evident in Russia's efforts to stir up

18 Ibid., p. 643. 19 Ibid., p. 769.
trouble there. McGhee favored the pending legislation and declared it to be in the interest of the United States to strengthen the orientation of the Middle East nations toward the United States and to encourage the Arab States and Israel to cooperate in resisting Russia. He recognized, however, that the armed forces of the various countries of the Middle East, in case of war, could not be expected to do more at the outset than to maintain internal security and offer token resistance to invasion by a modern army. Some of them, though, if properly equipped and trained, could help defend their territories and protect lines of communication and vital installations.20

These samples are sufficient to indicate that in 1951 the matter of strengthening the U.S. position in the Middle East (and Israel as part of the Middle East) vis-à-vis Soviet Russia loomed large in considerations of economic assistance to Israel. Government witnesses generally agreed that Israel, in collaboration with other states of the area, must be made strong enough to assist in the area's defense. The nature of the effort that might be expected from Israel, though, was not understood by all alike. Some thought that Israel's army was itself a major factor to be considered. The preponderant view, however, and the one that received the greatest emphasis in ensuing years, was that neither Israel nor any other Middle Eastern country could be thought

20Ibid., pp. 742-743.
of as more than a domestic police force.

In the course of the 1953 Mutual Security hearings, the question was specifically put to General Matthew B. Ridgway, who at the time was Supreme Allied Commander, Europe, as to whether the military was "counting at all on the trained, equipped troops" in Israel. General Ridgway's answer was simply, "No."21 A similar question was asked of Henry A. Byroade, who had succeeded McGhee as Assistant Secretary of State for Near Eastern, South Asian, and African Affairs. Byroade's reply was, "I think you have here a good little force, but it is not susceptible to use in the defense of the area as a whole except as the war gets down toward their area."22

In the 1954 hearings, Major General George C. Stewart further clarified the nature of Israel's anticipated contribution to the defense of the Middle East in case of war. His interrogator was Representative Javits:

Mr. Javits. One last question on that: Have we ever evaluated Israel as an asset to us in terms of airfields, workshop--because there is an active industrial complex in Israel big for this area--have we made any military evaluation of what Israel can mean to us in the defense of the Near East, as a base?

General Stewart. Yes, sir.

Last year when the military-aid program was first proposed for this area, we requested and got an estimate

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22 Ibid., p. 1041.
from the Joint Chiefs of Staff of what we should do in this area.

(Discussion off the record.)

General Stewart. In connection with certain proposals to procure, in our offshore procurement program, we have been given considerable information as to the manufacturing capabilities of this area. I would say that if we were attempting to support considerable forces in that area, that the manufacturing facilities in Israel would be most valuable.23

Hearings on foreign aid in later years reemphasized that economic aid to Israel was designed to strengthen the American position in the Middle East against possible Russian moves but strictly from the standpoint of a supply base.

To Decrease Instability in an Area Vital to U.S. Interests

One of the concepts that has undergirded American foreign economic policy since the close of World War II is that foreign aid is capable of helping to alleviate domestic discord and, indirectly, international discord also. To this thought should be added that one of the suppositions of American supporters of the U.S. partition resolution in 1947 was that Arab opposition to the Jewish State would disappear once its existence was a fait accompli. When this supposition proved a miscalculation and, instead, when new bases of discord entered the Middle East picture, economic aid appeared to be the very medicine to cure the spreading sickness.

As early as September 19, 1946, Loy W. Henderson, Director of the Office of Near Eastern and African Affairs of the Department of State, said, in an address delivered in Los Angeles, that the main objective of the United States in the Middle East was "to prevent rivalries and conflicts of interest in that area from developing into open hostilities which eventually might lead to a third world war." He further affirmed that, "without foreign assistance, these governments in their weakened condition encounter difficulties in taking effective measures to remove the very causes of discontent."24

While testifying before the House Committee on Foreign Affairs again in 1952, Arthur I. Gardiner expressed the same aim in different words: "I believe I have stated the view correctly of the Department of State and the executive branch in believing that our primary object is stability in this region. . . ." The avenue to stability, he continued, was "the establishment of a sound Israel [and] the maintenance, or bettering perhaps, of sound Arab economies in the hope that the conflict between the two forces will cease."25

The elimination of unrest in the Middle East through economic assistance meant that both the Israel and Arab economies must be strengthened. The Arab countries must be aided in their development both to interest them in seeking


economic rather than military solutions to their problems and to enable them to absorb Arab refugees displaced by the 1948 fighting. Israel, on the other hand, must be helped because a weak and unstable Israel would present a constant temptation to her enemies to resort to armed force to bring about her downfall. Such an attempt was a nightmare to contemplate in an area wherein lay important U.S. commercial oil interests and strategic air bases. Such a military undertaking almost surely would involve either a Korean type conflict, with Soviet Russia covertly aiding the Arab contestants, or open involvement of both East and West. In contrast with the dangers inherent in Israeli weakness, American policy planners believed that a strong Israel would discourage designs aimed at her downfall and, in time, win acceptance as a full-fledged member of the Middle East community. Thus, while working for the "maintenance, or bettering perhaps" of the Arab economies, the United States government gave high priority to the building of a sound Israeli economy.

The urgency of investing money and effort into overall Middle East development as a means of calming troubled waters was reaffirmed by Gardiner in 1953 in the following statement:

If you like, this is a giveaway program. Call it as many bad names as you want, but ... let us consider what our interests are, and whether it is not in our interest to speed up this development of which we have spoken in this region. I can assure you that they will move faster with this tangible expression of American interest than
it will otherwise. I think we all agree we are sitting on a powder keg.26

Secretary of State Dulles also made it clear to the Committee on Foreign Affairs that he felt that the attempt to reduce friction in the area through economic development programs took priority even over immediate attempts to build the Middle East as a defensive bulwark against Soviet Russia.

We believe that that area can best be treated as a whole and that it is not very realistic to think of building a defense with that area against possible Soviet aggression, let us say, as long as the area is torn by conflict and indeed a technical state of war within itself.

We hope that with the discretion which would be allowed us if this legislation is passed in the form proposed, to initiate a program for the entire area which would include among other things the prospect of a peace between Israel and the Arab States, and that that would provide a foundation upon which a more dependable defense structure could be erected than under present conditions.27

As indicated earlier, the United States government hoped that foreign aid would help it to gain the upper hand in the Middle East in the "cold war" against Soviet Russia. That, however, was something of a long range goal. The immediate and pressing and down-to-earth aim was to employ economic aid to keep the situation from getting out of hand. Unless aid could bring about stability in the explosive region, it was pointless to regard such aid as a weapon that the United States could wield to check the menace from the North.


27 Ibid., p. 180.
Throughout the period under consideration, the American objective of reducing Middle East tensions by making Israel economically sound—while not neglecting her neighbors—remained essentially unchanged.
CHAPTER III

PROBLEMS AND TRENDS OF THE ISRAEL ECONOMY

Immigration and Population

The official policy of "Ingathering of the Exiles" was one of the primary objectives of the government of Israel during the period under consideration. A recognition of this fact is fundamental to an understanding of the country's economic problems and trends. The principle of unrestricted Jewish immigration was enunciated in the Declaration of Independence May 14, 1948, the day that Israel gained statehood. Two years later the Law of Return further stipulated that every Jew had the right to come to Israel and that an immigrant visa would be given to every Jew who wished to settle in the country, excepting only persons who might be a threat to public health and security.

The main financial and organizational responsibility for transporting and absorbing immigrants who were financially unable to pay their own way was assumed by the Jewish Agency and the American Joint Distribution Committee, assisted by the Government of Israel. These groups dispatched representatives to Jewish communities in foreign countries to encourage immigration, assembled immigrants, prepared transit camps abroad and reception centers in
Israel, and arranged for the immigrants' medical care and transportation costs. 1

By September of 1948 the "Ingathering of the Exiles" was in full swing as displaced persons camps in Germany, Austria, and Italy began to empty their masses into the immigration "pipeline." During the winter that followed, Jewish internees in Cyprus were admitted. About the same time the Jewish community in Bulgaria began its movement to the infant state. Others came from Yugoslavia and Turkey. During 1949 and 1950, through operation "Magic Carpet," 40,000 Yemenite Jews were transported to Israel. In 1951 an additional 124,000 immigrants arrived from Iraq and another 27,000 from Iran. Others came from Libya, Tunisia, Morocco, and Algeria. The same year 100,000 Polish Jews began their move to the new state. The years 1948 to 1951 marked the flood tide of immigration. 2 (Table 1.)

An examination of the immigration trend from 1952 to 1954 reveals an abrupt decline from 174,014 immigrants reported in 1951 to 23,408 arrivals in 1952. This decline was the result of emigration restrictions adopted by countries of eastern Europe and also the result of Israel's difficulties in economically absorbing the vast number of newcomers. The latter problem led to a new program of


2Ibid., pp. 33-34.
selective immigration by the Jewish Agency that applied to Jews unable to finance their own immigration. Pursuant to the new policy, the Jewish Agency no longer paid for persons suffering from physical or mental disabilities or occupational shortcomings that would make them a liability to the State. Emphasis was now given to candidates under the age of thirty-five who were willing to pledge themselves to work in agriculture for two years. Out of humane considerations, however, Jews living in areas of personal peril were assisted regardless of age or other qualifications. The net effect was a reduction both in the number of old people migrating to Israel and in the size of family units moving in.\(^3\)

A further decline followed in 1953, when only 10,388 immigrants entered the country and 11,923 residents departed, making for a migration balance of minus 3.8 percent. This phenomenon of emigration surpassing immigration has occurred but once since Israel's achievement of statehood.

The period from 1955 to 1957 showed a considerable revival of immigration. The political situation in French North Africa, mainly in Morocco but also in Tunisia and Algeria, largely accounted for the increase. In 1956 North Africans comprised 90 percent of all immigrants. In 1957 political disturbances in Hungary, coupled with the untenable position of many Jews in Egypt and French North Africa following the Suez Campaign of 1956, helped boost the year's

\(^3\) Ibid., pp. 35, 122.
immigration tide to 71,100. Then from 1958 to 1960 immigration remained relatively stable, averaging around 25,000 a year.4

Altogether 971,115 immigrants reached Israel between May 15, 1948, and the end of calendar year 1960. During the same period there were 99,414 emigrants. (From 1908 to 1924 one-third of all immigrants to the United States left the United States.) Net immigration, therefore—immigrants less emigrants—amounted to 871,701. (Table 1.) From a population of 809,633, estimated as of May 15, 1948, Israel grew to 2,150,358 by the end of 1960, which means that it increased more than two and one-half times. Of this remarkable thirteen-year growth, immigration accounted for 65 percent and natural increase for 35 percent.5

To view the phenomenon in another light, the peak year for immigration in the United States came in 1907 with a rate of 15 immigrants per thousand residents already in the country. In contrast with this highest American level the immigration rate in Israel ranged from 266 per thousand Jewish inhabitants in 1949 to a low of 13 per thousand in 1960.6

Necessarily the gigantic problems created by the

4Ibid., p. 121.

5Ibid., pp. 32, 41.

newcomers either meant that Israel must halt immigration or find the economic means to sustain the immigrants. Israelis were determined not only to sustain the immigrants but also to sustain them on approximately the economic level to which European Jewry was accustomed. This feat was made possible, in part, by the utilization of properties left behind by an estimated 700,000 Arabs who fled the area of Palestine that became Israel. It would not be correct to assume, though, that deserted Arab homes provided the dwelling places for an equivalent number of Jewish immigrants, as many of these dwellings were inadequate by Jewish standards. Nevertheless the problem of housing 871,701 immigrants for the period 1948 to 1960 was made less difficult by the availability of properties left by the Arab refugees. A total of 58,000 dwelling units were adapted for use, as also were 11,000 shops and thousands of acres of deserted farmland.7

Immigration brought to Israel a vast increase of manpower that, properly trained and employed, could contribute greatly to the upbuilding of the country. In so doing, however, it caused an immediate inflationary drain on the resources of the economy to meet the consumption and investment requirements incident to immigrant absorption. The "Ingathering of the Exiles" was essentially a non-economic goal that complicated and transcended economic goals.

<table>
<thead>
<tr>
<th>Year</th>
<th>Immigrants</th>
<th>Emigrants</th>
<th>Net Immigration</th>
<th>Natural Increase</th>
<th>Total Increase</th>
<th>Population at End of Year</th>
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<tr>
<td>May 15, 1948 to Dec. 31, 1949</td>
<td>340,895</td>
<td>1,493</td>
<td>339,402</td>
<td>24,836</td>
<td>364,238</td>
<td>1,173,871</td>
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<td>1950</td>
<td>169,720</td>
<td>7,979</td>
<td>161,741</td>
<td>34,482</td>
<td>196,223</td>
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<td>1951</td>
<td>174,014</td>
<td>6,605</td>
<td>167,409</td>
<td>40,322</td>
<td>207,731</td>
<td>1,577,825</td>
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<tr>
<td>1952</td>
<td>23,408</td>
<td>12,377</td>
<td>11,031</td>
<td>40,663</td>
<td>51,694</td>
<td>1,629,519</td>
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<td>1953</td>
<td>10,388</td>
<td>11,923</td>
<td>-1,535</td>
<td>41,433</td>
<td>39,898</td>
<td>1,669,417</td>
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<td>1954</td>
<td>17,485</td>
<td>6,539</td>
<td>10,946</td>
<td>37,451</td>
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<td>1,717,814</td>
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<td>1955</td>
<td>36,327</td>
<td>5,174</td>
<td>31,153</td>
<td>40,108</td>
<td>71,261</td>
<td>1,789,075</td>
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<td>1956</td>
<td>54,996</td>
<td>11,898</td>
<td>43,098</td>
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<td>1957</td>
<td>71,100</td>
<td>9,034</td>
<td>62,066</td>
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<td>1958</td>
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<td>11,404</td>
<td>14,689</td>
<td>41,029</td>
<td>55,718</td>
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<td>1959</td>
<td>23,045</td>
<td>8,580</td>
<td>14,465</td>
<td>42,548</td>
<td>57,013</td>
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<td>1960</td>
<td>23,644</td>
<td>6,408</td>
<td>17,236</td>
<td>44,437</td>
<td>61,673</td>
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<td>1948-1960</td>
<td>971,115</td>
<td>99,414</td>
<td>871,701</td>
<td>469,024</td>
<td>1,340,725</td>
<td>2,150,358</td>
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Source: Israel, Statistical Abstract of Israel 1962, p. 32.
The Requirements of National Security

Another drain on the Israel economy during the 1950's resulted from the "state of war" between Jews and Arabs. This drain consisted, first of all, of military expenditures that officially amounted to about 29 percent of the government's budget annually. The 29 percent figure, however, does not take into consideration an artificially low exchange rate of imports of military equipment nor include certain classified expenditures that the government refrained from identifying in its published reports. 8

The cost of national defense went beyond direct military spending to include the uneconomic diversion of manpower resources prompted by the unstable international situation. Young men and women alike were eligible for military service at the age of 18. Men were conscripted for a period of two and a half years and women for two years. Thereafter men had a reserve obligation till age 49 and women till age 34. Some soldiers were assigned to work on farms during their period of active duty, but in most instances such work was on land that had not yet become fully productive.

Defense considerations also led to the establishment of a network of border settlements. These settlements were designed as sentinels to note suspicious hostile military

action and, in case of trouble, to delay invaders long enough for army units to arrive at the danger zones. Inevitably, many such border communities were located on economically substandard land.

Industries also were often established at a considerable distance from markets and sources of supply in order to be less vulnerable to enemy air attack and in order to provide employment to occupants of defense settlements. Although the dispersion of industry may have been a military necessity, roads, power, and water frequently had to be brought to isolated plants at great expense. Some enterprises were heavily subsidized by the government because they provided facilities and personnel training that could be useful to the country in time of war.

Although it is not possible to assess Israel's total defense costs, it is certain that direct military expenditures, the diversion of manpower from more economically productive to less economically productive pursuits, and the uneconomic location of many industries absorbed some little part of the nation's total resources.\(^9\)

**Employment and Unemployment**

In 1954 the Central Bureau of Statistics began making annual (subsequently quarterly) labor force surveys. These reports enabled the Bureau to determine composition of the

\(^9\)Ibid.
labor force, the annual average level of employment and the seasonal nature thereof. The surveys, coupled with estimates for the earlier years, lead us to assume that the highest unemployment rate in Israel occurred in 1950 when 11.5 percent of the labor force was out of work.\textsuperscript{10} By 1960 it had dropped to 4.6 percent.\textsuperscript{11}

This favorable picture must be qualified by the fact that the unemployment figures do not take into account the number of people who desired full-time work but were engaged only part-time. The 1956 survey indicated that this group constituted about one-third of the part-time workers. Another qualifying consideration is that an otherwise unemployed person who happened to be performing his mandatory 30 days' annual reserve duty was reported employed. For that matter, the surveys considered "employed" any person aged fourteen and above who had worked for a single hour for pay or profit during the week preceding the survey. Moreover, persons on government relief, so long as they had worked during the week under investigation, were also included among the employed. The number of such relief workers steadily increased from an estimated 3.2 thousand in 1950 to 16.7 thousand in 1958. It is also the opinion of some that the


\textsuperscript{11}\textit{Statistical Abstract of Israel 1962}, pp. 380-381.
very high percentage of Israel's labor force engaged in government and public institutions also represented a form of work relief or "disguised unemployment." In some cases, for instance, the Histadrut did not permit employers to release employees for whom there was no work. These factors together tend to darken the otherwise bright picture of employment in Israel.

As might be expected, unemployment was higher among the less educated and those who lacked specific job skills than it was among the better educated and trained. And by virtue of the fact that immigrants from Asia and Africa came equipped with less education and fewer job skills useful to Israel's emerging western style economy, a larger proportion of them were out of work than were those from Europe and America. Also fewer women from Asia and Africa were employed than were those from Europe and America.

Another phenomenon pertinent to the labor picture is that approximately 30 percent of the labor force was engaged in services, which is generally regarded by economists as a higher percentage than a developing country can afford.

In the opinion of many observers, Israel had much larger untapped labor resources than appeared on the surface. Don Patinkin affirms that "the integration of most of the

13 Rubner, *Economy*, p. 73.
increased population into its productive labor force has been one of the significant accomplishments of the Israel economy.¹⁵ Nevertheless, he concludes that the unemployment problem was serious both in extent and depth.

Wages, Prices, and the Cost of Living

Several years before the formation of the State of Israel, the Histadrut (the General Federation of Jewish Labor) and the Manufacturers Association agreed that wages would be adjusted according to the cost-of-living index. In the decade of the 1950's this procedure, with modifications, was employed. As prices rose the cost of living bonus was raised accordingly. But the program had unexpected complications. The resultant advance in wages led to increased spending and, in the absence of a corresponding increase in the supply of goods and services, to further price increases. One by-product of rising prices was that a great deal of production which should have gone into export to garner sorely needed foreign exchange was diverted into the more lucrative domestic market. And price rises led to further wage increases in an inflationary spiral.

Between 1949 and 1952 the Israel government instituted a variety of price and physical (rationing) controls designed to freeze prices and, in turn, wages, until increased production could bring a natural balance between the

forces of supply and demand that would stabilize prices and offset inflation. In retrospect, however, Israeli economists believe that this era of controls was a failure. The casual observer is doubtless impressed to learn that by 1951 an Israeli worker had to labor but 42 minutes for ten eggs while his Polish counterpart had to work 260 minutes. The same year one kilogram of meat cost only 60 minutes of labor in Israel and 315 minutes in Italy. In truth, however, both eggs and meat, financed by foreign aid, were being imported in considerable quantity and sold at artificially depressed prices. Further, these artificial controls brought various distortions in the price structure that led to such uneconomic practices as subsidized bread being fed to poultry because it was cheaper than uncontrolled feed grains—cheaper, that is, to the chicken farmer, but more expensive to the economy as a whole. Such unrealistic prices caused many foreign imports to be used wastefully. In a variety of ways they also caused domestic effort to be diverted to uneconomical forms of production. Controls, moreover, brought in their wake the introduction of price equalization funds in various trades. The more efficient producers and importers were required to contribute to these funds to compensate the less efficient producers whose costs were above the government imposed selling price. 16

Finally, price controls merely proved a means of

suppressing the outward manifestation of inflation without solving the basic problems that caused it. A large segment of unspent purchasing power supported a black market where rationed goods were sold at prices up to ten times the officially endorsed price. Some manufacturers lowered the quality of goods supplied to the price controlled market while disposing of their better quality goods on the black market. In time the flourishing black market convinced government leaders that the anticipated objectives of the controls program were unattainable. In 1952 a New Economic Policy was adopted and most of the controls came to an end.

Apart from price and physical controls another factor that distorted the picture of rising living costs in Israel was government manipulation of the price index. In fact, a special department of the Ministry of Finance was given the assignment of determining the best way to accomplish it. As an example of this intriguing function, in 1957 the government asked farmers to reduce the price of eggs to help keep the index down, but the farmers' cooperation was negligible. The government forthwith approved the import of twenty million eggs to increase the market supply and also instituted temporary rationing of eggs to hold back the demand. This double-barreled approach was successful, and the price index soon reflected the desired impact.\(^\text{17}\)

\(^{17}\text{Ibid., p. 65.}\)
\(^{18}\text{Ibid., p. 54.}\)
Because the government did not include in its periodically published price index, data based on black market prices and because of the aforementioned manipulation of the index, the price index admittedly loses some of its validity. Despite its limitations, however, especially in the earlier years, the Consumer Price Index "admits" that from 1950 to 1960 prices increased more than 300 percent. (Table 2.)

**TABLE 2**

CONSUMER PRICE INDEX

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Average</th>
<th>Percent Increase over Preceding Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>114.1</td>
<td>14.1</td>
</tr>
<tr>
<td>1952</td>
<td>180.0</td>
<td>57.8</td>
</tr>
<tr>
<td>1953</td>
<td>230.6</td>
<td>28.1</td>
</tr>
<tr>
<td>1954</td>
<td>258.8</td>
<td>12.2</td>
</tr>
<tr>
<td>1955</td>
<td>274.1</td>
<td>5.9</td>
</tr>
<tr>
<td>1956</td>
<td>291.8</td>
<td>6.5</td>
</tr>
<tr>
<td>1957</td>
<td>310.6</td>
<td>6.4</td>
</tr>
<tr>
<td>1958</td>
<td>321.2</td>
<td>3.4</td>
</tr>
<tr>
<td>1959</td>
<td>325.9</td>
<td>1.5</td>
</tr>
<tr>
<td>1960</td>
<td>333.4</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Devaluation

During the period under review, the persistently rising prices necessitated a series of government currency devaluations that by 1960 had lowered the pound in relation to the dollar to about one-seventh of its late 1949 value. In the absence of such recurring depreciations Israeli goods would have priced themselves out of the world market.

With statehood the Israeli exchange rate stood at .248 to the dollar, denoting that one IL was roughly the equivalent of four U.S. dollars, although the rate at which most transactions were completed was .333. The first devaluation occurred in September, 1949, following England's currency devaluation, and established a new rate of .357 to the dollar. In February, 1952, three official exchange rates were announced. These rates were .357, .714, and 1.000. A third devaluation came in January, 1954, with three more new rates: 1.000, 1.300, and 1.800. Subsequently a fourth devaluation, begun administratively in 1955, discontinued the two lower rates of 1.000 and 1.300 and set 1.800 as the single official rate. Although this remained the official rate until 1962, the foreign-currency controls administration allowed variations from it in so many instances that the average rate by 1958 was 2.750.19

With the exception of the 1949 devaluation, in each case the currency devaluation was merely official recognition

19Ibid., p. 22.
of what had already occurred. As domestic prices increased, many prospective foreign purchasers of Israeli goods or investors in Israeli enterprises noted that their dollars were being valued in pounds of shrinking purchasing power. Naturally, if prices were too high, dollars would not buy Israeli goods or invest in Israeli enterprises, and Israel's capability of earning dollars would disappear. As a safeguard against such lost dollar income, therefore, the government repeatedly offered special terms until the average exchange rate, which might also be considered the real exchange rate, kept step, in some degree, with rising prices. Hence, whenever an officially announced devaluation was made, it was little more than a declaration that the real rate was now the official rate.20 Notwithstanding repeated efforts of the government, by the end of 1960 neither successive devaluations nor any other technique had arrested the economy's inflationary trends.

**Gross National Product**

According to the study of Don Patinkin, made under the auspices of the Falk Project for Economic Research in Israel, Israel's gross national product in current prices in 1958 was more than 700 percent larger than it was in 1950. But when adjustments are made for inflation and increased population and when the result is expressed in per capita

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terms and constant prices, the figure is 50 percent. These figures are, nonetheless, impressive, particularly since no per capita growth was made at all from 1950 to 1953.

Patinkin calculates the efficiency of the economy—the relationship between outputs per unit of input—and concludes that whereas roughly two-thirds of the total growth in national product could be credited to corresponding inputs of capital and labor, the remaining one-third must be attributed to increased efficiency of the Israel economy. He also suggests that less investment would possibly have led to a better selection of projects and even greater efficiency. Nevertheless, Israel’s gross national product growth rate from 1950 to 1958 was very rapid.

When compared with the rates of growth in real gross national product in twenty-eight selected countries from 1950 to 1958, Patinkin notes that Israel placed sixth with a per capita annual growth rate of 5.2 percent. And the period from 1958 to 1961 averaged about 10 percent a year. Unfortunately, at the same time there was a 46 percent rise in per capita private consumption and a 23 percent rise in general government consumption, and, withal, 2.9 percent less

22 Ibid., pp. 73, 76, 78.
domestic investment capital accumulated per person in 1958 than there was in 1950.  

Israel's Import Surplus and How It Was Financed

Every country imports goods and services from other countries to obtain necessary foreign components for its investments and to satisfy the consumption requirements of its people. Imports, however, must be paid for, and usually this means paid for in the currency of the country supplying them. The primary source of earned foreign currency is exports, and Israel's income from exports lagged far behind the cost of her imports. In fact, the degree of Israel's dependence upon her import surplus was the highest in the world.

It is not difficult to understand why Israel's leaders were not willing to cut down imports and thus bring them into line with exports. A severe curtailment of imports would have been politically unpopular and also would have reduced the quantity of capital goods needed for the country's vast development program. Nevertheless, Israel made a substantial showing in her efforts to close the trade gap during the period under review, not so much by reducing per capita imports as by increasing per capita exports.

The foreign trade trend from 1950 to 1960 was, indeed, impressive. During this period, as the population nearly doubled, imports nearly doubled also; but, because of a very

24Patinkin, "The Israel Economy," pp. 60, 70.
great increase in exports, the trade deficit declined from $209 per capita to $134, a substantial 36 percent reduction. (Table 3.) Furthermore, in contrast to the 1950 export earnings, which were only 11.7 percent of import costs, the 1960 export earnings rose to 42.6 percent of the import bill.

**TABLE 3**

**BALANCE OF FOREIGN TRADE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade Deficit Per Capita</th>
<th>Exports as Percent of Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>209</td>
<td>11.7</td>
</tr>
<tr>
<td>1952</td>
<td>174</td>
<td>13.5</td>
</tr>
<tr>
<td>1954</td>
<td>119</td>
<td>30.0</td>
</tr>
<tr>
<td>1955</td>
<td>140</td>
<td>26.6</td>
</tr>
<tr>
<td>1956</td>
<td>147</td>
<td>28.4</td>
</tr>
<tr>
<td>1957</td>
<td>152</td>
<td>32.4</td>
</tr>
<tr>
<td>1958</td>
<td>141</td>
<td>33.0</td>
</tr>
<tr>
<td>1959</td>
<td>122</td>
<td>41.3</td>
</tr>
<tr>
<td>1960</td>
<td>134</td>
<td>42.6</td>
</tr>
</tbody>
</table>

*Source: Israel, Statistical Abstract of Israel 1962, p. 332.*

Notwithstanding the fact that Israel's imports continued to exceed the value of its exports, the country's leaders were remarkably successful in obtaining capital from
abroad to pay for the surplus. From 1949 to 1960 this surplus reached a magnitude of $3,637 million, but Israel's capital imports during the same period amounted to $3,791 million. (Table 4.)

First in importance among the sources of foreign purchasing power, over and above export income, were donations and loans from world Jewry. These included transfers by the United Jewish Appeal and other fund raising organizations and also revenue from Independence and Development bonds. The United Jewish Appeal, organized before the state was formed, reached its greatest heights in the perilous years of 1948 and 1949 when Jews throughout the world rallied to save Israel from ruin. Then in 1951 the Israel government instituted the sale of bonds abroad, mainly among Jews in the United States. The Independence Issue was offered from 1951 to 1954, and the First Development Issue was sold from 1955 to 1959. The Second Development Issue was floated in 1959. Funds from UJA and these bond sales accounted for $1,346 million in foreign currency from 1949 to 1960 and constituted a source of capital that was unique among developing nations.

The second major avenue of capital imports was also


26 Ibid., pp. 23, 26-27.
<table>
<thead>
<tr>
<th>Capital Imports</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$3,791</td>
</tr>
<tr>
<td>Donations and loans from world Jewry</td>
<td>1,346</td>
</tr>
<tr>
<td>United Jewish Appeal and similar institutions</td>
<td>958</td>
</tr>
<tr>
<td>Independence and Development Loans</td>
<td>388</td>
</tr>
<tr>
<td>Capital imports from West Germany</td>
<td>904</td>
</tr>
<tr>
<td>Reparations</td>
<td>574</td>
</tr>
<tr>
<td>Personal Restitution payments</td>
<td>330</td>
</tr>
<tr>
<td>U.S. government assistance</td>
<td>742</td>
</tr>
<tr>
<td>Export-Import Bank loans</td>
<td>163</td>
</tr>
<tr>
<td>Mutual Security Program grants</td>
<td>256</td>
</tr>
<tr>
<td>Mutual Security Program loans</td>
<td>42</td>
</tr>
<tr>
<td>Development Loan Fund loans</td>
<td>40</td>
</tr>
<tr>
<td>Technical Cooperation/Technical Assistance</td>
<td>15</td>
</tr>
<tr>
<td>Public Law 480 Title I food surpluses</td>
<td>162</td>
</tr>
<tr>
<td>Public Law 480 Title III food surpluses</td>
<td>52</td>
</tr>
<tr>
<td>Informational Media Guaranty</td>
<td>11</td>
</tr>
<tr>
<td>Gifts and transfers by private persons</td>
<td>349</td>
</tr>
<tr>
<td>and immigrants</td>
<td></td>
</tr>
<tr>
<td>Private foreign investments</td>
<td>280</td>
</tr>
<tr>
<td>Other long term and medium term loans</td>
<td>170</td>
</tr>
</tbody>
</table>

unprecedented. This extraordinary source was German reparations and restitution payments. Because of the role of the German government in the attempted annihilation of the Jewish population of Western Europe and its wholesale confiscation of Jewish property, the government of Israel and the Jewish Agency negotiated with the federal government of West Germany for indemnity. These negotiations had the approval of the three occupying powers, the United States, France, and Great Britain. A Reparations Agreement, signed in September, 1952, stipulated that the Deutschmark equivalent of $714 million was to be paid to the government of Israel between 1953 and 1964, 15 percent of which was to be distributed to the American Joint Distribution Committee, the Committee for Jewish Claims from Germany, and other Jewish institutions abroad. Another 18 percent was transferred to the Jewish Agency. These reparations were utilized to finance, almost exclusively, the import of West German ships, machinery, industrial and agricultural products, fuel, and services. In 1954 the government of West Germany also began to extend personal restitution payments to Israeli residents who had incurred losses during World War II. By 1960 the combined transfers in reparations and personal restitutions amounted to $904 million. When added to

27 Critics of America's aid-to-Israel policy have sometimes alleged that U.S. post-war claims against Germany were scaled down to compensate Germany for such indemnity.

donations and loans from world Jewry, these special sources of foreign funds constituted 59 percent of the total capital imports figure of $3,791 million.

Third in magnitude among Israel's sources of capital from abroad, in addition to its export income, was U.S. government assistance. This assistance reached Israel in a variety of forms and, during the period 1949 to 1960, accounted for $742 million, which was 20 percent of the total.

Fourth in order of importance to the Israel economy were personal remittances. These included funds brought by immigrants into the country, transfers of gifts, business transfers, transfers in the form of legacies, and Israeli bonds. These amounted to the not inconsiderable figure of $349 million or 9 percent of all capital imports.

A fifth source of foreign capital that also contributed significantly to the financing of the import surplus was private foreign investments. Through this avenue $280 million--7 percent--reached Israel.

A sixth source was various loans from European governments and from commercial banks and long-term credits from suppliers abroad. The total from this combined source was $170 million, or 5 percent.

Interest on foreign loans and credits, as also payment of dividends on foreign investments, increased throughout the period and constituted about 1.8 percent of the net
national income. Capital imports, however, helped to create resources out of which such interest and dividends could be paid.\textsuperscript{29}

In retrospect, Israel worked in a "high development fever" throughout the period under review. Immigration and the requirements of national security, however, formed a drain on the economy. Unemployment was widespread. Prices were high. Domestic investment funds accumulated slowly.\textsuperscript{30} As a result of these several problems, the country depended heavily upon an import surplus and upon imports of capital from abroad to finance it.

\textsuperscript{29}Ibid., p. 16.

\textsuperscript{30}See also "Investment Assistance," Chapter VII.
CHAPTER IV

FORMS AND AMOUNTS OF U.S. AID

Official dollar aid to Israel from 1949 to 1960 totaled $741.6 million. This economic help took the form of loans, grants, agricultural surpluses, and technical assistance and was administered by a variety of American agencies. In addition, IL 477.8 million in U.S. owned or controlled Israel currency also aided the economy.

Export-Import Bank Dollar Loans

When Israel gained statehood May 14, 1948, it was immediately apparent to the young nation's leaders that domestic resources were far from adequate to provide for the rapidly growing population. Israel, in fact, was on the verge of economic collapse when early in 1949 the Export-

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1 See Table 10 on p. 94. The $741.6 million figure is exclusive of $1 million in military aid, which is outside the purview of this study. Statistics and Reports Division, Agency for International Development, U.S. Foreign Assistance and Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945-June 30, 1961 (Revised), p. 50.

2 Loan data herein are derived from Export-Import Bank reports to Congress from 1949 to 1960.
Import Bank (Eximbank) of Washington\(^3\) agreed to the establishment of $100 million for credits to finance the export to Israel of U.S. equipment, materials, and services. These imports were intended to assist the government of Israel launch an overall program leading to the country's balanced economic development. Credits were to bear interest at 3 1/2 percent per annum and were fifteen-year loans repayable in twenty-four semiannual installments beginning three years after date of each credit agreement. (Table 5.)

The first credit, amounting to $35 million under this earmarked sum of $100 million, was approved January 19, 1949, for the purchase of agricultural equipment and machinery. These supplies were to help increase the country's food resources as rapidly as possible in order to feed the masses of immigrants flowing into the country. To this end the $35 million were employed to equip 8,000 new farms, rehabilitate upwards of 16,000 old farms and 6,000 citrus groves, and to obtain irrigation facilities to bring water to 42,000 acres of new farm land. The Bank's share in the financing was an estimated one-third of the total cost.

To help improve the country's transportation facilities several credits, all dated March 9 of that year, were

\(^3\)The Export-Import Bank of Washington was established by act of Congress in 1934 for the purpose of making dollar loans repayable in dollars to foreign governments and businesses for the purchase of American products. Such loans were to be granted only when private capital was not available on reasonable terms.
granted in the amount of $9.5 million. This sum financed the purchase of American chassis for buses and heavy trucks that were to be assembled in Israel, which equipment was expected to increase by 20 percent the highway transportation potential of the country. It also financed the purchase of a seagoing freighter from an American firm by the government of Israel for resale to a domestic steamship line. This vessel, Eximbank officials were persuaded, would not be only a source of foreign exchange income to Israel but would be a means of conserving some U.S. dollars otherwise expended for shipping costs. Purchases from the $9.5 million further included three Diesel-electric locomotives and equipment for the establishment of an air maintenance base at Lydda airport. The latter was expected to save foreign exchange by enabling Israeli personnel to make repairs on domestic aircraft and to earn foreign exchange through emergency repair service to foreign lines.

Eximbank loans from the originally approved $100 million provided $25 million to alleviate overcrowded conditions in the Haifa and Tel Aviv area by construction of 15,000 housing units and to build 230 miles of urban streets and 150 miles of interurban roads. It also helped some twenty-eight communities extend their sewage-disposal and water-supply systems.

March 23, 1949, marks the date that a credit in the amount of $5 million was extended to the government of Israel to finance about 16 percent of the cost of American equipment
for a telecommunications program, the remainder being financed mainly by foreign and domestic private capital.

Port development, principally at Haifa, was the object of two other credits out of the $100 million authorized. These two credits, dated September 7, 1949, accounted for $5.5 million and were granted to build wharves, transit sheds, and a terminal building. They helped finance the purchase of such equipment from American sources as cranes, derricks, barges, dredges, and pumps.

Another credit, extended October 26, 1949, amounted to $20 million for industrial development in textiles, food processing, chemicals, pharmaceuticals, metals, and building materials. The several credits enumerated to this point together account for the full $100 million authorized.

In 1950 the government of Israel obtained a new authorization from the Export-Import Bank of $35 million to assist in financing further agricultural development and settlement in Israel. This request was part of a several-pronged economic development effort by Israel's leaders. These efforts included initiating the Israel Bond Drive, opening negotiations for a German compensation agreement, fund raising efforts of the United Jewish Appeal, and seeking economic aid grants and technical assistance from the United States government.4

Abba Eban, then Israel's ambassador to the United States, provides the following sidelight on the response that he received in Washington as he now bore tidings of his country's need for help:

I explained these anxieties frankly to President Truman in a conversation in September, 1950. The first White House reaction was one of surprise. There was a conventional belief in American opinion that a Jewish State might encounter hard going in the strange fields of diplomacy and defense, but would find all barriers falling before it in the familiar domain of economic action. At President Weizman's request an Export-Import Bank credit of $100m. had been approved in 1949. Even this was being exhausted, and my first task was to negotiate a "replenishment." This effort was successful and a new credit of $35m. was approved for announcement in December, 1950.5

The announcement was released by the Bank only after a careful review of the economic progress that had been achieved by Israel since the $100 million authorization had been made at the beginning of 1949. The new $35 million credit was extended to pay for imports of U.S. products for farm settlements, the expansion of irrigation facilities designed to bring new farms under cultivation, and the erection of a fertilizer plant.6 At this juncture, Eban notes, "One of the Israel Embassy's sophisticated economic consultants predicted that this was the only assistance that Israel could realistically expect."7

5Ibid.

6For accounting purposes the $35 million credit granted in 1950 is retroactively listed by the Eximbank in combination with the earlier $35 million loan for related usages, January 19, 1949. See Table 5 on page 70.

7Eban, "How It Began," p. vii.
Most of the products imported through financing provided by the combined loans of $135 million were purchased in 1950 and 1951 when the Israel pound was officially valued at $2.80. Its unrealistically high value in relation to the dollar meant that importers who purchased American goods with dollars made available to them at the official exchange rate were able to enjoy large profits when they resold the goods on the domestic market. As a result, the loans were not used very efficiently. Also there were cases in which imported machinery remained idle and other cases where it turned out to be inadequate for lack of a sufficiently thorough examination prior to purchase. 8

In 1955 the government of Israel entered into negotiations with the Export-Import Bank for an additional $75 million loan for irrigation projects. Although the request was prepared and documented by the Economic Advisory Staff of the Prime Minister's Office, a research team sent out by the Bank felt obliged to take issue with the Israeli estimate of the magnitude of the water resources available. The Bank team's calculation, which was later confirmed by additional hydrological research, was considerably lower than the Israeli assessment. 9 Not until February 20, 1958, was a new loan agreement reached, at which time the amount


9 Ibid., p. 34.
approved was $24.2 million. The interest rate of 5 1/4 percent was an increase over the 3 1/2 percent rate on the earlier loans and represented Bank officials' assessment of Israel's improved ability to meet its foreign exchange obligations.

In October, 1958, a short-term 5 percent loan of $350 thousand was granted for the purchase of an atomic reactor for industrial research, a U.S. sale that was in line with American policy to make such reactors available to friendly powers. At the time that it was authorized a loan in the amount of $3 million was also made to the American Israel Paper Mills, Ltd., at Hadera, and guaranteed by the Industrial Development Bank of Israel. Its purpose was the purchase of American equipment for a paper mill and pulp plant. The interest rate was 5 1/2 percent.

The magnitude of dollar loans disbursed by the Export-Import Bank to Israel during the entire 1949-1960 period was $162.5 million. All were fifteen-year loans with the exception of the credit for the atomic reactor. Interest rates ranged from 3 1/2 percent on the earliest loans to 5 1/2 percent on the latest. About three-fourths of the $162.5 million were utilized directly or indirectly

10Besides making dollar loans to Israel out of its own funds the Export-Import Bank was the channel through which "Cooley Amendment" loans from Public Law 480 Title I surplus commodity sales and other loans from the International Cooperation Administration benefited the economy. Export-Import Bank of Washington, Report to the Congress for the Twelve Months ending June 30, 1960, pp. 22, 168-172, 200.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Loan Recipient</th>
<th>U.S. Products Financed</th>
<th>Credits Authorized Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>State of Israel</td>
<td>Agricultural equipment and machinery</td>
<td>1-19-49</td>
<td>$70,000</td>
</tr>
<tr>
<td>1949</td>
<td>&quot;</td>
<td>Transportation</td>
<td>3-9-49</td>
<td>9,535</td>
</tr>
<tr>
<td>1949</td>
<td>&quot;</td>
<td>Housing materials</td>
<td>3-16-49</td>
<td>25,000</td>
</tr>
<tr>
<td>1949</td>
<td>&quot;</td>
<td>Telecommunications equipment</td>
<td>3-23-49</td>
<td>5,000</td>
</tr>
<tr>
<td>1950</td>
<td>&quot;</td>
<td>Port development</td>
<td>9-7-49</td>
<td>5,465</td>
</tr>
<tr>
<td>1950</td>
<td>&quot;</td>
<td>Industrial development</td>
<td>10-26-49</td>
<td>20,000</td>
</tr>
<tr>
<td>1958</td>
<td>&quot;</td>
<td>Expansion of water supply, distribution facilities, and agricultural development</td>
<td>2-20-58</td>
<td>24,200</td>
</tr>
<tr>
<td>1959</td>
<td>&quot;</td>
<td>Research atomic reactor</td>
<td>10-8-58</td>
<td>350</td>
</tr>
</tbody>
</table>

Total $162,550

for food production and housing for the expanding immigrant population. By the end of the period substantial loan repayments had already been made. As of June 30, 1960, the sum of $58.4 million in principal and $36.5 million in interest had been repaid. And the fact that payments were on schedule helped maintain the continued good will of the Bank.11

**Mutual Security Program Grants and Loans**

Although Export-Import Bank loans in 1949 marked the beginning of official American assistance to Israel, the mainstream of U.S. aid from 1949 to 1960 came under the Mutual Security Program, meaning those agencies and methods incorporated in the Mutual Security Acts of 1951 and 1954 and amendments thereto. Assistance provided under such legislative authority consisted of grants and loans in the form of dollar credits to foreign governments for the purchase of commodity imports. Technical Assistance and (later) the Development Loan Fund also came under the canopy of the Mutual Security Program but will be treated separately.

The first U.S. grant to Israel was made in the fiscal year 1952, in response to Israel's application for $150 million.12 The amount extended was $63.5 million. It

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11 An official of the Export-Import Bank informed the writer in a personal interview in 1964, "We like to do business with the Israelis. They come with their plans well prepared. They talk like businessmen. They know what they want; and they meet their obligations on schedule."

12 See "Text of Note Presented by the Ambassador of Israel, Abba S. Eban, to the Secretary of State--Request for Grant-in-Aid," Appendix C.
is apparent that Congress was maintaining a weather eye to possible political repercussions when it made this grant because the statute not only provided that $50 million of it were to go for "specific refugee relief and resettlement projects in Israel" but that another $50 million were to be contributed to the United Nations for the U.N. Palestine Refugee Act of 1950, which is to say, for Palestine Arab refugees.\(^{13}\)

All but $5.1 million of the first American grant of $63.5 million were spent on the satisfaction of essential human needs under the categories of relief and resettlement. (Table 6.) More than half the total amount—$35.1 million—was used for the purchase of such basic foods as wheat and flour, sugar, and skim milk powder. In addition $7.4 million went for the purchase of agricultural supplies, including fodder, seeds, fertilizer, and plant protection minerals. Altogether $42.5 million or 67 percent of the whole grant were directly or indirectly devoted to increasing the country's food supply, part of this amount being used to redeem short-term debts previously obtained to finance food purchases.

Fuel constituted the next major category of the first grant. More than $9 million, approximately 25 percent of Israel's fuel import for the year, were expended in this direction. The fact that the country's population had

\(^{13}\)Mutual Security Act of 1951, Statutes at Large, Vol. 65, sec. 205, 1951, p. 375.
### TABLE 6

**BREAKDOWN OF FIRST GRANT-IN-AID**
(In Thousands of Dollars)

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Relief</strong></td>
<td></td>
</tr>
<tr>
<td>1. Basic foods</td>
<td>$35,112</td>
</tr>
<tr>
<td>2. Fodder, seeds, etc.</td>
<td>7,439</td>
</tr>
<tr>
<td>3. Raw materials</td>
<td>4,045</td>
</tr>
<tr>
<td>4. Fuel.</td>
<td>9,055</td>
</tr>
<tr>
<td><strong>B. Resettlement</strong></td>
<td></td>
</tr>
<tr>
<td>5. Housing</td>
<td>2,401</td>
</tr>
<tr>
<td>6. Farm buildings</td>
<td>148</td>
</tr>
<tr>
<td>7. Farm equipment</td>
<td></td>
</tr>
<tr>
<td>8. Spare parts</td>
<td>200</td>
</tr>
<tr>
<td>9. Medical supplies</td>
<td></td>
</tr>
<tr>
<td><strong>C. Development</strong></td>
<td></td>
</tr>
<tr>
<td>10. Food storage</td>
<td></td>
</tr>
<tr>
<td>11. Livestock</td>
<td></td>
</tr>
<tr>
<td>12. Transportation</td>
<td></td>
</tr>
<tr>
<td>13. Power</td>
<td>2,800</td>
</tr>
<tr>
<td>14. Irrigation</td>
<td>2,150</td>
</tr>
<tr>
<td>15. Industry</td>
<td></td>
</tr>
<tr>
<td>16. Fishing</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$63,500</td>
</tr>
</tbody>
</table>

Source: Grant-in-Aid Office, Jerusalem, July, 1953.
doubled since 1948 and that large-scale development of water and power and construction of homes and roads was under way made petroleum imports essential.

The remaining $9 million of the first grant were used for the purchase of textile raw materials and leather ($4 million), construction material for immigrant housing and farm buildings ($2.6 million), spare parts ($2 million), expansion of electric power facilities ($2.8 million), irrigation ($2.2 million), and development of the local fishing industry ($2 million). Altogether the $63.5 million grant constituted about one-fourth of Israel's foreign income in fiscal year 1952.\textsuperscript{14}

In 1953 the magnitude of grant aid surpassed the 1952 level. In fact, the second grant was the largest that the United States ever extended to Israel, the whole amount being designated by Congress for the welfare of immigrant refugees.\textsuperscript{15} The sum was $70,228,000\textsuperscript{16} and accounted for 35.6 percent of Israel's foreign income that year. The part devoted to relief and resettlement projects was $2 million less than it was the year before, but $8.7 million more were programmed for development projects. (Table 7.)


\textsuperscript{16}Subsequent deobligations reduced this figure to $70,061,000.
TABLE 7
BREAKDOWN OF SECOND GRANT-IN-AID
(In Thousands of Dollars)

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Relief</strong></td>
<td></td>
</tr>
<tr>
<td>1. Basic foods</td>
<td>$22,887</td>
</tr>
<tr>
<td>2. Fodder, seeds, etc.</td>
<td>6,291</td>
</tr>
<tr>
<td>3. Raw materials</td>
<td>4,939</td>
</tr>
<tr>
<td>4. Fuel</td>
<td>12,974</td>
</tr>
<tr>
<td><strong>B. Resettlement</strong></td>
<td></td>
</tr>
<tr>
<td>5. Housing</td>
<td>5,632</td>
</tr>
<tr>
<td>6. Farm buildings</td>
<td>100</td>
</tr>
<tr>
<td>7. Farm equipment</td>
<td>1,612</td>
</tr>
<tr>
<td>8. Spare parts</td>
<td>910</td>
</tr>
<tr>
<td>9. Medical supplies</td>
<td>1,098</td>
</tr>
<tr>
<td><strong>C. Development</strong></td>
<td></td>
</tr>
<tr>
<td>10. Food storage</td>
<td>196</td>
</tr>
<tr>
<td>11. Livestock</td>
<td>325</td>
</tr>
<tr>
<td>12. Transportation</td>
<td>2,078</td>
</tr>
<tr>
<td>13. Power</td>
<td>2,660</td>
</tr>
<tr>
<td>14. Irrigation</td>
<td>5,124</td>
</tr>
<tr>
<td>15. Industry</td>
<td>3,222</td>
</tr>
<tr>
<td>16. Fishing</td>
<td>180</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$70,228</td>
</tr>
</tbody>
</table>

Source: Grant-in-Aid Office, Jerusalem (Revised), April, 1954.
In fiscal year 1954 the U.S.-Israel grant level decreased to $52.5 million. A novel aspect of the year's aid obligation was the condition that part of it be used to buy surplus American farm products. This stipulation reflects the fact that Congress was becoming increasingly aware of huge agricultural surpluses which were accumulating in the wake of its price support program and insisted that more attention be focused by the U.S. aid agency on the disposal of these surpluses on foreign markets. In response to this pressure $1.2 million of the 1954 grant were specifically earmarked for the purchase of surplus commodities. The same year a major piece of legislation, originating with the United States Department of Agriculture, was passed by Congress that was directly aimed at the disposal of farm surpluses on a large scale. Although this statute, known as Public Law 480, was not passed by Congress in the name of foreign assistance legislation, eventually it was destined to replace America's grant program.

Another highly important development in the laws affecting subsequent U.S. foreign aid also occurred in 1954. A strong tide of public and Congressional sentiment had come to favor putting some Mutual Security Program "Development Assistance" on a loan basis rather than on the basis of outright grants. This attitude was incorporated in the Mutual Security Act of 1954. Loans were repayable in local currency, and those made to the government of Israel matured
In forty years. The interest rate was 4 percent, except that loans granted in 1956 and 1957 specified 4 percent if repaid in Israel pounds but only 3 percent if repaid in dollars.

In 1955 and 1956 Development Assistance to Israel was almost evenly divided between grants and loans. In 1955 $19.7 million were granted and $20 million were loaned to Israel, $17.7 million of which credits were used for the purchase of agricultural surpluses in addition to those commodities that Israel obtained for local currency under Public Law 480 Title I. Then in 1956 approximately $13 million were granted and $12.5 million loaned. Of this combined grant and loan a total of $15.1 million were employed for the purchase of commodities labeled surplus by the U.S. Department of Agriculture, $5.1 million coming from the grant portion and $10 million from the loan.

In 1957 Israel was granted $15 million to buy American farm surpluses, and from this time forth all grants were made solely for such surplus commodity purchases under the heading of "Special Assistance." Also in 1957 a $10 million loan was given to help meet its dollar needs for other raw materials, for products conducive to agricultural expansion, and for fuel.

Other Special Assistance grants in the modest amount of $7.5 million a year followed in 1958, 1959, and 1960 for non Title I food surpluses, each grant carrying with it the new requirement that the government of Israel also purchase
out of its own reserves of foreign currency an additional $7.5 million of farm surplus commodities. By 1960 these foreign currency reserves were sufficiently large that certain members of Congress began to demand a cessation of grants to Israel altogether. The fact that 1960 was a presidential election year accounted for continuation of the program for another year, but in 1961 it was terminated.17

Thus from a high of over $70 million in 1953, dollar grant aid to Israel diminished to an annual level of $7.5 million by the end of the period and became part of a multiple approach of the United States government to the problem of cutting down America's agricultural overabundance. These Mutual Security Program grants, coupled with loans, exclusive of the Development Loan Fund, reached a magnitude of $298.7 million from their inception to the close of fiscal year 1960. Over half of this entire sum was used for the purchase from the United States of basic foods for consumption and for other commodities necessary to the promotion of agricultural production in Israel. Table 8 provides a picture of the purposes served by this assistance.

Development Loan Fund Loans

The Mutual Security Act of 1957 set up a new government lending agency, independent of the International Cooperation Administration, with funds that were not subject

17 Public International Development Financing, p. 34.
<table>
<thead>
<tr>
<th>Sector</th>
<th>FY-52</th>
<th>FY-53</th>
<th>FY-54</th>
<th>FY-55</th>
<th>FY-56</th>
<th>FY-57</th>
<th>FY-58</th>
<th>FY-59</th>
<th>FY-60</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$35,112</td>
<td>$22,543</td>
<td>$5,479</td>
<td>$16,379</td>
<td>$11,647</td>
<td>$8,889</td>
<td>$5,763</td>
<td>$5,850</td>
<td>$7,500</td>
<td>$119,162</td>
</tr>
<tr>
<td>Agricultural production</td>
<td>10,088</td>
<td>8,803</td>
<td>3,205</td>
<td>2,533</td>
<td>1,490</td>
<td>6,108</td>
<td>1,732</td>
<td>1,650</td>
<td></td>
<td>35,609</td>
</tr>
<tr>
<td>Fuel</td>
<td>9,056</td>
<td>13,136</td>
<td>12,972</td>
<td>2,416</td>
<td>3,129</td>
<td>4,226</td>
<td></td>
<td></td>
<td></td>
<td>44,935</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,453</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,304</td>
</tr>
<tr>
<td>Raw materials for local</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials for export</td>
<td>4,044</td>
<td>7,419</td>
<td>9,504</td>
<td>2,526</td>
<td></td>
<td>485</td>
<td></td>
<td></td>
<td></td>
<td>23,978</td>
</tr>
<tr>
<td>Agricultural &amp;</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigational investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22,360</td>
</tr>
<tr>
<td>Power &amp; industrial development</td>
<td>2,800</td>
<td>2,806</td>
<td>1,486</td>
<td>3,969</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11,061</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,699</td>
</tr>
<tr>
<td>Housing</td>
<td>2,400</td>
<td>5,869</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8,269</td>
</tr>
<tr>
<td></td>
<td>$63,500</td>
<td>$70,061</td>
<td>$52,524</td>
<td>$39,680</td>
<td>$25,449</td>
<td>$24,991</td>
<td>$7,495</td>
<td>$7,500</td>
<td>$7,500</td>
<td>$298,700</td>
</tr>
</tbody>
</table>

to fiscal year limitations. This was the Development Loan Fund. Its purpose was to extend long range loans to non-governmental as well as governmental borrowers for economically sound development projects where such projects could not otherwise qualify for loans from private or public lending sources. As with Mutual Security Program loans, which were now discontinued, DLF loans were to be administered so as to support and encourage private investment and could be repaid in local currency into what amounted to a revolving fund for relending.18 Interest rates and other terms of repayment were determined on a case-by-case basis in the various receiving countries, the theory being that rates on profit-earning projects could exceed those on such economic overhead projects as roads, bridges, harbors, communication facilities, and so forth.19 Loans to Israel pursuant to the new legislation were offered for periods of ten to twenty years.

In fiscal year 1958 a DLF loan was extended to the government of Israel in the amount of $15 million and for a period of fifteen years at 5 1/4 percent interest to finance

18The Development Loan Fund functioned as a U.S. government corporation until November 3, 1961, at which time it was merged with the Agency for International Development by the Foreign Assistance Act of 1961. Under AID, dollar loans were repayable in dollars instead of local currencies, and repayments were no longer available for relending.

the purchases of American equipment for electric power generation and distribution; road and railroad materials; machinery and supplies for the production of textiles; food, cement, and tires; equipment and steel for pipe manufacturing and agricultural uses; construction for farm buildings and for mining. The State Department press release that announced the loan was careful to point out that a substantial part of the supplies being financed by this first DLF loan to Israel would go to private business.20

In order to gain DLF loans, Israel's Foreign Currency Division of the Ministry of Finance, in collaboration with the Budget Division, was obliged to seek out specific projects and prepare detailed data for American examination and approval. Both governmental departments found this task very time consuming and difficult partly because DLF did not accept individual loan applications for amounts below $100 thousand, whereas most Israeli projects required less than that quantity of American money. The solution arrived at by government and DLF officials was that the Fund should make some capital available to the Industrial Development Bank, out of which that institution could make loans to various industrial enterprises as needed.21 Following the adoption of this arrangement, in 1959 a $5 million ten-year


21Public International Development Financing, p. 35.
loan, carrying a 5 percent interest rate, was granted to IDBI for relending to small business firms through medium and long-term loans. These loans were intended to provide the foreign exchange necessary to help such enterprises finance American imports of essential materials and equipment.22

In 1960 a second ten-year foreign exchange credit in the amount of $5 million was made available to the same government related bank and at the same interest rate as the previous loan. Also in 1960, $15 million were loaned to the government of Israel for the import of irrigation equipment and services in connection with the construction of a system for the movement of water from Western Galilee and Samaria to the South. The interest charges on this twenty-year economic overhead loan were 3 1/2 percent. By the close of U.S. fiscal year 1960 Israel had been the recipient of Development Loan Fund dollar loans in the amount of $40 million.23

Technical Assistance

A very small part ($15.3 million) of all U.S. aid to Israel was extended under the label of Technical Assistance, Technical Cooperation, or Point Four. This program sent

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American experts to Israel to advise the government on ways and means of achieving agreed upon economic objectives. It also financed the dollar costs of demonstration equipment and the training of selected Israeli personnel abroad under the Participant Training Program. Technical Assistance dollars generated no local currency owned or controlled by the United States, as was the case with grants. Neither did the dollars expended have to be repaid.

Because Israel's great need in the early 1950's was for foods and fodders, it will be recalled that grant aid, which was first extended to Israel in 1952, was directed toward financing imports of agricultural commodities. During this period Technical Assistance, which was also first applied to Israel in 1952, was devoted mainly to agricultural projects, supporting and reinforcing the grant program. By 1957 the Technical Assistance emphasis had shifted somewhat to industry, while its role in agriculture largely focused on the promotion of a university system to supervise and have charge of research, education, and extension work. Besides aiding agriculture and industry the Technical Assistance/Cooperation Program contributed to such other fields as public administration, public health, transportation, housing, and education. 24 The Technical Assistance Program will be considered in greater detail in Chapter VI.

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, Eighty-Third Congress) was passed quite independently of the Mutual Security Act of 1954. Its chief aim was to speed up the disposal of politically embarrassing and economically costly farm surpluses that could not be sold through normal commercial channels at home or abroad. Title I authorized the President to negotiate agreements with friendly nations for the sale of surplus commodities for foreign currencies and to use such currencies for various purposes, including grants and loans. Only incidentally did Congress think of Title I as a foreign aid program. At least, supporters emphasized its benefits to America and said little about its benefits to nations abroad. In relation to Israel, however, it soon became the main expression of the U.S. assistance effort and by the close of 1961 replaced grant aid altogether.25

Because Title I aid is the subject of a separate chapter, it is sufficient to say here that shipments from 1955 to 1960 averaged $27 million a year and that a distinct break in the level came with the temporary cutback to

25Public Law 480 included also Titles II, III, and IV. Title II authorized free distribution of surplus commodities for famine or emergency relief. Title III dealt with contributions of foodstuffs through voluntary agencies. Title IV, which was added in 1959, provided for long-term supply and dollar credit sales. By the close of the period under review neither Title II nor IV had been applied to Israel.
$10.5 million in 1957 following the Suez crisis. By 1960 shipments reached a cumulative total of $162.3 million, most of which represented purchases in three food categories: wheat, feed grain, and edible fats and oil.

Agricultural Surplus Assistance under Public Law 480 Title III and Prior Authorizations

Section 416 of the Agricultural Act of 1949 authorized the Commodity Credit Corporation to make donations of surplus agricultural products to various public and private welfare agencies for the benefit of needy persons at home and abroad. In 1954 the Act was superseded by an even more liberal Title III section of Public Law 480. The new law authorized the CCC to pay for the processing, packaging, handling, and transportation of commodities donated up to the time of delivery to relief agencies for domestic distribution or to shipside in the case of distribution abroad.26

By the close of fiscal year 1960 America had contributed to Israel through welfare organizations (CARE, Hadassah,27 and Malben) a total of $52.2 million in


27For an insight into the operations of Hadassah in respect to Title III commodities, see Appendix D.
commodities, which constituted 18 percent of all U.S. surplus commodity aid extended to that country. These charitable contributions incurred no obligation to repay in any form. They were outright gifts.28

Table 9 indicates the dollar value of surplus agricultural commodities made available to Israel under Title III and Section 416 of the Agricultural Act of 1949 and compares it with the value of foods and fibers furnished under Title I. It also provides a comparison with the dollar value of other surpluses financed by Mutual Security grants and loans under Section 550 of the Mutual Security Act of 1951 and Section 402 of the Mutual Security Act of 1954. It should be borne in mind that these figures pertain only to the value of commodities officially classified as surplus by the U.S. government in connection with the domestic price support program. No attempt is made here to discuss Israel's purchases of American agricultural products through normal commercial channels.

Indicative of the growing emphasis on agricultural surpluses in the aid program is the fact that only 12 percent

28Title III also allowed private U.S. firms, under contract with the Commodity Credit Corporation, to barter surplus commodities for strategic and other materials and supplies. Under this authority American companies exchanged $16 million in agricultural products with Israeli firms. Such business transactions, however, are categorized as trade instead of aid by the United States government and so are not included in this study. U.S. Congress, House, The Twelfth Semiannual Report on Activities Carried on Under Public Law 480, 83d Congress, as Amended, H. Doc. No. 449, 86th Cong., 2d sess., 1960, p. 35.
TABLE 9

DOLLAR VALUE OF AID EXTENDED THROUGH SURPLUS
AGRICULTURAL COMMODITIES (ALL PROGRAMS)
(In Thousands of Dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Mutual Security Program (Sections 550 and 402)</th>
<th>Public Law 480</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Grants</td>
<td>Loans</td>
<td>Title I Sales</td>
</tr>
<tr>
<td>1949</td>
<td>. . .</td>
<td>. . .</td>
<td>. . .</td>
</tr>
<tr>
<td>1950</td>
<td>. . .</td>
<td>. . .</td>
<td>. . .</td>
</tr>
<tr>
<td>1951</td>
<td>. . .</td>
<td>. . .</td>
<td>. . .</td>
</tr>
<tr>
<td>1952</td>
<td>. . .</td>
<td>. . .</td>
<td>. . .</td>
</tr>
<tr>
<td>1953</td>
<td>. . .</td>
<td>. . .</td>
<td>. . .</td>
</tr>
<tr>
<td>1954</td>
<td>$1,197</td>
<td>. . .</td>
<td>. . .</td>
</tr>
<tr>
<td>1955</td>
<td>. . .</td>
<td>$17,684</td>
<td>12,696</td>
</tr>
<tr>
<td>1956</td>
<td>5,059</td>
<td>10,000</td>
<td>27,632</td>
</tr>
<tr>
<td>1957</td>
<td>14,997</td>
<td>. . .</td>
<td>10,538</td>
</tr>
<tr>
<td>1958</td>
<td>7,495</td>
<td>. . .</td>
<td>39,232</td>
</tr>
<tr>
<td>1959</td>
<td>7,500</td>
<td>. . .</td>
<td>36,360</td>
</tr>
<tr>
<td>1960</td>
<td>7,500</td>
<td>. . .</td>
<td>35,645</td>
</tr>
</tbody>
</table>

Total $143,748 $27,684 $162,303 $52,205 $285,940

Percent of Total 15.3 10 57 18 100


*Value of U.S. food contributions to voluntary agencies under Section 416 of the Agricultural Act of 1949.
($44.6 million) of American government aid to Israel during the first half of the period was provided in the form of food surpluses, but during the second half, 65 percent ($241.3 million) comprised assistance of this character. Throughout the entire period, farm surplus commodity aid reached a magnitude of $285.9 million or 36.5 percent of the total aid-to-Israel figure of $741.6 million.

Informational Media Guaranty

From fiscal year 1953 to 1960 the United States devoted $10.5 million to a program that enabled Israeli importers to purchase American books, periodicals, films, maps, and such with Israeli pounds.29 This program, called the

29 American firms participating in the IMG-Israel program during fiscal year 1960 were the following:

Reader's Digest Association, Inc. (all languages) .... $15,000
Curtis Publishing Co. (only magazines) ........ 8,000
Time, Inc. (Time, only subscriptions; Life, sub-
scriptions and newstands as per former IMG
contract) .................................. 44,500
Newsweek, Inc. ................................... 5,000
The New York Herald Tribune, Inc. ............. 10,000
The New York Times Co. ......................... 4,000
New World Club (Aufbau) ........................ 1,500
Jewish Daily Forward ................................ 1,000
The Day Publishing Co. .......................... 10,000
Hearst Corporation (only magazines) ............. 1,000
McGraw-Hill Publishing Co. (only subscriptions,
mostly technical journals) ................. 30,000
Moore-Cottrell Subscription Agencies .............. 88,000
Museum Publications, Inc. (only subscriptions) . . . 10,000
Hanson-Bennett Subscription Agency .............. 10,000
Van Riemdyk Book Service, Inc. (only subscrip-
tions) .................................. 12,000
Pocket Books (Bantam, N.A.L., Pocket, Dell,
Ballantine, Avon) ................................ 50,000
Total ........................................... $300,000

The principal periodical and newspaper subscriptions
and newsstand sales brought in under the contracts with the
Informational Media Guaranty (IMG) was originally instituted under authority of the Economic Cooperation Act of 1948. Later it came under the legislative auspices of the United States Information and Educational Exchange Act of 1948, as Amended. And whereas it first was administered by the Mutual Security Administration, it was shifted to the Department of State in 1952 and transferred to the U.S. Information Agency August 1, 1953.

Under authority emanating from agreements between the United States government and participating countries, the United States Information Agency entered into contracts with American exporters of approved books and other information media to guarantee dollars in exchange for otherwise unconvertible foreign currency resulting from the sales of their publications in those countries. For this coverage the applicant exporter paid to USIA in advance 1 percent of the amount that he anticipated selling abroad during the ensuing twelve months or 1 percent of whatever portion of that amount for which he desired dollars in lieu of foreign currency.  

The primary intent of the IMG program was the


30"Informational Media Guaranty Program Briefing Paper." United States Information Agency (n.d.).
dissemination of knowledge of America and the cultivation of a pro-western orientation abroad. Although this program, therefore, was on the margin of the American foreign assistance effort, it still enabled Israel to purchase one segment of American production without dipping into its limited dollar supply and so comes under the notice of this study.

A Chronological Review of Major Programs

In fiscal years 1949 and 1950, U.S. aid to Israel commenced with Export-Import Bank loans of $135 million for agricultural equipment, housing, industrial expansion, and for port development in Haifa and Jaffa.

In 1951 assistance to Israel consisted strictly of allocations of foodstuffs to voluntary agencies in the amount of $21.5 million.

In 1952 Israel became a full-fledged beneficiary of America's foreign aid program when it was granted $63.5 million primarily for refugee relief and resettlement. The same year saw the beginning in that country of the Technical Assistance Program.

In 1953 Israel received a $70 million grant, which like the one the year before was utilized mainly for feeding and housing immigrants. The year also marked the extension of the Informational Media Guaranty Program to Israel, which greatly facilitated the import of American films, books, and
other publications by permitting American exporters to convert Israel pounds into dollars.

In 1954 America granted Israel $52.5 million mainly for fuel, agricultural production and investment, and for basic foods. Another $20.7 million in agricultural surpluses were donated by the American government to voluntary relief agencies and channeled to Israel's sick and hungry. This was also the year that Congress, sensitive to the farm surpluses being amassed through its price support program, passed the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480).

In 1955 there was a marked decline in the grant level to $19.7 million. However, two new programs made up the difference. The first was a long-term loan of $20 million, repayable in local currency, under amended Mutual Security legislation. The second was the local currency sale of $12.7 million worth of surplus agricultural commodities under Public Law 480 Title I.

In 1956 the Mutual Security Program grant dropped again, this time to $13 million, and the Mutual Security Program loan level also decreased to $12.5 million. The slack in both was taken up by a corresponding increase in commodity sales under Title I to $27.7 million. Quite clearly the Mutual Security grant-loan program was being reduced in favor of Title I commodity sales. The $53 million total of the three programs together, it may
also be noted, was a continuation of the approximate level of the same three programs in 1955 ($52.4 million) and of the grant program alone in 1954 ($52.5 million).

In 1957 a $10 million loan, repayable in local currency, was extended to Israel for the purchase of nonsurplus agricultural products, raw materials, and fuel; and a grant of $15 million was made for the acquisition of surplus commodities. The most noticeable variation in the 1957 level of aid was a drastic drop in Title I sales from $27.7 million in 1956 to $10.5 million. This decline reflected a deliberate U.S. slowdown of agricultural surplus shipments in the wake of the Suez crisis.

In 1958 a grant to Israel of $7.5 million for the purchase of surplus agricultural products was more than offset by the dramatic post-Suez crisis rise in Title I sales to $39.2 million. To these figures we add an Export-Import Bank loan of $24.2 million for irrigation development and a Development Loan Fund loan of $15 million for industrial and agricultural development. When the cost of Technical Assistance, the Informational Media Guaranty Program, and Title III food donations are included, we note that the 1958 aid level rose to the highest peak since 1949, totaling $90.4 million.

In 1959 Export-Import Bank loans in the amount of $3.4 million financed the purchase of an atomic energy reactor and equipment for a paper mill and pulp plant. A
grant for farm surpluses of $7.5 million was joined by Title I local currency food sales in the magnitude of $36.4 million and Title III food gifts of $1.7 million. The foregoing assistance was enlarged by a DLF loan of $5 million to the Industrial Development Bank of Israel for relending to small businesses.

During 1960, the final year of the period under consideration, Israel received the customary $7.5 million grant for agricultural surpluses, $35.8 million worth of additional foodstuffs under Title I and $.5 million under Title III.

When, to the foregoing, we include expenditures obligated in support of Technical Assistance and Informational Media Guaranty, the grand total for all kinds of economic aid during the twelve-year period is $741.6 million. (See Table 10.)

The Role of Local Currency

Two categories of local currency accumulated through the American aid programs. These were: (1) counterpart accounts owned by the host country, and (2) U.S.-owned foreign currency accounts acquired by the United States from sales of surplus agricultural commodities.

Israel, like other countries benefiting by grants under the Mutual Security Program, was required to deposit in one of its own domestic banking institutions the local currency paid by domestic purchasers of commodities acquired with the dollars granted. This account was called the Counterpart Fund. Although counterpart accumulations were
## TABLE 10

**COMPOSITION OF TOTAL U.S. DOLLAR ASSISTANCE TO ISRAEL**  
(In Thousands of Dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Export-Import Bank Loans</th>
<th>Mutual Security Program</th>
<th>Public Law 480</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Mutual Security Loans</td>
<td>Surplus Title III</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mutual Security Loans</td>
<td>Agricultural Grants to Media</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mutual Security Loans</td>
<td>Voluntary Sales Agencies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mutual Security Loans</td>
<td>Technical Guaranty</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public Law 480 Loans</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td></td>
<td>Public Law 480 Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public Law 480 Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>109,535</td>
<td>109,535</td>
<td>1,200</td>
<td>21,504</td>
</tr>
<tr>
<td>1950</td>
<td>25,465</td>
<td>2,531</td>
<td>0,220</td>
<td>21,504</td>
</tr>
<tr>
<td>1951</td>
<td>63,500</td>
<td>2,531</td>
<td>934</td>
<td>64,434</td>
</tr>
<tr>
<td>1952</td>
<td>70,061</td>
<td>2,531</td>
<td>0,220</td>
<td>73,536</td>
</tr>
<tr>
<td>1953</td>
<td>52,524</td>
<td>2,531</td>
<td>934</td>
<td>64,434</td>
</tr>
<tr>
<td>1954</td>
<td>19,680</td>
<td>2,531</td>
<td>20,665</td>
<td>76,968</td>
</tr>
<tr>
<td>1955</td>
<td>12,951</td>
<td>2,531</td>
<td>1,679</td>
<td>2,100</td>
</tr>
<tr>
<td>1956</td>
<td>11,497</td>
<td>1,679</td>
<td>12,696</td>
<td>56,378</td>
</tr>
<tr>
<td>1957</td>
<td>14,997</td>
<td>1,679</td>
<td>27,632</td>
<td>58,997</td>
</tr>
<tr>
<td>1958</td>
<td>7,495</td>
<td>1,679</td>
<td>10,538</td>
<td>41,225</td>
</tr>
<tr>
<td>1959</td>
<td>7,500</td>
<td>1,679</td>
<td>39,232</td>
<td>90,425</td>
</tr>
<tr>
<td>1960</td>
<td>7,500</td>
<td>1,679</td>
<td>36,360</td>
<td>56,214</td>
</tr>
<tr>
<td>Total</td>
<td>162,550</td>
<td>15,349a</td>
<td>52,205</td>
<td>741,607</td>
</tr>
<tr>
<td>Percent of Total</td>
<td>22</td>
<td>34.5</td>
<td>5.7</td>
<td>5.4</td>
</tr>
</tbody>
</table>


*Including administrative costs of $2.0 million.

*Actual shipments. Sales agreements amounted to $168.5 million.*
wholly owned by the recipient country, expenditures from them could be made only with the concurrence of the United States. This American requirement was based on the assumption that the currency thus reserved could make a further contribution to economic stability if used to stimulate certain sectors of the economy and that decisions respecting its use would somehow be made more wisely in consultation with the United States than without it.31 Out of the Counterpart Fund grants and loans were made agreeable to both governments; and that part that was loaned and afterwards repaid was returned by Israel to the Counterpart Fund with interest.

U.S. owned foreign currency accounts, in contrast to counterpart funds, were formed from sales for surplus agricultural products under provisions of the Mutual Security Act (Section 550 of the amended 1951 Act and Section 402 of the amended 1954 Act) and under provisions of Public Law 480 Title I. The foreign currency proceeds of Mutual Security Act sales, commonly referred to as Section 402 funds, were available for further Mutual Security Program purposes agreeable to the purchasing country. The domestic currency acquired through Title I sales were available for a number of purposes, including grants and loans for economic development and for other strictly U.S. uses, the general

purposes being specified at the time the sales agreement was signed. U.S. owned local currencies in Israel also included loan repayments from Title I loans as well as from MSP and DLF dollar loans, together with interest charges on all such loans, and interest on bank deposits.

From the standpoint of the economic development of the country, U.S. owned local currency accounts were indistinguishable from country owned counterpart funds. As explained by Asher:

The differences between foreign-owned counterpart accounts and United States-owned P.L. 480 local currencies, though legally and politically important, are largely a matter of historical accident and are not of immediate economic importance. Counterpart funds had their birth in programs designed to aid friendly countries that were in need. Since such countries could no longer spend foreign exchange for the commodities they required, the United States did not ask for payment. It gave the commodities (including a very substantial volume of agricultural commodities) as foreign aid and asked the recipient government to deposit in an account of its own the equivalent cost of its currency. P.L. 480 funds had their birth in programs designed to dispose of surplus agricultural commodities, despite the fact that dollar payment could not reasonably be expected. Giving the commodities away seemed politically less palatable than selling them for foreign currencies that would belong to the United States and lending, or even granting, the currencies to the country that had made the purchase.

Public Law 480 Title III authorized commodity grants to voluntary welfare agencies and, although calculated as dollar aid, did not call for corresponding deposits of local

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33 Asher, Grants, pp. 11-12.
currency, either as counterpart or U.S. owned accounts. Neither did Export-Import Bank loans. Likewise the Technical Assistance Program generated no domestic funds. While it is true that each year's Technical Cooperation Agreement committed the government of Israel to pay the local currency costs of projects jointly sponsored, such payments were not considered local currency generations. Nor were Israel pounds so considered that were garnered by the American government through the Informational Media redemption policy, inasmuch as the currency acquired was removed from further programming for economic aid. The other forms of assistance already enumerated, however, did generate U.S. owned or controlled local currency and when disbursed for country development were reported as expenditures within the framework of the Development Budget.

During the years 1952 to 1960, inclusive, assistance to the economy of Israel emanating from U.S. owned and controlled local currency reached a magnitude of IL 477.8 million and accounted for one-fifth of the Development Budget. This sum, the equivalent of $265.5 million at the official exchange rate prevailing at the end of the period ($1 = IL 1.80), was distributed on a project basis in the fields and amounts shown in Table 11.

Approximately 42 percent of the IL 477.8 million was devoted to agricultural projects and 32 percent to industry. A smaller amount, 10 percent, went largely to housing
### TABLE 11
CONTRIBUTIONS OF COUNTERPART AND U.S. OWNED LOCAL CURRENCY IN EXPENDITURES OF THE DEVELOPMENT BUDGET (Israel's Fiscal Years 1952-1960)

<table>
<thead>
<tr>
<th>IL Million</th>
<th>Budget Total</th>
<th>U.S. Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>698.7</td>
<td>201.4</td>
</tr>
<tr>
<td>Industry and mining</td>
<td>514.8</td>
<td>152.1</td>
</tr>
<tr>
<td>Housing, schools, and community development</td>
<td>527.6</td>
<td>46.0</td>
</tr>
<tr>
<td>Transportation and public works (roads)</td>
<td>235.0</td>
<td>52.3</td>
</tr>
<tr>
<td>Posts</td>
<td>52.9</td>
<td>12.3</td>
</tr>
<tr>
<td>Loans to local governments</td>
<td>51.8</td>
<td>13.7</td>
</tr>
<tr>
<td>Areas of non U.S. participation</td>
<td>212.5</td>
<td>..</td>
</tr>
<tr>
<td>Total</td>
<td>2,293.3</td>
<td>477.8</td>
</tr>
<tr>
<td>Percent of total</td>
<td>100</td>
<td>20.83</td>
</tr>
</tbody>
</table>

Source: Office of Controller, USOM/Israel. AID file data.
projects, while transportation and road building together accounted for another 11 percent. Development Budget expenditures in which the United States did not participate included oil lines, the Jordan canal, unemployment relief, fortifications, purchase of the Palestine Electric Company by the government of Israel, and miscellaneous funds and projects.
PART II

SOME EVALUATIONS
CHAPTER V

PUBLIC LAW 480 TITLE I ASSISTANCE

Introduction and Background

The problem of farm surpluses in the United States in the 1950's was the product of a combination of factors. One of these factors was the expansion of agricultural production to meet demands incident to World War II. A second was the postwar recovery of foreign agriculture that contributed significantly to a 30 percent decline in the export of American farm products from 1951 to 1953. A third contributor to the dilemma was a rigid price support program that led to huge stockpiles of agricultural commodities and spiraling storage costs.¹

Public Law 480 was enacted July 10, 1954, after long deliberation by Congress of various bills dealing with the problems created by surpluses. Two of the principal features of Title I were: (1) it permitted foreign governments to pay for surplus agricultural commodities in their own currency and thus freed their dollars for other purchases or obligations, and (2) the major part of the local currencies received

by the United States under the program was returned in the form of loans and grants for specifically approved development projects. In the case of Israel, 83 percent of the pounds acquired from Title I sales was made available to the Israel economy.

The main purposes of the Title I program, as set forth in the legislation, were the following:

1. To promote the economic stability of American agriculture,
2. To expand international trade in American agricultural commodities,
3. To facilitate economic development of recipient nations,
4. To pay U.S. obligations abroad, and
5. To further U.S. foreign policy.

In negotiating sales agreements, the President of the United States was admonished by the Act to take reasonable precautions to safeguard the level of regular commercial marketings of agricultural commodities and to assure that the sale of surpluses would not unduly disrupt world prices. He also was called upon to do all he could to gain commitments

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2By 1960 Title II (Famine Relief) and Title IV (Long Term Supply Contracts) had not been applied to Israel. Title III (Donations to Voluntary Agencies) is briefly discussed in Chapter IV.

from participating countries aimed at preventing resale or transshipment to other countries.\(^4\)

Under provisions of the 1954 Act and its later amendments, the President was authorized to use the foreign currencies accruing from commodity sales for such purposes as helping to develop new markets for American farm products; stockpiling strategic materials; financing the translation, publication, and distribution of American books and periodicals; supporting scientific activities; assisting American schools and universities abroad; and for supplying American tourists with local currency in exchange for dollars.\(^5\)

Public Law 480 declared that when negotiating the sale of farm surpluses under the provisions of Title I, the President was to "take appropriate steps to assure that private trade channels are used to the maximum extent practicable." It also authorized the Commodity Credit Corporation to make the surpluses available for sale to private exporters in America and also to help them finance the transaction; then the United States government was to be reimbursed by local currency deposited to its account in the importer's country.\(^6\) Thus American private enterprise was very much part of the original Title I program. Not until the Law had been in effect three years, however, did Congress attempt to

\(^{4}\text{Ibid.}^{5}\text{Ibid.}^{6}\text{Ibid.}\)
define the degree to which private enterprise in the recipient country was to participate in the local currency proceeds of the commodity sales. In the meantime, sentiment in Congress in favor of formulating such a definition was growing. The first four semiannual reports by the President on the progress of Public Law 480 say nothing to indicate special efforts being made by the Law's administrators to foster private companies abroad. The fifth report, covering the period from July 1 to December 31, 1956, however, informs Congress and the American public that foreign governments were being encouraged to use some of these funds for relending to private business.7 The sixth report is much more explicit:

Relending to private enterprise.--The United States is actively striving to reach agreement with purchasing governments that a portion of the loan funds be set aside for relending to private enterprise. During fiscal year 1957 negotiations on this point were conducted concurrently with negotiations of the sales agreements. As a result, at least $150 million equivalent, or a minimum of 25 percent of the loan funds which will become available from fiscal year 1957 sales agreements, will be used for relending to private enterprise in 16 countries, including Austria, Bolivia, Brazil, Colombia, Ecuador, Greece, Iceland, India, Israel, Italy, Pakistan, Peru, Philippines, Spain, Thailand, and Turkey. The amounts to be reserved for this purpose are usually specified in the sales agreement; less frequently, foreign governments may agree to channel unspecified amounts of the loan funds to private borrowers.8

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August 13, 1957, the President signed new legislation requiring that upwards of 25 percent of foreign currencies generated under each Title I agreement be made available for loans to private firms. These firms could be U.S. companies or their branch affiliates or else companies with no American ties whose functions merely served to expand markets for United States agricultural products abroad. Applications were to be submitted directly to the Export-Import Bank in Washington or else to the American embassy abroad and were to be agreeable to the government of the country in question. This legislative enactment was the so-called "Cooley Amendment."

A week after the President approved this alteration of Title I, an ICA press release carried the announcement that administration policy directives made it necessary for aid missions and U.S. embassies overseas to explore new ways to channel loans to private enterprises. It also affirmed that:

This emphasis is in accordance with the general policy of the U.S. Government to further private investment in friendly countries and to encourage private enterprise to complement, supplement or replace economic and technical assistance under the Mutual Security Program and other U.S. Programs. In negotiating both surplus commodity sales and loan agreements, U.S. officials are increasingly stressing the desirability of devoting a portion of the loan funds to re-lending to private enterprise, including both domestic entrepreneurs, Americans or nationals of other countries.9

U.S.-Israel Sales Agreements under the Title I Program

A few months after Public Law 480 went into effect, the government of Israel made its first request for assistance under the new program. In a note dated December 13, 1954, it proposed the purchase of approximately $15 million worth of commodities. It also called attention to the possibility that drought could very well face the country with a critical deficiency of foodstuffs and stressed the need for a six months' reserve of certain commodities. The note emphasized that the inadequacy of the supply of basic foods, fodders, and industrial raw materials in the country was a consequence of the shortage of foreign currency.

The U.S. response to Israel's proposal was an agreement the following April,\(^\text{10}\) supplemented by another in June,\(^\text{11}\) for the purchase of surplus commodities valued at $13.5 million. Purchases were to be financed by the U.S. government, and the local currency generated thereby was to be deposited to the credit of the United States government


\(^\text{11}\)U.S. Department of State, United States Treaties and Other International Agreements, Vol. 6, pt. 1. "Supplementary Agreement to Agricultural Commodities Agreement Between the United States of America and Israel under Title I of the Agricultural Trade Development and Assistance Act." TIAS No. 3261, June 15, 1955, pp. 1173-75.
in the Bank of Israel. It was also agreed that the funds resulting from the transaction would be used as follows: The Israel pound equivalent of $5.8 million was to be employed by the United States for the development of new markets for American agricultural commodities, for international educational exchange, and for miscellaneous expenditures in Israel. The Israel pound equivalent of the remaining $7.7 million would be used for loans to the government of Israel to promote the economic development of the country in ways that would be decided later by the two governments. It was also agreed, in harmony with provisions of Public Law 480, that the government of Israel would take all possible steps to prevent imported surpluses from being exported to other countries (unless approved by the United States) and to assure that they would in no wise "result in increased availability of these or like commodities to nations unfriendly to the United States." A further aspect of this first sales agreement was the understanding that products supplied to Israel would not displace usual U.S. marketings of these commodities. Finally, it was agreed that both governments would try to develop and expand the demand for agricultural products and seek to provide commercial conditions in which private traders could operate effectively.

Although important changes were incorporated, subsequent agreements adhered to the basic pattern established by the first one. Beginning with the agreement of September 11,
1956, and continuing thereafter, each contract also made clear that the purchase of surplus commodities for local currency was dependent upon the purchase of specified additional quantities of the same commodities for dollars. Furthermore, the agreements defined amounts of such commodities that Israel could export and recommended types of U.S.-commodity-absorbing enterprises for which the American government would be most likely to approve local currency loans. Clearly, the American government was seeking to salvage more from its surplus disposal program than it had at first.

Another significant alteration, also beginning with the sales agreement of September 11, 1956, was the practice of defining specifically the portion of the local currency proceeds that the government of Israel must loan to private business. This feature was not limited to the agreements with Israel; as noted earlier, it was a reflection of Washington policy that began to make itself felt in the second half of 1956 in respect to Title I recipients everywhere. In the aforesaid agreement, Israel consented to loan private enterprise the local currency equivalent of $1.5 million, about 19 percent of the $8 million that the Israel government

was scheduled to receive in U.S. loans from sales proceeds.\(^\text{13}\)

The next major sales contract was signed November 7, 1957, which was only two months after the "Cooley Amendment" had been passed. Consistent with the spirit of that legislation, it earmarked about 25 percent of the sales proceeds for loans to private companies. These loans were to be extended by the Export-Import Bank of Washington with the concurrence of the Ministry of Finance. The following is quoted from the November agreement:

Such loans will be made to United States business firms and branches, subsidiaries, or affiliates of such firms in Israel for business development and trade expansion in Israel and to United States firms, and Israeli firms, for the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of and markets for United States agricultural products.\(^\text{14}\)

A move of a different sort to promote free enterprise was agreed upon August 28, 1958. This sales agreement amended the contracts of the preceding years to allow the release of unspent funds in the U.S. uses account of each of them. The result was that IL 20 million (the equivalent

\(^\text{13}\)Customarily, at least two sales agreements were signed each U.S. fiscal year. In 1957, however, due to the interruption resulting from the Suez campaign, sales were limited to the single agreement of September 11, 1956, in the amount of $10.7 million, except for a freight adjustment the following April that permitted Israel to purchase a small amount of additional wheat.

of $11,111,111) were earmarked for lending to the government of Israel "for the specific purchase of an equivalent amount of preferred non-voting shares of the Israel Industrial Institution Ltd.," later designated the Industrial Development Bank Limited. The loan agreement per se was signed six weeks later and was entered into with the understanding that the government of Israel would relinquish a substantial part of its interest in the voting stock of the bank. This step had been urged upon the government by Americans who regarded it as a means of giving the bank greater freedom of economic action and of encouraging participation of private investors.15

One other noteworthy new element appears in the sales agreement of January 7, 1960. For the first time a portion of local currency sales proceeds was to be set aside for the use of grants to the government of Israel. The sum thus earmarked was the Israel pound equivalent of $4.2 million for projects to be agreed upon but "with emphasis on non self-liquidating projects particularly in health and education."16

Sales agreements with Israel for the six-year period

15See "Promotion of an Industrial Development Bank," in Chapter VII.

totted $168.5 million. This figure includes costs of $16.9 million financed by the Commodity Credit Corporation for shipment of half the tonnage on U.S. flag vessels. The commodities included in the agreements are listed in Table 12.

**TABLE 12**

**DOLLAR VALUE OF COMMODITIES INCLUDED IN PUBLIC LAW 480 TITLE I SALES AGREEMENTS WITH ISRAEL**

(In Millions of Dollars)

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat and flour</td>
<td>$50.4</td>
</tr>
<tr>
<td>Feed and grains</td>
<td>54.7</td>
</tr>
<tr>
<td>Rice</td>
<td>1.3</td>
</tr>
<tr>
<td>Cotton</td>
<td>5.6</td>
</tr>
<tr>
<td>Tobacco</td>
<td>1.0</td>
</tr>
<tr>
<td>Dairy products</td>
<td>16.2</td>
</tr>
<tr>
<td>Fats and oils</td>
<td>11.7</td>
</tr>
<tr>
<td>Other</td>
<td>10.7</td>
</tr>
<tr>
<td>Export market value</td>
<td>$151.6</td>
</tr>
<tr>
<td>Ocean transportation</td>
<td>16.9</td>
</tr>
</tbody>
</table>

**Total** $168.5


Also during the six-year period the Israel pounds accruing to the credit of the United States for U.S. dollar

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17 Due to the differential between the export market price and the amount paid domestic producers for pric-supported commodities, the total cost to the United States government was $233.3 million. U.S. Congress, House, The Thirteenth Semiannual Report on Activities Carried on Under Public Law 480, 83d Congress, as Amended, H. Doc. No. 131, 87th Cong., 1st sess., 1961, p. 48.
financing of the sale and shipment of Title I commodities were obligated in the agreements according to the uses set forth in Table 13.

<table>
<thead>
<tr>
<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>For loans to private enterprise (Cooley Amendment) under subsection 104(e)</td>
<td>$25.8</td>
</tr>
<tr>
<td>For grants to the government of Israel for economic development under subsection 104(e)</td>
<td>4.2</td>
</tr>
<tr>
<td>For loans to the government of Israel under subsection 104(g)</td>
<td>111.5</td>
</tr>
<tr>
<td>For U.S. government uses</td>
<td>27.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$168.5</strong></td>
</tr>
</tbody>
</table>


Some Effects of Title I Local Currency

In an effort to determine the impact of the Title I program, the United States Department of Agriculture has sponsored a series of studies. In most cases the analysis was undertaken by professional economic research groups in the various recipient countries. The first of these contracted studies was one made of the Israel program by
economists of the Bank of Israel under the leadership of Dr. Fanny Ginor.18 The ensuing exposition is based on some effects of the program indicated in the Bank of Israel study.

Effect on Investments
By the close of December, 1960, to which point the Ginor report extends, the $168.5 million in surplus commodity sales had generated U.S. deposits in the Bank of Israel amounting to IL 287.3 million. The United States had not yet released to the Israel government the $4.2 million local currency grant specified in the January 7, 1960 sales agreement, but it had released to the Israel government loans aggregating IL 155 million. This amount, which included the IL 20 million from the U.S. uses portion, had been disbursed, in turn, by the government of Israel in the form of both loans and grants for projects selected by the Office of Economic Assistance in the Ministry of Finance in collaboration with USOM. These funds were channeled through the Development Budget and constituted one of its reported sources of revenue.

The United States government also released IL 25.2 million by way of the Export-Import Bank and its Israel agent, 18Fanny Ginor, Uses of Agricultural Surpluses, Analysis and Assessment of the Economic Effect of the U.S. Public Law 480 Title I Program in Israel (Jerusalem: Bank of Israel, 1963). Assisting Dr. Ginor and staff was Dr. Alfred E. Kahn, Department of Economics of Cornell University, who served in the capacity of consultant. The report, comprising 467 pages and 348 tables and diagrams, was first published in Jerusalem in mimeographed form in October, 1961, and in printed form in 1963.
the Industrial Development Bank of Israel, for "Cooley Amendment" loans. These loans, which were later incorporated in the Development Budget, were disbursed to twenty-five private enterprises comprising eight grain elevators, two construction companies, and fifteen industrial firms, all of which were expected to help increase the sale of U.S. agricultural commodities.

The combined IL 180.2 million investment capital, coming from the aforementioned loans to the government of Israel and from "Cooley Amendment" loans to private enterprise, constituted 3.5 percent of the country's total investments during the years 1955 to 1960. The capital thus made available by Title I commodity sales was largely employed in industry (IL 99 million) and in agriculture (IL 54 million).\(^{19}\) The remainder was distributed in transportation, housing, and services.

The Ginor study estimates that the investment capital made possible by Title I funds was responsible for 5 percent of the additional net domestic product during the six-year period.

**Effect on the Balance of Payments**

Because the commodities were purchased with local currency, their import had no unfavorable impact on the country's balance of payments situation. On the contrary, a

\(^{19}\)For an analysis of the use of part of the loan funds that went to the industrial sector, see Appendix A.
slightly favorable effect was realized through goods produced by Title I investments that served both to increase exports and to replace imports.

The Ginor study assumes that the 5 percent increase in gross national product attributable to the Title I Program may be said to have contributed 5 percent to the increase of exports and 5 percent to the net replacement of imports. These percentages amount to $10.4 million and $1.5 million, respectively. To determine the effect of these amounts on the balance of payments deficit, the import content of exports must first be deducted. By 1960, the import content of total exports was 41 percent. When applied to exports stemming from Title I investments, the $10.4 million credited to the Title I program shrinks to $6.1 million, which is the estimated domestically produced portion. And when the $1.5 million replacement of imports—which means the elimination, in turn, of $1.5 million of foreign currency requirements—is added to the $6.1 million, the net result is $7.6 million. This figure represents the estimated amount of foreign currency earnings that the product of Title I investments was either bringing or saving the economy each year by the end of the period. In other words, it was the annual permanent contribution made by the Title I program to the improvement of Israel's balance of payments position by 1960.
Effect on Employment

Title I investments created temporary employment directly in the construction or expansion of industrial plants, irrigation projects, and power facilities, and in other enterprises supplying goods and services to the new facilities. They also provided permanent employment directly in the new plants and factories after they got into operation and in certain enterprises, such as farm and irrigation projects, that were able to expand on the basis of the additional products made available.

As we continue to use the Bank of Israel study as our guide, we note that the IL 180 million investment created temporary employment for an average annual 4,454 additional wage and salary earners and 743 additional self-employed, a total of 5,197 a year. Moreover, the net product made possible by the capital invested provided permanent employment for 1,802 additional wage and salary earners and for 818 additional self-employed, and created 2,620 permanent new jobs. The grand total of temporarily and permanently employed persons averaged 7,817 annually during the six-year period. This number constituted about 2 percent of the labor force. Also, the average daily number of registered unemployed was reduced by percentages ranging from 19 percent in 1955 to an impressive 53 percent in 1960—all the result of the Title I program.
Utilization of Title I Commodities

Most of the Title I commodities were imported by the government of Israel through the Food Import Division of the Ministry of Commerce and Industry and sold to wholesalers for resale through customary marketing procedures throughout the country. However, certain commodities, such as feed grains, cotton, and tobacco, were shipped from the United States directly to commercial firms. In terms of monetary value, about 60 percent of all commodities was used directly for human consumption. A second group intended for agricultural development and thus indirectly for human consumption, consisted of feed grains for livestock and poultry and formed 36 percent of the whole. Less than 5 percent was employed in industrial production.

During the 1955-1960 period Israel's population showed conspicuous increases in food consumption. Although most of the increases were due to the general growth of the economy, it is significant that per capita food consumption rose only slightly in years when the share of Title I imports in food consumption was small and rose very rapidly when the share was large. In 1957, for example, when repercussions of the Sinai campaign brought a reduction of United States shipments of agricultural surpluses, Title I imports provided only 3.3 percent of the country's food requirements, and per capita food consumption declined by 0.9 percent. In 1958, though, when Title I imports accounted for a record share of
7.1 percent in food consumption, food consumption showed an increase of 7.8 percent over the previous year. This increase came about mainly through accelerated agricultural production made possible by Title I feed grain imports. By thus aiding domestic production, the Title I Program influenced the level of food consumption beyond its direct contribution to the nation's food supply.

The effect of the Title I Program on the quantitative production and consumption of meat products (including milk) and eggs was considerable. To a lesser extent it led to increased oil and fat consumption. It also had an impact on the qualitative improvement of the daily diet of the population because the commodities imported were, for the most part, inexpensive and nutritious staple items. Title I commodities, furthermore, made possible somewhat higher levels of industrial production and consumption. In addition, they contributed significantly to the maintenance of adequate stockpiles of essential foodstuffs and, in some measure, to the government's decision to eliminate rationing.

The Program in Retrospect

The problem of agricultural surpluses in America in the early 1950's brought into being an important legislative adjunct to the Mutual Security Program in the form of Public Law 480 Title I. This late arrival in the family of U.S. foreign aid programs gradually absorbed Mutual Security commodity aid and accounted for 40 percent of total U.S.
economic assistance to Israel during the years 1955 to 1960. Title I sales agreements underwent modification and became progressively more stringent during this period, but the basic pattern of agricultural surpluses being sold for local currency and the local currency then being directed to Israel's economic development remained unchanged.

The Title I program was an anti-inflationary means of increasing supplies of basic foods and fibers in Israel and markedly improving the protein deficient diet of the population. At the same time, it enabled the government to conserve foreign exchange for its other import needs. Pounds accruing from commodity sales raised the level of investment and employment, improved the balance of payments, and in various other ways assisted the economy.

Dr. Alfred E. Kahn, consultant to Dr. Ginor in the Bank of Israel assessment of the program, states:

The Title I program is obviously far from the ideal agricultural or commercial policy for the United States. But from the standpoint of Israel, the aid it provides has been almost as good as free dollars. And the preponderantly important effect has been a significant contribution to the stabilization, growth and ultimate viability of the Israeli economy.\(^2\)

Not only did the program benefit Israel, but it also served some useful purposes for the United States. Although based on a debatable domestic price support program, it

helped decrease mounting U.S. surplus stocks. And it did so in a politically more acceptable manner than Mutual Security Program dollar grants were able to do. Moreover, because it stimulated habits of increased consumption of imported American agricultural products and led to increased investment in enterprises conducive to further imports, it laid the groundwork for a broadened Israel market for United States products. It also opened the doorway to increasing participation of private American capital in Israel’s economic growth, an effect which foreshadowed eventual reduction of the level of U.S. aid. Through these several products and bi-products of the program, the United States stood to gain at least a fractional return on its Title I investment.
CHAPTER VI

TECHNICAL ASSISTANCE

Introduction and Background

Almost 98 percent of the $741.6 million in United States government aid extended to Israel in the decade of the fifties was provided in the form of grants, loans, agricultural surpluses, and a small currency conversion program that facilitated the purchase of American publications.¹ Dollar-wise the remaining 2 percent, which financed the Technical Assistance/Technical Cooperation/Point Four Program, appears of little consequence. Nevertheless, it enabled 198 American experts and technicians to be sent to Israel to assist various enterprises with their "know-how" and enabled 525 Israelis to go to the United States to engage in studies related to Israel's economic development. This 2 percent also supplied pilot plants in Israel with demonstration equipment. The sum of $15.3 million that this 2 percent represents was obligated in support of 173 projects, 152 of which were completed by the close of fiscal year 1960,² while 21 were still active.

¹See Table 10, p. 94.

²Specifically, 100 were "completed," 2 were "completed by discontinuation," and 50 were "completed by consolidation."
In practice technical assistance was closely coordinated with the rest of America's foreign aid program. In many instances experts were provided to assist undertakings already being bolstered by large grants or loans, either in the form of dollars or U.S. owned or controlled Israel currency. A former official of the United States Operations Mission in Israel, which supervised both technical assistance and economic aid, writes of the integrated aid package as follows:

Thus the program might include as one unit the import of steel for irrigation pipes, a release of counterpart funds to lay the pipes and finance expansion of crops on newly irrigated land, and the technical assistance to use the lands for crops important to Israel's self support.3

Technical assistance had its genesis in President Truman's inaugural address of January 20, 1949. In reference to foreign policy, the third point that he made in his speech was that the United States must enter military alliances, both in the North Atlantic area and in the Western Hemisphere. His fourth point was that America "must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." Truman declared his conviction that "we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a

better life. Military alliances were intended to discourage the forceful spread of communism, and technical assistance was intended to make communism less attractive.

The Point Four Program was authorized by the Act for International Development June 5, 1950. This authority permitted the President to enter into bilateral programs of technical assistance with underdeveloped countries requesting such assistance and also to participate in multilateral arrangements through international bodies.

The agency formed to execute the program, the Technical Cooperation Administration (TCA), was organized in October 1950 under jurisdiction of the State Department. Technical assistance was later administered by the Mutual Security Administration (MSA), then the Foreign Operations Administration (FOA), and after that by the International Cooperation Administration (ICA). In 1961 it came under the auspices of the Agency for International Development (AID).

Israel became eligible to receive technical assistance from the United States in the wake of a general agreement entered into between the two countries February 26, 1951. On the strength of this agreement, an American

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technical mission arrived in Israel in December, 1951, and began preparations for implementing the program. During the ensuing decade this United States Operations Mission (USOM) was headed in turn by Bruce McDaniel, Lincoln B. Hale, John J. Haggerty, C. Reed Liggitt, and Henry Chalfant.

Within the broad framework provided by the original agreement another agreement, signed May 9, 1952, outlined the program more specifically. This document set forth the following three objectives of technical assistance:

1. To promote and strengthen understanding and goodwill between the peoples of the United States of America and Israel, and to further the secure growth of democratic ways of life;
2. To facilitate the economic development of Israel through technical cooperation between the two governments; and
3. To stimulate and increase the interchange between the two countries of knowledge, skills and techniques in the field of economic development.

The last named objective implied American expectations of technical benefits to the United States emerging from the Technical Cooperation Program. But the prospect of America's ever getting very much back from little Israel appeared remote. Awareness of the one-sided nature of Technical Cooperation prompted Foreign Minister 'Abba Eban in 1962 to write as follows of his early conversations with Secretary Dulles:

The Secretary of State even had a way of talking without irony about "American-Israel" cooperation. Since the cooperation consisted of the United States giving and of Israel receiving, this seemed to me an imaginative use of the English language.7

The 1952 agreement with Israel envisioned studies and surveys that American experts would conduct in agriculture, public health and sanitation, elementary and vocational education, transportation, and in other areas. U.S. teams would help carry out mutually agreed upon projects in these several fields and assist with the training of local personnel. Israelis are said to have regarded this matter of Americans training their people to carry on the work independent of foreign advisors to be the most important aspect of the whole program.8

Under terms of the agreement an "Israel Representative" and a "United States Representative" were to participate in all phases of the program in behalf of their respective governments.

In order to work harmoniously with the American aid mission, the government of Israel set up the Technical Assistance Liaison Office attached to the Prime Minister's Office. Requests from departments of the government or from Israeli private institutions were submitted to this agency.


It considered the necessity of bringing in outside technicians and the expense of the undertaking proposed. If it agreed that foreign help was needed, the liaison office then determined whether to seek assistance from the United States or from the United Nations Expanded Program of Technical Assistance. If it were decided that American help should be sought, the plans were submitted to USOM for approval. The proposed project agreement indicated anticipated salaries, cost of contract services, cost of demonstration equipment and supplies, cost of local and overseas transportation, and also the number of American technicians required and the number of Israelis who would study abroad. In practice, each American technician worked alongside an Israeli colleague or "counterpart" who, it was hoped, would be able to carry on the task without further assistance when the American's tour of duty came to an end. In many instances, after the American's assignment in Israel was completed, correspondence from his former colleague served to keep him apprised of later developments.9

The immediate vehicle for financing Technical Cooperation projects was the "Israel-American Joint Fund," and projects were customarily referred to as "Joint Fund" projects. Co-directors of the fund were the Israel

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representative, who headed the Technical Assistance Liaison Office, and the United States representative, who headed USOM. Dollar costs of demonstration equipment purchased outside Israel as well as the cost of training Israelis abroad under the program were counted as U.S. contributions to the Joint Fund without being actually deposited. For its part, the government of Israel deposited to the fund the local currency cost of each project. Such currency contributions were independent of counterpart funds.

In addition to the agreed upon contributions, both governments gave additional money to project costs. Salaries of the United States technicians, although estimated in the project agreement, were not counted as contributions to the Joint Fund. Neither were salaries of their Israeli counterparts, nor the value of office space that most of the Americans were provided by the Israel government.

An important facet of the Technical Cooperation Program in Israel and one which accounted for about 10 percent of its budget was Participant Training. Through this study-abroad-educational-scheme selected individuals were given several months training in the United States or, occasionally, in other countries. Personnel chosen were usually employed on projects to which they were committed to return after completion of their tour. The aim of this subprogram of the technical assistance scheme was to improve the skills of managers, technicians, and professional people in the hope
that they would impart what they had learned to others and thus multiply the effects of technical assistance.\textsuperscript{10}

Candidates for foreign study were selected on the basis of their education, technical background, career potential, and knowledge of the language spoken in the country to which they were sent. However, short-term observation teams of participants in the United States who lacked knowledge of the English language were provided with an interpreter.\textsuperscript{11}

Ninety-eight percent of the participants from Israel knew English, although some of them afterwards admitted having had some language difficulties. A participant was allowed to take his spouse with him at his own expense if he was reasonably certain that doing so would not interfere with his training.

Each participant's program was supervised by a program manager, usually a staff member of the International Cooperation Administration or of some other government agency. This manager arranged the participant's schedule to fit his individual needs, frequently in consultation with the participant. The actual training, though, was carried out under the tutelage of American business firms, farm groups,


labor organizations, government departments and agencies, and by colleges and universities.

Participant teams frequently visited a number of industrial or agricultural installations for observation. Their stay at each facility varied from a few hours to a day or more. In some instances a single participant was assigned to a factory or business to learn procedures that would help him improve corresponding functions at home. Such participant might spend a few weeks to a year in either one plant or a number of different plants. Some participants spent their entire tour at an American university taking courses related to their special field. Others took courses for a semester and then shifted to observation or in-service training.12

Illustrative Technical Assistance Projects

An analysis of the Technical Cooperation Program in Israel is complicated by the fact that it can hardly be isolated from the total American aid effort. Certain aspects of its operations become understandable, however, through an examination of representative projects.

Agricultural Research, Extension, and Education

Agricultural research in Israel had its origin before the establishment of the state. In 1921 the Zionist

Organization sponsored the formation of an Agricultural Research Station in Tel Aviv, the responsibility for which afterwards passed to the Jewish Agency. Eleven years later the station moved to Rehovot, where in 1940 the Hebrew University and the Jewish Agency set up a School of Agriculture. In 1951 the Research Station was taken over by the Ministry of Agriculture, and in 1952 the School of Agriculture was given college status by the Hebrew University and became the Faculty of Agriculture. It had six departments.\(^{13}\)

As early as March, 1953, Dr. Samuel Lepkovsky, a United Nations agricultural expert, pointed out the pressing need for coordinating the country's agricultural research. Two USOM technicians, Ralph Besse and Ford Milam, studied the problem in detail and published their appraisal in February of the following year. Their report, entitled "Coordinating and Developing Israel's Agricultural Research Program," called attention to the wasteful overlapping research work being carried on by the Faculty of Agriculture, the various departments of the Ministry of Agriculture, and the Agriculture Research Station. Among their several recommendations was the suggestion that the Research Station be made a major department of the Ministry of Agriculture and that all

research be done under its supervision and that research at the Mikve Israel school, the Hebrew University, and the Weizman Institute be coordinated with it. They also proposed that the Research Station be moved from Rehovot to Beit Dagon and that a capable director be appointed. And, with an eye toward integration of still other programs, they counseled that the Research Station should be the headquarters of the Extension Service of the Ministry of Agriculture.\textsuperscript{14}

The recommendations of Besse and Milam, coming in the wake of Dr. Lepkovsky's preliminary report on the need for a coordinated research program, received favorable consideration. Some of them were adopted during the next few months. A capable executive and scientist was appointed as director of the Research Station, and a beginning was made toward its removal to Beit Dagon. Two branch experiment stations were partly furnished with farm machinery, and irrigation works were constructed. Most importantly, although it is not clear that this was the result of the suggestions of foreign advisors, the government increased its budget for agricultural research from IL 450,000 to IL 800,000 annually.\textsuperscript{15}

Soon after publication of the report by Besse and Milam in June, 1954, the International Cooperation Administration contracted with the Research Foundation of the State University of New York (SUNY) for technical assistance in industry, public health, education, and agriculture, with

\textsuperscript{14}Ibid., pp. 2-3. \textsuperscript{15}Ibid., p. 5.
particular emphasis on the promotion of a land grant college scheme. The agricultural project bore the title, "Agricultural Research, Extension and Education."

The American land grant college, which formed the model for the United States' experts, was launched in America under authority of the Morrill Act of 1862 and came to include not only on-campus instruction but also experimental farms and extension programs. Through traveling specialists, county agents, and correspondence courses it aggressively carried into communities everywhere agricultural, vocational, and home-making education.

As visualized by ICA, such an integrated agricultural college complex in Israel would perform a number of important functions. It would (1) have charge of research functions of the several branches of the Ministry of Agriculture, (2) coordinate these research activities with the work of the Faculty of Agriculture of the Hebrew University, (3) develop a home economics department of the Faculty of Agriculture, (4) assist the government of Israel in the development and administration of agricultural extension and home economics in rural areas, (5) assist the government of Israel in improving the quality of teaching agricultural subjects in secondary, regional, and farm village schools, and (6) develop adequate training programs for teachers and workers in extension and agricultural education and home economics.  

16Project 271-11-159 ICA E-1 Form, prepared July 28, 1958. AID file data.
The arrangement made with the State University of New York was one of more than sixty contracts that by 1956 the International Cooperation Administration had made with various American institutions of higher learning to supply qualified people to United States Operations Missions abroad. It was hoped that, through the contract with SUNY, a bond would be formed between it and the proposed Agricultural College—a bond that would be the means of continuing technical assistance on an institution-to-institution basis after the assistance of the United States government had come to an end.

The first Chief of the SUNY staff in Israel was Dean Paul B. Orvis, whose time and efforts spent advocating the land grant college contributed much to the agricultural institution that eventually took shape. His proposal, however, for a state university, independent of the Hebrew University, did not prove acceptable to the Israelis.18

Orvis' successor as Chief of the SUNY/Israel Project was Dr. I. B. Johnson, who had had long experience as director of an Agriculture Experiment Station. Johnson had first gone to Israel as a research coordinator in the summer of 1956 but had been evacuated, with other USOM personnel, at

17International Cooperation Administration, Five Years of Mutual Endeavor, USOM/Israel (Tel Aviv: USOM/Israel and the Israel Government, 1956), p. 36.

the end of October as a result of the Sinai campaign. Some of the technicians returned to the United States at the time, while others were given scattered assignments to other countries.19

Before resumption of USOM's activities May 5, 1957, the future of the Technical Cooperation Program was reviewed in Washington. It was decided that the public health division, mass communications division, and education division should be discontinued. It was also decided that Israel was making commendable progress in agriculture and that technical assistance activities in support of agriculture should be reduced and greater emphasis be placed on industry. During this interim period SUNY's role was also redefined and limited strictly to "the building up or strengthening of the institutions that are needed to serve a modern progressive agriculture, namely research, extension and education." Thus

19Evidently, during the absence of the American advisors, developments at the Research Station did not proceed exactly as the advisors had planned. This is intimated by the following statement by Johnson, who, a few months after his return to Israel, was appointed Chief of the SUNY program:

Prior to November, 1956, the Plant Protection Division expressed a desire to transfer its research and extension activities to the Station and to the Joint Extension Service. During the period of USOM's evacuation . . . this proposal was withdrawn, it is understood, because of pressure from other Departments in the Ministry of Agriculture and because of certain personalities involved. Early in 1957, the Livestock Department proposed to transfer their beef cattle breeding project to the Station, but this proposal was later cancelled. [Johnson, Proposals and Recommendations, p. 28.]
after the renewal of technical assistance in 1957, the Mission's agricultural efforts, although reduced, were more than ever focused on promoting the land grant college idea.\textsuperscript{20}

In 1957 a plan was proposed to the government of Israel for unifying the Research Station, the Faculty of Agriculture of the Hebrew University, and the Extension Service. The idea envisioned a Board of Trustees composed of representatives of the Hebrew University, the Ministry of Agriculture, and the Jewish Agency. This HU-MA-JA plan, as it was called, was approved in principle in November at a meeting in Jerusalem attended by representatives of the Prime Minister's Office, the Ministry of Agriculture, the United States Operations Mission, and State University of New York. The proposal was then turned over to the Organization Committee.\textsuperscript{21} Nearly three years were to pass, though, before formal government approval of the merger was forthcoming.

Success, in a measure, crowned the joint Israel-American project in January of 1960 when the Minister of Agriculture and the President of the Hebrew University signed an agreement whereby the Agricultural Research Station at


\textsuperscript{21}The Organization Committee afterwards agreed that a union of the Research Station and the Faculty of Agriculture should be attained before including the Extension Service but that both the Extension Service and Home Economics Department should be incorporated as soon as the first merger demonstrated its practicability. Peterson, Activities of the Agriculture Division, pp. 18-19.
Beit Dagon and the Faculty of Agriculture at Rehovot became "The National and University Institute of Agriculture." The move was afterwards ratified by the Knesset. About the same time the Ministry of Agriculture and the Jewish Agency took steps to form the Unified Extension System as a separate entity.

USOM reported to Washington that the amalgamation of the Research Station and the Faculty of Agriculture was the achievement of the framework of its organizational scheme for assisting Israel's agriculture.\(^{22}\) It also claimed that the creation of the Unified Extension Service was the achievement of one of its aspirations. From a start of one extension district in 1958, the state was now divided into thirteen extension districts, ten of which by 1960 were organized and partly staffed. These districts and their district agricultural agents were akin to counties and county agents in the United States. American technicians also provided training in both agriculture and home economics to personnel of the

\(^{22}\)According to the report of USOM:

This action brought to fruition one of USOM's main objectives in its assistance to Israel's agriculture, namely, better organization of the resources, both human and material, for serving the needs of the State's agriculture. As a result of this organization, duplication of efforts by different agencies will be minimized. All research work will be under the supervision of the director of the Research Station, all teaching will be under the Dean of the Faculty of Agriculture, all extension work will (ultimately) be under the director of the Extension Services. All will be under the administrative roof of NUIA. [Project 271-11-159 ICA E-1 Form, prepared August 19, 1960. AID file data.]
Jewish Agency who were serving as village instructors. 23

In terms of personnel and money expended on the "Agricultural Research, Extension and Education" endeavor, by the close of fiscal year 1960 the United States had sent to Israel twenty experts, fifteen being SUNY contract personnel, and financed the training of sixty-eight Israeli participants abroad. American costs amounted to $1.5 million, over 25 percent of which went to the purchase of supplies and equipment. The government of Israel, on the other hand, had met the local currency needs of the project through contributions of $1.7 million to the Joint Fund. 24

When the Technical Cooperation Program came to an end in 1962, the Chief of the Agriculture Division reported that the National and University Institute of Agriculture was still having difficulties. He noted that there had been factions both in the Research Station and in the Faculty of Agriculture of the Hebrew University, but mainly in the latter, factions which in his judgment were hindering the union. He also pointed out that the Unified Extension Service had made great advances throughout the country along the lines proposed by the American advisors but that it had not yet been made part of the Institute of Agriculture. He concluded, though, that the fact that NUIA had not yet

23 Ibid.

24 Ibid.
achieved perfection, in no way implied that American efforts had been in vain. His concern was that Israeli personnel were not yet working together as a completely harmonious team.25

Transportation Development

Highways and railroads, like harbors, bridges, electrical power plants, and communications facilities, are part of the economic overhead essential to the growth of agriculture, trade, and industry. And when, as in Israel's case, a nation is faced with rapid population growth, mushrooming settlements, and an unresolved war, a network of roads and railways may be not only necessary for growth but also for survival. Israel's need for mobility accounted for the fact that throughout almost the entire period under review the United States provided technical advisors and economic aid grants and loans to the transportation sector. In fiscal years 1952 and 1953 three separate, though related, technical assistance projects were undertaken. These were Road Construction, Transportation Planning, and Operation and Maintenance of Israel Railroads. In 1958 these were combined under Transportation Development.

According to one American technician, a major problem facing road builders in Israel was that, prior to 1955, the Public Works Department did not actually design roads.

25Peterson, Activities of the Agriculture Division, pp. 27, 30-31.
Roads were constructed according to traditional standards without consideration for the bearing power of the soil, traffic density, or maximum loads. Neither was sufficient attention given to the needs for adequate drainage and dense surface mixtures. For such reasons as these, it was very common for roadbeds to settle soon after construction, which necessitated disproportionately large expenditures of funds for maintenance and repairs.  

The joint Israel-American effort was instrumental in bringing about what a USOM report calls "a radical revision in methods and practices" of road building. United States advisors taught Israelis how to ascertain the traffic load that different soils would sustain and were able to supply them with the laboratory facilities (for the purchase of which the government of Israel also contributed) that made it possible for them to conduct such tests. They instructed them in the preparation of better and more economical mixes and in more efficient construction and maintenance methods generally. In the eyes of the American advisors these efforts were successful, but they would have been even more successful except for certain obstacles. One of these obstacles was the fact that the Public Works Department was divided into several almost independent districts so that

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improvements in one district were not necessarily adopted in the others. A further impediment to progress was the tendency of the Israelis to invest in new or expanded roads in preference to maintaining old ones in good condition. Despite these and other problems, the joint effort led to the building of more useful roads and an estimated 30 percent reduction in construction costs. ²⁷

In behalf of railroading, USOM experts trained Israelis in the installation and maintenance of air brake equipment to replace worn-out vacuum brakes, instructed them in the maintenance of Diesel locomotives in connection with a changeover from steam engines, helped them institute an efficient parts requisitioning system in place of previous highly inefficient practices, and aided them in the setting up of stock records and control procedures. Partly as a result of American advice, freight and passenger traffic was able to increase its speed from 60 to 100 kilometers an hour and to carry more freight and more passengers. By 1958, USOM reported a 34 percent increase in freight tonnage, a 100 percent increase in passenger traffic, and a 64 percent reduction in the operating deficit. ²⁸

Automotive maintenance was another aspect of transportation that claimed the attention of American advisors.


²⁸ Ibid.
Not only was vehicle transportation vital to all branches of the economy, but the operation and repair of vehicles was an important source of employment. The main problem was that the number of trucks, buses, motorcycles, taxicabs, and passenger cars, which from 1953 to 1957 alone increased from about 40,000 to 60,000, was not matched by a corresponding increase in the number of garages, tools, spare parts, and mechanics. A complicating problem was the large number of different makes and antiquated models in use on the highways, many of them ten to twenty years old.29

Technical assistance had an impact on the efficiency and cost of automotive maintenance. Despite the aforementioned 50 percent increase in the number of vehicles, the import of spare parts decreased. This decrease was the result of better spare parts forecasting, better repair work, and the production of many parts locally. During the same period, the introduction of preventative maintenance, better shop organization, and improved procedures in the stocking and requisitioning of spare parts brought about a decline from 30 percent to 18 percent in the number of vehicles that were daily in need of repairs among the country's major vehicle users. USOM reported that fleet operations, especially bus cooperatives, had responded well to counsel on the installation of

proper maintenance facilities and schedules. Also American advice had been solicited and adopted in the construction of the "Sabra," a low cost car built mainly for export.\textsuperscript{30}

By the close of fiscal year 1960, the United States had contributed $257,000 to the joint Transportation Development project. This sum paid for the services of technical advisors, the dollar costs of a small quantity of demonstration equipment, and the expenses of several participants abroad. The government of Israel met the project's local currency costs, which formed the equivalent of $65,000.\textsuperscript{31}

In addition, entirely apart from the Technical Assistance Program, Special Assistance dollar grants in excess of $5 million were made by the United States to finance the purchase of seven Diesel locomotives, 311 trucks, and an unspecified quantity of vehicle spare parts.\textsuperscript{32}

As the Technical Cooperation Program drew to a close in 1962, a General Transportation Advisor from America was assisting the government in the formulation of an overall transportation design. USOM Industry Officer, Carl R.


\textsuperscript{31}Total Development Budget expenditures for the improvement of transportation facilities throughout the country from 1952 to 1960 amounted to IL 235 million. (See Table 11, p. 98.) Of this sum, over IL 52 million were derived from U.S. owned or controlled local currency. Project 271-39-243 ICA E-1 Form, prepared August 19, 1960. AID file data.

\textsuperscript{32}Ibid.
Ferderer, indicates, however, that no firm master plan had yet been devised by that date. In his concluding report he noted that, considering the country's relatively small size and population, the Israel government was still faced with a large number of problems in the field of transportation. As he viewed the situation, the main source of difficulty lay in "the divided responsibilities and authorities which exist in this area among the various Government Ministries and political party portfolios, and due partially to lack of experienced personnel in this area."\(^{33}\)

Besides the General Transportation Advisor, a team of two men from the Federal Aviation Agency was in Israel in 1962. Their assignment was to help devise a master air navigation plan and assist with the installation of modern equipment at the Lod airport with loans from both the Development Loan Fund and the Export-Import Bank of Washington.\(^{34}\)

Industrial Design

In order to improve the design of products made in Israel so as to make them more appealing on the export market and hence increase the inflow of foreign exchange, an "Industrial Design" project was undertaken in 1955. Under this project the United States Operations Mission, with the concurrence of the government of Israel, entered into three-


\(^{34}\)Ibid.
year contracts with the Boston Institute of Contemporary
Arts and with the Peter Muller-Munk Associates of Pittsburg,
Ohio. The Boston firm was invited to set up a design insti­
tute at the Israel Institute of Technology, while the
Pittsburg firm was employed to introduce practical industrial
design to the business and industrial community.35

As a result of the work of the Boston company, the
Israel Institute of Industrial Design was formed at the
Technion in Haifa in 1956 and soon had a library of 5,000
periodicals and books pertaining to industrial design. The
institute's purpose was to develop a program of public
information, professional stimulation, and general design
improvement. Closely allied with this was a program of re­
quired academic course work inaugurated for architectural
students. A National Design Council was also formed as an
advisory body both to the institute and to the government.36

Efforts of the Pittsburg company brought about the
formation of the Israel Product Design Office. This enter­
prise was intended as a demonstration unit to show how a
commercial venture in industrial design could be launched.
The intention was that it would become self-supporting by
means of fees charged for its services to industry and soon
be turned into a normal commercial venture. It would also

35Ibid., p. 42.

36Project 271-26-119 ICA E-1 Form, prepared
November 18, 1959. AID file data.
provide practical training for artists who were desirous of becoming industrial designers. Subsequently it would provide employment for graduates of the Israel Institute of Industrial Design.\(^\text{37}\)

The Israel Product Design Office offered industrial design services for more than a hundred different items. Among the achievements of its staff of seven Israeli designers and two American advisors were the design of an espresso coffee machine, a high fidelity speaker system, an Israeli tractor, and Israel's first supermarket. By 1959 it was only about 50 percent self-sustaining; and after the departure of the Muller-Munk personnel, the organization was taken over by a prominent Israel commercial artist, Naum Maron, who had studied industrial design in England and was practicing it in Jerusalem.\(^\text{38}\)

Besides helping establish the Israel Institute of Industrial Design, the National Design Council, and the Israel Product Design Office, the project also sponsored product evaluation studies in the United States in respect to packaging, metal giftware, ceramics, woven and knitted textiles. These studies led to a number of changes that were intended to increase the sales potential of Israeli products in the American market. By the close of the project in 1959, 

\(^{37}\text{Ibid.}\)

\(^{38}\text{Philip Gillon, "Mission Accomplished" (unpaged manuscript, 1962). AID file data.}\)
American support had amounted to approximately $332,000. Almost all of this sum was obligated for contract services. Support from the government of Israel amounted to the local currency equivalent of $212,000.39

Tourism

From the start, the government of Israel recognized the importance of the tourist industry as a means of increasing foreign exchange earnings and so sought to encourage visits of travelers from abroad. During 1949, the first year after independence, 22,000 tourists went to the new state. By 1955, when the Government Tourist Corporation was established, the annual number of visitors had risen to 48,000. Foreign exchange benefits to the country that year amounted to $6,000,000. Of this figure, 80 percent represented net foreign currency income.

To assist development of tourism, the International Cooperation Administration sponsored a "Tourism Survey" project and obligated $55,350 for the undertaking. It employed two American consulting and survey firms to assess the needs of the industry. The team arrived in 1955 and issued a joint report in February 1956.

The consultants declared themselves "much impressed" with the potential development of the tourist trade. They pointed out that world travel conditions appeared highly

39Project 271-26-119 ICA E-1 Form, prepared November 18, 1959. AID file data.
favorable to tourism and that the country held many attractions for foreign visitors. Among these attractions were a rich historical past, new hotels, good beaches, and the speedy growth of the new state. The team presented a proposed five-year plan for the promotion of the industry. This plan ventured the estimate that the tourist traffic would reach 103,000 by 1960 (a figure that was exceeded by 15,000) and that the projected 1960 figure would bring the economy approximately $15,450,000 of foreign exchange, not counting the sale of tickets by Israeli carriers and gifts by visitors to Israeli residents. The predictions were based upon the assumption that a number of steps would be taken to increase the length of time that the average tourist would spend in the country. Suggestions included developing such places as Sedom and Eilat as major tourist attractions, increasing the frequency of air transportation to points of interest within the country, providing more recreational facilities for such sports as golfing and fishing close to resort areas, promoting winter tourism, and working with travel agents and tour operators to sell longer tours. Proposals made to induce tourists to lengthen their stay were: (1) to provide adequate hotel accommodations at such places as Tiberias, Beersheba, and Eilat, and (2) to improve food, transportation, and communication.

The survey team urged the newly formed Government Tourist Corporation to take strong leadership in the overall
planning of new hotels in reference to type, location, financing, and operating policies. The survey revealed that more Class A hotels were necessary to lure visitors in the higher income brackets and that more Class B hotels also were needed. The latter would provide less space and luxury and would not enjoy the reputation of the deluxe hotels, but they would serve the middle and lower-income group who seek clean and comfortable quarters at a moderate price.  

Under a second tourism project requested by the Technical Assistance Department of the Prime Minister's Office, ICA arranged for the former survey team to return to Israel to reexamine the situation early in 1960 and to recommend further steps. Its report was published in July.

In the wake of the 1960 study by the American survey team, the Tourist Industry Development Corporation, which meanwhile had been set up by the government of Israel in 1957, published its Tourist Industry Five Year Plan. The publication noted that, apart from the sale of citrus products, tourism was the country's largest source of dollar income. It predicted that there would be an average annual increase of 10 to 15 percent in the number of tourists during the ensuing five years and that in 1965 an estimated 180,000

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40 "Extracts from the Joint Report submitted in February 1956 by the firms of Cresap, McCormick and Paget and Harris, Kerr, Forster & Company in accordance with Contract No. PI0/T 71-26-120-2-50166, authorized under Letter of Commitment No. 71-2 by the International Cooperation Administration." AID file data.
would visit the country. The result of such an increase in tourism in 1965 would be $36 million, or six times the 1955 receipts. It concluded that to meet the influx of tourists, 1,000 Grade A and 1,200 Grade B and 800 motel-type rooms would be needed. This expansion program would require an investment of IL 56 million. In addition, an investment of IL 6 million would be required for tourist services, souvenir shops, restaurants, camps, and so on.\footnote{Tourist Industry Five Year Plan (Jerusalem: Tourist Industry Development Corporation, Ltd., n.d.), p. 1.}

In a report to Washington dated August 19, 1960, the United States Operations Mission in Israel stated that although the basic problems still existed in the country's tourist industry, such as the need for more hotels, restaurants, and recreational facilities, the industry was making admirable progress. The report further indicated that, under the continuing tourism project, USOM had additional plans: (1) to employ the services of a Hotel Training Team from an American hotel school to instruct Israelis in hotel practices; (2) to bring in a European expert for consultation in restaurant management; (3) to enlist the services of an American technician to make a survey and formulate a plan for building tourist recreational facilities recommended by Cresap, McCormick and Paget; and (4) to send additional Israelis abroad for study under the Participant Training Program. In addition, the report pointed to a recommendation...
made by the 1960 survey group that quality specialty goods be produced and sold in Israel's tourist stores. The report indicated that USOM would aid this goal in connection with a separate project set up to stimulate export of consumer goods. It also said that USOM was studying a request by the government of Israel for a United States loan of IL 15 million to the Tourist Industry Development Corporation for hotel construction and anticipated that this loan would be drawn from the U.S. uses account of local currency generated by Public Law 480 Title I commodity sales.42

By the end of June, 1960, technical assistance dollar costs devoted to the development of tourism included the $55,350 obligated by USOM for the first tourism survey, and $50,000 for the 1959 and 1960 tourism project—a total of $105,350 from the Technical Cooperation budget. Support of the project by the government of Israel equalled $61,000 in local currency.43

Terminal activities of the tourism project included establishing four schools for training professional tourist trade personnel in 1961 and a fifth in 1962. Also in 1962 four American technical assistance experts aided the training of 130 student cooks, waiters, housekeepers, and receptionists at the Central Hotel School, Tadmor Hotel, Herzliya. Both


43Ibid.
technicians and kitchen equipment for the school were provided by project funds. Also provided were participant training scholarships for six Israelis to learn more about tourist promotion in the United States and Europe. 44

Evaluation of Participant Training 45

In an effort to obtain a definitive picture of the strengths and weaknesses of the Participant Training aspect of the Technical Cooperation Program, the International Cooperation Administration instituted a world-wide survey in 1960 and 1961. The first country report to be received in Washington came from Israel in 1962. In the meantime ICA had been superseded by the Agency for International Development, and the report appeared under the label of the new agency.

The Israel survey was made under the general direction of ICA, which prepared the questionnaires and instructions, but the actual contacts were made by personnel of the Israel Institute of Applied Social Research. The undertaking was financed by counterpart funds.

Altogether 369 persons were interviewed who had


studied abroad under the program and returned to Israel before the close of Israel's 1960 fiscal year. In addition, employers or other supervisors of 258 of the participants were interviewed. The number of supervisors involved was 200. Pre-testing was done in May, 1960, but the survey proper was conducted by twenty interviewers from March to October, 1961.

Most of the 369 participants interviewed were men who at the time of their selection were between 30 and 49 years of age. The majority of them were government employees who held second or third level jobs; two were top policy makers. Over two-thirds of them had had over five years of previous experience in their work before their departure for further training. The greater part of the participants had been chosen by their supervisors. Others had been chosen by special boards, labor unions, government offices, university officials. Only 4 percent of them had been chosen by ICA personnel.

Somewhat over half of those interviewed said that they had supervised one or more persons. Most of the rest either could not remember or, perhaps for reasons of personal prestige, chose not to remember whether they had performed supervisory responsibility over other employees before leaving for foreign study. The survey team assumed that most of the latter had not been supervisors. As for academic background, most of the participants had completed one or more
years of university work. The high educational level, considered in conjunction with the fact that more than half of them had been supervisors, probably implies that persons selected for study under the program were better qualified than the average to "sell" at home new ideas, concepts, and techniques gained from their training abroad.

Supervisors' Views

Supervisors were asked to give their views on several aspects of the program without reference to the participants in their charge. They were asked to indicate their satisfaction or dissatisfaction with the procedures by which participants were selected, subject matter covered in the training program, the length of training, the practical experience provided in the program, and the country or countries of training. The big majority of supervisors voiced their approval of all items except the country or countries of training. A considerable number (44 percent) registered displeasure with this item. Most of the dissatisfied supervisors thought that some or all of the training should have been in Europe. Some of them thought that it should have been in small countries closely identified with Israel's problems.

Participants' Views

Most of the participants (81 percent) felt that before leaving Israel for study abroad they had not received
complete information concerning the training program--about when and where they would be going, what they would be learning, the length of the program, and so on. The responses, in fact, revealed that many of them had received no pre-departure briefing from either their sponsoring government ministry or their employers. Such information as they acquired was gleaned from other sources, including general orientation sessions in Washington, D.C. The participants also reported that they had not been adequately instructed in such nonprogram matters as the use of restaurants and public facilities, use of money, religious practices, manners and customs of the people.

Most of the participants (81 percent again) found the level of the program about right. A very small number thought it too advanced, while others considered it too simple. These attitudes seem to have been shaped by various factors. The questioning disclosed, for example, that those who were familiar with the ease or difficulty of the program ahead of time were definitely more inclined to register a high degree of satisfaction with it than were those who had received no preliminary orientation. Other factors also played a role in the degree of satisfaction exhibited toward the program level. For instance, persons who had devoted more than two years to their field of specialization before their selection considered the level of the training "about right" more often than did those who had spent less than two years. Also persons
who were extended the privilege of taking part in the planning of their program displayed greater satisfaction with the level of the program than did those who had no part in such planning.

Participants whose training program had been prepared in complete detail before their departure from Israel rated the program very satisfactory in 69 percent of the cases. Those participants who got off to a bad start by being informed after their arrival in America that their program was not yet ready showed less enthusiasm.

In most instances, the participants felt that they had been given enough attention and guidance by their program managers during their stay in the United States, and two-thirds of those who felt that way considered the program very satisfactory. On the other hand, the majority of those who felt that their managers showed them little attention gave the program a lower rating.

Some participants felt that they were scheduled to see and do too many things. Others felt that their schedule had not provided enough activities. A third group thought the scope of activities was either very satisfactory or else all right.

Participants over fifty years of age showed a higher percentage of highly satisfied persons than did those under fifty years of age. Whether this variation was due to age differences or to other reasons is not clear. One
possibility is that the more mature group had more "pegs" of experience upon which to hang their new knowledge and so carried away more than their juniors.

Participants for whom some social activities were planned had a higher percentage of well satisfied persons than those for whom no social functions were arranged. Also there were more satisfied people among those who spent more than a year in training than those who spent less than a year.

A fundamental test of the effectiveness of the Participant Training Program is the extent to which participants were able to transmit to others the knowledge and skills acquired in their foreign study and the extent to which they were able to utilize them themselves. A number of questions to the former trainees were related to these matters. While almost all of the interviewed 369 participants felt that they had conveyed something to their associates, half of them admitted that they had not passed on much of value. About 95 percent, however, stated that they were able to apply to their job at least part of what they had been taught, and most of this 95 percent believed that they were using a great deal of their acquired learning.

In this connection, on a hundred-point scale a "utilization score" was arrived at for each participant, and the level of position at the time of selection was correlated with this score. In most instances, the more readily participants were able to apply at home the knowledge gained from
their study tour abroad, the more inclined they were to rate the program very satisfactory. Generally speaking, the survey established a correlation between high utilization and satisfaction. A notable exception was the group that studied Public Administration. Although the great majority of them were very well satisfied, only a little over one-third indicated that they were afterwards able to utilize effectively the things they had learned. In other words, they were at once one of the best satisfied groups and one of the poorest utilizers. Whereas their study abroad had brought them into contact with political leaders and legislative bodies and provided them interesting and desirable experiences, seemingly the application at home of foreign public administration techniques and methods appeared impractical or politically inexpedient. Probably also the fact that, for the most part, participants were holders of second and third level jobs meant that they lacked the authority or influence to affect substantial change.

In the overall picture, 62 percent of the former trainees rated the entire program very satisfactory. Another 34 percent found it moderately satisfactory. The remaining 4 percent considered it rather unsatisfactory; only one participant declared it to be "not satisfactory at all."

Proposals Based on the Israel Survey

The survey made by the Israel Institute of Applied Social Research enabled the U.S. AID representative in
Tel Aviv (successor to the United States Operations Mission) to formulate a number of recommendations for consideration by the home office in Washington. These recommendations were included in the "Memorandum of Transmittal" that accompanied the survey report.

Highlights of the suggested improvements are as follows: (1) A thorough pre-departure orientation should be provided every participant. This orientation should offer a detailed briefing on all phases of the training and include an explanation of the level of instruction. The participant should be well satisfied with the proposed program and should be quizzed on the matter before embarking. He should also be given some information about country customs and practices. (b) Before the participant arrives at his destination, the program manager should make sure that his program is thoroughly prepared. (3) Program managers should give a great deal of personal attention to each participant. (4) The participant should not be given too many things to do and see. (5) A certain minimum number of social activities should be provided each trainee. (6) The Agency for International Development should consider the possibility of extending the length of the training period.

Some Comparisons

There was hardly a sector of the Israel economy that was not affected directly or indirectly by the Technical Assistance Program, including as it did both participant
training and technical assistance per se. The broad range of the coordinated program, together with the emphasis given different aspects of the program, may be comprehended, in some measure, by noting the fields served by American advisors and Israeli trainees indicated in Table 14.

**TABLE 14**

**TECHNICIANS AND PARTICIPANTS BY FIELD OF ACTIVITY 1952-1960**

<table>
<thead>
<tr>
<th>Field of Activity</th>
<th>Number of Technicians</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>57</td>
<td>166</td>
</tr>
<tr>
<td>Industry and mining</td>
<td>102</td>
<td>202</td>
</tr>
<tr>
<td>Transportation</td>
<td>8</td>
<td>36</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td>8</td>
<td>38</td>
</tr>
<tr>
<td>Education</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Housing and community development</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Public administration</td>
<td>7</td>
<td>49</td>
</tr>
<tr>
<td>Labor</td>
<td>4</td>
<td>..</td>
</tr>
<tr>
<td>General and miscellaneous</td>
<td>..</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>198</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
<td><strong>525</strong></td>
</tr>
</tbody>
</table>

Source: Program and Economic Analysis Office, USOM/ Israel. AID file data.

<sup>a</sup>An additional 96 persons were sent from the United States to support the planning, administration, and operation of the Technical Cooperation Program between 1952 and 1960.
In the total picture, industry received more technical assistance than did agriculture. This observation is borne out by the fact that while the program financed 57 consultants and 166 participants for the agricultural sector, it financed 102 consultants and 202 participants for industry. (Table 14.) Although expenditures by 1962, set forth in Table 15, had not caught up with 1960 obligations, they tell the same story. Whereas about 23 percent of the Technical Cooperation budget was devoted to agriculture, 32 percent was devoted to industry. American aid planners recognized that the possibilities for agricultural development were necessarily restricted by the country's limited resources of land and water and, in the export market, limited by foreign surpluses of certain commodities. Industry, on the other hand, appeared to be less circumscribed. Not only was a flourishing industrial sector essential to the domestic economy but also important as a means of acquiring foreign exchange through sales abroad.

The Rise of Israeli Technical Assistance and the Decline of American Technical Assistance

As indicated earlier, technical assistance accounted for but 2 percent of the price of U.S. aid to Israel. This figure is very much smaller than the estimated 15 percent of total U.S. aid that the same kind of assistance comprised in other countries during the same period. One of the reasons for the low percentage in Israel's case was that its
TABLE 15

COMPARISON OF U.S. TECHNICAL COOPERATION DOLLAR COSTS AND GOVERNMENT OF ISRAEL LOCAL CURRENCY COSTS BY FIELD OF ACTIVITY TO JUNE 30, 1962
(In Thousands of Dollars and IL Dollar Equivalents)

<table>
<thead>
<tr>
<th>Field of Activity</th>
<th>U.S. Dollar Expenditures</th>
<th>G.O.I. Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>$3,391</td>
<td>$5,422</td>
</tr>
<tr>
<td>Industry and mining</td>
<td>4,620</td>
<td>3,382</td>
</tr>
<tr>
<td>Transportation</td>
<td>675</td>
<td>68</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td>619</td>
<td>293</td>
</tr>
<tr>
<td>Education</td>
<td>926</td>
<td>556</td>
</tr>
<tr>
<td>Housing and community development</td>
<td>62</td>
<td>18</td>
</tr>
<tr>
<td>Public administration</td>
<td>336</td>
<td>137</td>
</tr>
<tr>
<td>Labor</td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>Private enterprise</td>
<td>186</td>
<td>27</td>
</tr>
<tr>
<td>General and miscellaneous</td>
<td>2,444</td>
<td>217</td>
</tr>
<tr>
<td>Technical support (administration)</td>
<td>3,341</td>
<td>92</td>
</tr>
<tr>
<td>Research Foundation State University of New York</td>
<td>(1,445)*</td>
<td>262</td>
</tr>
<tr>
<td>Total</td>
<td>$14,402</td>
<td>$10,500</td>
</tr>
</tbody>
</table>


*Included under fields of activity above.
immigrant population included many competent technicians and scientists. This reservoir of trained personnel became increasingly apparent after 1956 when the government of Israel agreed to provide technical advisors for service in Burma. And as its Technical Assistance Program broadened in scope from year to year, Congress found it increasingly difficult to justify technical assistance as an element of the U.S. aid-to-Israel package. In 1960, therefore, it was agreed by both governments that the program would be terminated June 30, 1962. Thereafter other aspects of the economic aid program were expected to continue, but technical assistance beyond that date would be limited to necessary finishing touches.

By the end of 1961, which was before American technicians had yet left the country, 400 Israeli technicians had been sent to 42 countries in Africa, Asia, and Latin America; and 1,440 foreigners had gone to Israel for training. As American aid officials looked upon this phenomenon, they entertained the hope that many of the things that Israelis had learned as participants in the United States or else from U.S. experts in Israel would now be disseminated to other areas of development.

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\[46\text{Peterson, Activities of the Agriculture Division, p. 25.}\]
CHAPTER VII
INVESTMENT ASSISTANCE

The Country Situation

Tremendous investment effort was one of the distinctive features of the Israel economy during the decade of the 1950's. In relation to gross national product, this effort placed it third on a list of seventeen nations that included the United States, the United Kingdom, and West Germany.¹

In constant 1959 prices, the magnitude of investment rose from a total of IL 657 million in 1950 to IL 998 million in 1960, every sector sharing the increase. (Table 16.)

The major investment target throughout the period was housing, a fact which is not surprising when we consider the vast inflow of immigrants. The housing sector was the object of 40 percent of the nation's gross investment capital in 1950, but by 1960 it had declined to 29 percent. During the same period industry received greater investment emphasis than did agriculture. This emphasis denoted a continuing awareness on the part of Israel's leaders that the agricultural resources of the country were severely limited

TABLE 16

GROSS INVESTMENT, 1950-1960
(IL Millions in 1959 Prices)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and irrigation</td>
<td>124.8</td>
<td>130.0</td>
<td>157.7</td>
<td>142.4</td>
<td>193.9</td>
<td>179.9</td>
<td>170.5</td>
</tr>
<tr>
<td>Industry, mining and power</td>
<td>135.4</td>
<td>157.5</td>
<td>127.3</td>
<td>173.5</td>
<td>207.6</td>
<td>214.0</td>
<td>228.5</td>
</tr>
<tr>
<td>Transport</td>
<td>95.6</td>
<td>83.8</td>
<td>52.2</td>
<td>98.2</td>
<td>109.5</td>
<td>127.1</td>
<td>151.4</td>
</tr>
<tr>
<td>Trade and services</td>
<td>38.6</td>
<td>44.2</td>
<td>34.8</td>
<td>85.3</td>
<td>118.7</td>
<td>142.0</td>
<td>158.5</td>
</tr>
<tr>
<td>Housing</td>
<td>262.2</td>
<td>232.3</td>
<td>241.0</td>
<td>241.2</td>
<td>277.5</td>
<td>307.0</td>
<td>289.2</td>
</tr>
<tr>
<td>Total</td>
<td>656.6</td>
<td>647.8</td>
<td>613.0</td>
<td>740.6</td>
<td>907.2</td>
<td>1000.0</td>
<td>998.1</td>
</tr>
</tbody>
</table>

In Percent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and irrigation</td>
<td>19.0</td>
<td>20.1</td>
<td>25.7</td>
<td>19.2</td>
<td>21.4</td>
<td>18.0</td>
<td>17.1</td>
</tr>
<tr>
<td>Industry, mining and power</td>
<td>20.6</td>
<td>24.3</td>
<td>20.8</td>
<td>23.4</td>
<td>22.9</td>
<td>24.4</td>
<td>22.9</td>
</tr>
<tr>
<td>Transport</td>
<td>11.6</td>
<td>12.9</td>
<td>8.5</td>
<td>13.3</td>
<td>12.0</td>
<td>12.7</td>
<td>15.1</td>
</tr>
<tr>
<td>Trade and services</td>
<td>5.9</td>
<td>6.8</td>
<td>5.7</td>
<td>11.5</td>
<td>13.1</td>
<td>14.2</td>
<td>15.9</td>
</tr>
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<td>Housing</td>
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<td>35.9</td>
<td>39.3</td>
<td>32.6</td>
<td>30.6</td>
<td>30.7</td>
<td>29.0</td>
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<tr>
<td>Total percent</td>
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and that the future of the economy depended increasingly on industrial development.

Alex Rubner observes that a substantial portion of the investment funds available during the first decade of Israel's existence was not used to the best possible advantage. He says that "the chief cause for this failure to invest wisely is linked directly to the abundance of investment capital, relative to the available entrepreneurial skills and tested investment projects," but recognizes that this is "part of a general problem affecting underdeveloped economies." As an example of improperly used investment, he cites the wasteful handling of expensive machinery by inexperienced persons in some of the young settlements. Because socialist parties regarded hired labor as an evil, they found it hard to agree, at first, to a period of transition during which new laborers would be trainees. The Jewish Agency took pride in taking untrained and frequently illiterate immigrants from their ship in Haifa and making them "owners" of a farm in the Negev. The results were frequently economically wasteful in the extreme.

The enthusiasm, at times ludicrous, for investments per se, which characterized many official actions in the economic field during this decade, very often led to severe distortions in the price-and-cost structure. Public capital was provided, in the first years, for

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2 See also "Case Study of a Local Currency Loan Project," Appendix A.
undertakings which, on completion, could not employ their modern imported machinery economically, because the Ministry of Finance lacked the foreign currency to make allocations for spare parts or raw materials. Reports made on the employment of equipment, supplied through loans of the U.S. Export-Import Bank, in the building branch, all tell the same story of failure to utilize the new capital goods economically.\(^4\)

In Israel's mixed economy, more than half of all capital for investment came from public funds incorporated in the development budget. These funds consisted of taxes and collections, internal loans, and local currency generated by various forms of assistance from abroad. Not only did public funds largely determine the quantity of investment, but also the national and local governments and the Jewish Agency that controlled these funds had a tremendous influence on the quality or structure of investment. For example, the decision as to which enterprises could obtain loans from public sources often determined which enterprises flourished and which did not and, indirectly, had a bearing on which ones were able to attract additional private capital and which were not. Also the role of government in the allocation of foreign currency for the import of machinery and equipment—which accounted for about two-thirds of all industrial investment\(^5\)—encouraged certain industries to the exclusion of others and, in turn, influenced investment decisions of

\(^4\)Ibid.

private investors toward the favored enterprises.

Although investment capital was also derived from strictly private sources, which is to say from private savings, domestic savings in Israel were always at a low level during the 1950's as compared to the United States and Europe. Several influences conspired to discourage saving, one of which was high taxes that siphoned off most excess funds. Another was inflationary trends in the economy that led many persons to spend their money for goods and services that they feared would cost more later. Also the high level of capital imports reduced the pressure on private business and government alike to save.

Not only were domestic savings inadequate to supply a very large part of the investment funds needed, but attempts to attract private capital from abroad were, at first, not very successful. Reasons for the reluctance of potential investors abroad to put their money into Israeli enterprises were several. These included the fact that Israel's founders had a pro-socialist welfare-state anti-capitalist bias, and, at the start, were not thoroughly converted to the necessity of enticing private foreign investment on a large scale. Also the government's influence on the economy, as manifest in multiple exchange rates and subsidies, tended to confuse and discourage many prospective investors abroad. Added to these deterrents were the unsettled international situation and questions of security, high taxes, inflation, and a
limited market. For these reasons would-be foreign investors were at a loss to know how to assess the economy and felt uncertain both of realizing a profit and of withdrawing that profit from the country afterwards if they so desired.

For a number of years the efforts of Israel's government to promote private domestic and foreign investments were virtually limited to the establishment of an Investment Center and the screening through that office of investment proposals and to the granting of tax benefits and import facilities to approved enterprises. The first Law for the Encouragement of Capital Investments, though intended to increase foreign investment capital, was considered too restrictive by private interests. Even the 1955 amendments thereto failed to liberalize it sufficiently to provide a broad appeal.

Through the several channels of its foreign aid program, the United States, directly and indirectly, supplied the Israel economy funds for investment during the 1950's. It also took specific steps to influence the quantity and quality of investment and sought especially to promote private enterprise. One of these steps was the advocating and financially aiding the formation of an industrial development bank in Israel.

Promotion of an Industrial Development Bank

From the days of the Marshall Plan, American aid theoreticians upheld the view that a well-nigh essential step to the promotion of a nation's industrial growth was
the establishment of a development bank. Through such an institution very large sums of public and private capital would be assembled and made available to industry in the form of medium and long-term loans. American experience in Greece, Turkey, Italy, Formosa, Korea, the Philippines, and in other aid-receiving countries supported this conviction.

Until 1957 loans to business and industry had been made by a variety of institutions: government, a few existing private banks, philanthropic groups, labor organizations, and various other private institutions. That year an initial survey was made by a team of American experts under the direction of the United States Operations Mission. In the wake of the group's report, the government of Israel set up the Israel Industrial Institution Limited, later renamed the Industrial Development Bank Limited. The date was October 7, 1957.

From the American standpoint, a necessary ingredient in the successful operation of a development bank was that, while it must work in harmony with the goals of its sponsoring government, it should be free to make decisions in economic terms rather than in political ones. In the words of USOM Director, John J. Haggerty:

6"Summary of Remarks by John J. Haggerty, Director USOM/Israel, at the Israel-American Friendship League on Tuesday, November 4, 1958," p. 3. AID file data.

As contrasted with a government agency or department, such a bank as a bank, must be irrevocably committed to the security of its own investment capital, together with that degree of return on its credits and investments, which will enable it to pay the costs of its own borrowings, and assure the continued participation of its own shareholders in its capital structure. It follows that a development bank must look to the profitability, including the debt-servicing capacity, of the business enterprises to which it extends credits or in which it makes its own direct investments. The technical practicability and the economic soundness of the borrower enterprise are the major criteria by which such a bank judges whether a loan or an investment should, or should not, be made.

Where a development bank finds its identity of interest with that of the Government lies in the seeking out and finding of industrial opportunities which, through prudent investment and sound business management, can be made productive and profitable, and which will thereby contribute to the viability of the national economy as a whole. 8

When originally organized, however, the Israel Industrial Institution was not free to make its own decisions in purely economic terms. The greater part of its loan resources was furnished by the government through purchases of both voting and nonvoting share capital. Government officials screened applications coming to the bank and, according to USOM Industry Officer Carl R. Ferderer, exercised influence in behalf of those that they favored. 9 Thus, at the outset, the new lending organization performed about the same functions that formerly had been carried out by the several credit institutions that were making loans from the Development Budget.

9 Ferderer, Completion of Tour Report, p. 16.
As the result of an agreement signed by representatives of the two countries October 15, 1958, the American concept of a development bank operating without government interference came closer to realization a year after the Bank's formation. The agreement of that date committed the U.S. government to loan the government of Israel IL 20 million from the U.S. Uses Account, accruing from the sale of agricultural surpluses, for the purchase of the Bank's full authorized issue of nonvoting stock. This project accord was hailed by Haggerty as "an important milestone, possibly a major turning point, in the Israel-American program of economic cooperation." Haggerty's enthusiasm apparently stemmed less from the magnitude of the loan, which enabled the Israel government to acquire more than half the IL 36 million total share capital of the Bank, than from two special conditions attached to it: (1) The Israel government was to divest itself of a block of voting shares by public sale to private investors, and (2) the Industrial Development Bank was to operate under such loan criteria as to be free from undue government influence. In fulfillment of its side of the bargain, the government of Israel offered

10See also Chapter V, pp. 109-110.


12In addition to IL 20 million in nonvoting preference shares, the Industrial Development Bank was capitalized by issuance of IL 8 million Class A voting stock and IL 8 million Class B nonvoting stock.
a portion of its voting shares for sale to banks and private business groups at home and abroad, thus permitting their representation on the board of directors. Because only 26 percent of the voting stock was retained by the government, it was only entitled to four out of fifteen board of director seats. 13

In spite of these measures, a USOM memorandum two months after the October 15 agreement seems to reflect continued concern as to whether the Bank was going to be free from government dictation. The brief memo reports a meeting held December 11, 1958, between USOM and Israeli government officials in which a "lively discussion ensued relative to concentration of economic powers in the hands of Government and Histadrut." 14 Later in the meeting one of the Israeli representatives inquired about the prospects of the Industrial Development Bank receiving a substantial credit from the Development Loan Fund:

Mr. Haggerty stated that USOM supported such a credit in principle but that he felt that steps should be taken immediately both on the part of the GOI and on the part of the III [IDBI] which will confirm the freedom of the III from domination by the GOI. 15

Additional assistance to the Development Bank came

13 Ferderer, Completion of Tour Report, pp. 16-17.
14 "Memorandum for the Records: Subjects Covered in Discussion, Thursday December 11, 1958. Israeli Participants: Dr. S. Gottlieb, Dr. Nadev Halevy, Mr. Addy Cohen. USOM Participants: Mr. John J. Haggerty, Mr. K. L. Mayall." AID file data.
15 Ibid.
later, when the Export-Import Bank of Washington appointed the Industrial Development Bank its Israel agent for the granting of "Cooley Amendment" loans to U.S. related private firms and placed an initial sum of IL 15.75 million at the disposal of the Bank for that purpose. Also in response to an application from IDBI, the Development Loan Fund approved loans in 1959 and 1960 amounting to $10 million to enable the Bank to supply the anticipated foreign exchange needs of some of its borrowers for purchases abroad.

As we examine the basis upon which IDBI granted loans, we note that the applicant was expected to show that his product would contribute to the country's economic development; that he had a substantial amount of his own capital invested or ready to invest; that the enterprise exhibited good prospects of being able to earn enough to repay the capital borrowed; that the prospective borrower had enough assets in land, buildings, machinery, equipment, or other valuable consideration to form adequate security to protect the Bank; and that in all discernible ways the proposal was economically sound.16

The average length of loan was eight years and usually bore a 7 1/2 percent interest rate (6 to 6 1/2 percent in development areas) and required a flat one-time only commission of 1 percent (0.6 percent in development areas).

16A Short Memorandum on the Activities and Operation of the Industrial Development Bank of Israel Limited (Tel Aviv, November, 1959), pp. 4-5.
As a protection to the Bank, 50 to 70 percent of every loan made for a period of more than two years was linked to the dollar or to the cost-of-living index. After a loan was approved and during plant construction, engineers from the Bank visited the site periodically and appraised progress of the work. Then after the plant was in operation, the economic department of the Bank kept itself informed of developments through reports and balance sheets regularly submitted by the firm in accordance with stipulations of the loan contract.17

Six months after the IL 20 million loan agreement was signed, the Industrial Development Bank became officially independent of the Ministry of Commerce and Industry. It would be a mistake, however, to assume that the government did not continue to be involved in the Bank's operations. For example, although loan applications were considered by an economist-engineer two-man team appointed by IDBI, they were also weighed by a corresponding team appointed by the Ministry of Commerce and Industry. After evaluation by both pairs of investigators, the IDBI team made its recommendation to the Credit Committee composed of representatives both of the Bank and of the Planning Branch of the Ministry of Commerce and Industry. Here the final decision was made on loans not exceeding IL 300,000. On larger loans, the decision of the Credit Committee formed only a recommendation.

17Ibid., pp. 6-7.
to the Central Committee, which also was composed of personnel of the Bank and the Ministry of Commerce and Industry. So by virtue of participation at the several stages of loan consideration the government's role in the Bank's decision-making process continued to be large. Of course, such influence was to be expected where Development Budget funds were involved because a condition of loans from that source was that they be made within the framework of government policy directives. And even though in 1958 the government divested itself of all but 26 percent of the voting stock, the charter's requirement that amendments be made only with the consent of holders of 75 percent of the voting stock gave government the right to veto any basic change that it deemed unwarranted. But in spite of the continuing role of the government in the operations of the Industrial Development Bank after its reorganization, the lending institution was sufficiently independent to challenge government viewpoints with which it did not agree. In some instances it reduced or rejected loans recommended by the government, and in other instances it approved loans rejected by the government.18

In an airgram to ICA Washington, June 11, 1959, Director Haggerty reported that the Industrial Development Bank was, indeed, exercising some measure of unconstrained

judgment. He said:

The Institution, as its experience has matured, has gradually assumed a more independent role in reviewing and passing on loan applications without reference to Government approval. It does, however, follow broad guidelines of industry priorities set out by the Government of Israel.19

The question that remained was whether private business was getting its proper share of loan funds:

Our only concern is that the privately-owned sector which is not tied in with some GOI or Histadrut enterprise may not be made aware of the loan opportunities that exist, whereas the GOI and Histadrut enterprises are encouraged to submit applications and may be given priority considerations.20

By the close of calendar year 1961 the IDBI had made 762 loans totalling IL 274.4 million21 and had received directly or indirectly from the United States IL 95.1 million. As for voting shares, which amounted to IL 10.1 million by the end of December, 1961, 31 percent was now owned by the government, 34 percent by seven commercial banks, 30 percent by eight financial intermediaries, and 5 percent by eleven other groups.22

19USOM/Israel Airgram to ICA/Washington, June 11, 1959. AID file data.

20Ibid.


22Public International Development Financing, pp. 66-68.
Assistance to Small Industry

Because small industry in Israel—which, measured by the number of employees, connotes thirty or less—is the backbone of the economy, it seems necessary to inquire to what extent it enjoyed investment funds from the U.S. aid effort. Although available data do not indicate the proportionate distribution of U.S. benefits between small and large industry, ICA file information shows that small business was not overlooked. Through the aforementioned Industrial Development Bank, for example, small firms as well as large ones obtained local currency loans. And the fact that the Development Loan Fund made dollars available to the Bank was a boost to small enterprise, because it opened the way to dollar loans in sums less than the $100,000 minimum imposed on applications sent to Washington directly. Moreover, in 1959 the sum of $5 million was loaned to the Bank by DLF for relending to small businesses exclusively. As of June 11, 1959, USOM personnel were increasingly encouraged at the potentially large role which the Industrial Development Bank seemed destined to play in the progress of both large and small industry.

Two local currency loan projects also were undertaken by the Americans to provide credit funds for small

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23See pp. 81-82.
24USOM/Israel Airgram, June 11, 1959.
business enterprises exclusively. These were entitled "Equipment for Small Metalworking Shops"\textsuperscript{25} and "Loans to Small Industries."\textsuperscript{26} As explained by USOM:

Despite the potential contributions which these industries could make toward the strengthening of the domestic economy and the role which they play as a part of Israel's total industry, small industries have found it particularly difficult to obtain needed credit facilities in view of the presently existing shortage.\textsuperscript{27}

Total American support by the middle of fiscal year 1959 amounted to IL 475,000 for the first project and IL 1,700,000 for the second. Assistance was in the form of U.S. owned local currency made available to the government of Israel and reloaned to the Artisans' Bank Limited. This financial institution, formed in 1954 by the government of Israel in collaboration with four commercial banks and the Central Union of Artisans and Small Business,\textsuperscript{28} was established with the expectation that it would be a major instrument for helping small manufacturers and workshops finance sound investments and for helping provide them with working capital.\textsuperscript{29}

\textsuperscript{25}Project 271-23-214.

\textsuperscript{26}Project 271-23-248.

\textsuperscript{27}Project 271-23-248 ICA E-1 Form, prepared July 28, 1958. AID file data.

\textsuperscript{28}Capitalization of the Bank in fiscal year 1959 comprised Government of Israel (50%); Central Union of Artisans and Small Business (26%); Bank Leumi (6%); Workers' Bank (6%); Halvaa Vehisachon (6%); Taassia Industrial Bank (6%).

\textsuperscript{29}"Artisans' Bank Ltd.," The Jerusalem Post Economic Annual 1962/63, p. 154.
Loans by the Bank were made for a period of not more than five years and bore a maximum interest rate of 7 1/2 percent. Each loan was limited to IL 10,000 and was passed on by a joint committee of the Bank, the Ministry of Finance, and the Ministry of Commerce and Industry. During the first four years 21,000 loans were approved, and in time branches of the Bank were opened in several areas. As viewed by the American aid mission, the results of the Bank's operations were "satisfactory" even though the Bank was able to provide only a fraction of the country's needs for small capital loans. 30

**Encouragement of Private Investment**

Repeatedly in our examination of U.S. activities in support of investment, especially during the latter part of the period under review, we are made aware of American efforts to inspire private enterprise. This effort was prompted partly by the Mutual Security Act of 1951, which stipulated that economic assistance should be so administered as to encourage free enterprise. It was prompted also by the Development Loan Fund, inaugurated in 1957, and by the 1957 "Cooley Amendment" to Public Law 480 Title I. Encouraging private enterprise in Israel, however, was always subordinate to the goal of helping Israel become strong enough to stand alone in the shortest period of time, and this was true regardless of whether U.S. aid served to

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30USOM/Israel Airgram, June 11, 1959.
strengthen the role of the government, the Histadrut, or private enterprise. Nevertheless, as Israel's leaders became more receptive to the idea and as directives from ICA/Washington to its overseas operations missions became more explicit, private enterprise gained a more prominent role in the program.

The American desire to promote free enterprise stemmed from the conviction that it had been responsible for America's own remarkable economic success story and the belief that, to a very great extent, it could do the same for any other country. It also stemmed from the idea that nations rooted in the same type of economic system as America would be more apt to identify themselves with the Western capitalist world than with the communist world. And within the Middle East context the United States not only wanted Israel to become politically and economically viable but hoped that it might also provide a demonstration to its neighbors of the vigor and value of a free enterprise system politically linked with the West.

More to the point, private foreign investment came to be viewed increasingly by Israelis and Americans alike as the most plausible substitute for American government aid, as well as for German reparations that were scheduled to end in 1964. In addition, the matter of Israel's government attracting capital from abroad was viewed by free enterprise advocates as necessitating certain internal administrative and monetary reforms that would be for the well being of the Israel economy generally.
The determination of the International Cooperation Administration to channel a significant portion of the Israel aid funds to the private sector is set forth in the following USOM statement in 1958:

USOM/Israel has supported and will continue to support a concentrated program designed to assist Israel in attaining a maximum degree of economic independence over a minimum time span. In pursuance of this objective increasing emphasis is being placed on the encouragement of private enterprise in the allocation of MSP and PL 480 assistance, to the extent that it is felt that private enterprise offers the most appropriate and practical means of assuring developments which will result in the attainment of a maximum degree of economic independence. To the accomplishment of this end USOM/Israel has urged and will continue to urge that MSP and PL 480 assistance, both in terms of appropriated dollars and local currency availabilities resulting therefrom and subject to U.S. control, be utilized to the maximum extent possible by the Government of Israel as a multiplier to induce further private investment to emerge and operate for the overall benefit of the country economy. The U.S. aid program utilizes whatever leverage is possible to encourage private entrepreneurship and the emergence of soundly conceived privately-owned industrial facilities.31

The same statement also acknowledges the objective of U.S. aid to strengthen Israel economically to the point where it would not be attracted to communism. It observes, though, that any prospect of Israel going communist appeared very remote. Once again one of the basic, albeit unproved, premises of American foreign aid becomes apparent: A nation with a prospering economy, firmly rooted in the private enterprise system, is less susceptible to communism's blandishments than a nation in poverty.

American attempts to promote private enterprise were complicated slightly by differing viewpoints as to what properly was not included and what properly was included under the heading of "private enterprise" in Israel. The attitude of USOM was that private enterprise did not include labor-union-owned industries, while the government of Israel insisted that it did.\(^{32}\) This difference of interpretation played a role in the application submitted by the government of Israel for its first Development Loan Fund loan in fiscal year 1959. Inasmuch as DLF dollars were supposed to be reloaned to private firms, USOM Director Haggerty claimed that Histadrut enterprises were ineligible to receive them. An article in Maariv, September 30, 1959, suggests that Haggerty was overruled on the first DLF loan but that a narrower view would be adhered to in the future.

It seems that the authorities in Washington did not accept Haggerty's interpretation, and last year they extended all the loans needed for the activities financed within the framework of Government budget.

On the other hand, this year the Treasury will propose the extension of loans to a number of private Israel industrial firms.\(^{33}\)

Increasing interest in private investment by the government of Israel in the latter part of the decade, together with growing emphasis in Congress on the utilizing

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\(^{32}\) The problem that these conflicting positions presented to USOM clerical personnel is touched upon in Appendix A, p. 220.

of foreign aid to promote private enterprise, paved the way for a technical assistance project specifically addressed to the "Encouragement of Private Investment." Its purpose was to encourage private investment (in the American sense) in all sectors of the economy and to attract more foreign capital by promoting a favorable investment climate. Agriculture and the economic overhead or infrastructure were considered the primary domain of public capital, so the main stress by American aid planners for private investment was on industry.

The Mission embarked upon an ambitious project in 1959 to achieve the following six goals:

1. Assist in the planning and formation of one or more demonstration industrial districts. This would include a study of the feasibility of proposed sites, evaluation of the kinds of industries best adapted to these sites, plans for plant facilities, and commitments with prospective occupants.

2. Make preinvestment engineering and economic feasibility studies of specific investment opportunities as an incentive to investors.

3. Establish a business credit rating service on the order of Dun and Bradstreet with a related Moody or a Standard and Poor type financial reporting service.

4. Assist in the formation of a national securities law, a securities commission, and various tax reforms to stimulate investment. A special target was the promotion of
a healthy stock exchange.

5. Assist the government of Israel in taking steps to encourage private savings throughout the country for use as investment capital.

6. Develop a publicity program pertaining to investment laws and opportunities for private investment in Israel.34

In practice the project resulted in three subprojects: One involved assistance to the Central Union of Artisans and Small Business in order to improve marketing, production, and financing practices of its membership. A second was a feasibility survey of the potential of the electronics industry. A third was a study of the role of the Industrial Development Bank of Israel. This latter study stimulated a great deal of interest in economic and financial circles and served to bring into focus the need for more working capital for industrial expansion.35 It was best received by those parties who favored a more liberal credit policy to promote industry and exports.

During 1959 and 1960, $200,000 were obligated by ICA for the "Encouragement of Private Investment" project. Half of this amount was from Technical Cooperation funds for the survey and contract activities required, and half was in the

34Project 271-91-267 ICA E-1 Form, prepared November 30, 1959. AID file data.

35Ferderer, Completion of Tour Report, p. 21.
form of an outright Special Assistance grant for the establishment of industrial centers. Israel's contribution through the Joint Fund equalled only $1,000 in local currency, leading to the conclusion that government enthusiasm for the project per se was somewhat less than that evinced by its American sponsors.36

From a comparison of project goals with project accomplishments, it is apparent that expectations exceeded realization. Nevertheless, the project must be counted among the several influences toward private investment at work in the Israel economy at the close of the period under consideration.

An Improved Climate for Private Investment

It is worthy of note that Carl Ferderer reports that there was a marked change of official attitude in Israel toward private investment between his arrival there in 1958 and his departure in 1962. He says:

The climate for private investment in Israel has very noticeably improved during this period. Government authorities are much more liberal in their attitude toward private capital and have been rather successful in many instances in having major projects financed. The Government has willingly divested itself of equity ownerships in major enterprises by selling its interest to private investors. The liberalization of loans for industrial expansion to the purely private sector has also been evident.37

The decade's most significant step in the promotion of private investment came in 1959. In August of that

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36 Project 271-91-267 ICA E-1 Form.

37 Ferderer, Completion of Tour Report, p. 2.
year—a month after publication by the Ministry of Commerce and Industry of its "Prognosis for Israel's Industrial Development, 1960-1965"—the Knesset passed a much liberalized Law for the Encouragement of Capital Investment. This legislation inaugurated far-reaching concessions for approved enterprises in the form of income tax benefits, limited exemption from property taxes, exemption from customs duties and purchase taxes, and permission for nonresidents to transfer all profits abroad in the currency originally invested. There were other benefits, but these were some of the more significant ones. In the wake of the new law, a special Investment Authority was formed by the Ministry of Commerce and Industry and by the Ministry of Finance. Representatives of the Authority began work with prospective investors to provide them with necessary information and to help them make contacts and enter negotiations with proper government departments, and even to assist them in the selection of plant sites.38 The government also instituted a securities commission, and a number of Israel firms had public stock offerings, which was a stimulus to the stock exchange. A Dun and Bradstreet branch office was established in 1961.

Consistent with the objectives of the new law, Israel's leaders commenced serious solicitation of private

38See "Israel's 'Third Arm' Concept, January, 1960," Appendix B.
investment funds from abroad. Motivation for this drive was the growing realization that the country could not expect the continuous availability of German reparations, of external aid programs, and of long-term loans repayable in local currency. Soaring debts gave additional impetus to the search for private foreign investment capital as a means of accumulating foreign exchange to pay off principal and interest.

As an indication of the impact made by the more aggressive efforts of the government to promote investment, the total approvals of proposed foreign investments in 1960 jumped from the 1959 level of $39 million to $106 million. Because the potential availability of foreign capital increased so much, the government now began to be quite selective in the acceptance of investment offers.

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CHAPTER VIII

LIMITATIONS AND RESTRICTIONS

Israel's economic development from 1949 to 1960 was largely the product of the imagination, initiative, skill, health, and determination of its people and the plentiful supply of labor provided by immigration. To these may be added the notable honesty of its government leaders and large capital imports from abroad. U.S. economic and technical aid, however, might have helped Israel to achieve still greater development except for certain restrictions inherent in the Israeli temperament, experience, and social philosophy and except for certain other restrictions that limited Americans.

Israel Limitations and Restrictions

Inadequate Planning

Inadequate pre-planning was a frequent complaint made by American aid personnel of their Israeli colleagues. One USOM advisor, in a report to the government of Israel, speaks of this limitation as follows:

This characteristic of desire to be doing probably created the greatest problem for the technician. Each was so eager to be in action that decisions were too readily made and as readily changed with subsequent loss of time, money and effort.¹

In the opinion of USOM Director, C. Reed Liggit, the lack of planning on the technician's level also was a shortcoming of the Technical Assistance Liaison Office. In correspondence to his superior in Washington in the spring of 1960, Liggit laments:

The existence over the years since 1952 of this specially constituted unit under the jurisdiction of the Prime Minister's Office should guarantee effective pre-planning and implementation in TC [Technical Cooperation]. Regretably, for a variety of reasons, it doesn't.

As you well know, the Israelis since inception of official U.S. aid to Israel have been inclined to consider TC allotments as "frosting on the cake," a built-in factor in a conventional aid package. As a consequence there has been a succession of impermanent personnel associated with the Technical Assistance Department who, although eager to see a full utilization of TC funds, once allotted, have shown only cursory interest in essential pre-planning of multi-year project type activities, . . .

Our Program Office has consistently urged upon the Israelis a fuller participation in the process of program and project formulation. It has been made abundantly clear that the penalty of a USOM unilaterally evolved TC forward projection, without active GOI participation, is a less defensible program and probably a smaller allotment.

Insufficient planning was a weakness that extended beyond the Technical Assistance Liaison Office. It was a shortcoming of the Israel government. The problem was related to the pressures and uncertainties of the international situation, but there were other explanations. The diverse origins and experiences of the population and the fragmented political structure of the nation contributed to poor

2Letter to Mr. Leland Barrows, Regional Director, Office Near East South Asia, International Cooperation Administration, Washington, D.C., from C. Reed Liggit, Director, USOM, Tel Aviv, Israel, April 5, 1960. AID file data.
planning. Also there were few trained economists and social
scientists in the population; and no well-trained civil serv-
ice with esprit de corps had yet evolved. Administrators, in
most cases, were politicians themselves who had come to their
positions with preconceived viewpoints and commitments. In
some instances several ministries had jurisdiction over the
same problem or segments of the same problem, and proposed
changes sometimes aroused personal antagonisms.

Still another reason for inadequate economic planning
by Israel's leaders was that, dating from the pre-State
period, the estimates of economists had so often been out-
stripped by accomplishments of the people that their fre-
quently pessimistic predictions were sometimes viewed with
disdain. Moreover, so much was achieved through short-range
planning that a long-term approach to economic problems seemed
unnecessary. Besides, economists were usually regarded as
having little appreciation for the social welfare aims to
which the government was deeply committed.

Undoubtedly the main reason for little economic plan-
ing during the decade of the 1950's was simply that the
government was not faced with the necessity of doing much
planning. Various forms of external assistance always seemed
to be available when needed to provide the foreign exchange
to cover the import surplus, and the local currency
generated by this assistance sustained a thriving development
In the latter part of the period, the United States Operations Mission became more insistent on detailed information on projects proposed by the government of Israel for U.S. financing, regardless of whether they were to be aided by technical assistance dollars, U.S. owned local currency, or by Israel owned counterpart funds. Compliance with such requests proved time consuming and burdensome to the staffs of ministries concerned, but American officials believed that the procedure was leading to better executed projects and, possibly, to a better quality of economic planning generally. By the same token, one of the motives behind the U.S. encouragement of free enterprise was the belief that the quest for private capital from abroad would serve to upgrade planning and, in the process, lead to much needed domestic currency and administrative reforms.

3For an excellent treatment of the problem of inadequate government planning, see Benjamin Akzin and Yehezkel Dror, *Israel: High-Pressure Planning*, National Planning Series (Syracuse: Syracuse University Press, 1966).

4Dr. Ben-Shachar, Assistant Professor of Finance at the Hebrew University, offers what might be termed the Israeli view that the increasingly stringent USOM controls failed to influence development budget activities to any real extent. In fact, since projects disapproved by the Americans could be financed from other sources, the constant search for projects to be approved was a bureaucratic burden. Public International Development Financing, a Research Project of the Columbia University School of Law, Report No. 5: Public International Development Financing in Israel, by Chaim Ben-Shachar (New York: Columbia University, 1963), p. 32.
It is not clear to what extent official U.S. attitudes influenced the change, but the government of Israel was doing what Americans considered a better brand of economic thinking and planning at the close of the period than it was in the early hectic years. It passed the Law for the Encouragement of Capital Investment, established the Investment Authority and a Securities Commission, undertook a campaign to attract private capital through investment clubs in the United States, and began to plan seriously the elimination of artificial exchange rates and subsidies and the devaluation of its currency as a means of making Israeli products more competitive in the world market. The government also was considering the establishment of a central planning commission, which actually took shape in February, 1962, in the form of the Economic Planning Authority.

Resistance to Suggestions

Wherever U.S. economic aid and technical assistance have been extended around the globe, Americans have discovered that it has been very much easier for them to dispense advice than it has been for other people to accept it. And, without a doubt, if the situation were reversed, Americans would find it difficult to believe that the counsel of advisors from abroad could be superior to their own. The Israel experience was no exception to the rule. Israelis were not always prepared to admit that foreigners might know how to proceed better than they did. Some of them, particularly at first,
felt that Americans, at best, were meddlesome interlopers and, at worst, were bent on exploitation. The Three-Monthly Economic Review even suggests that Israel may not always have wanted or needed foreign advisors but might have believed that by giving an aid-dispensing organization a stake in a project the chances of obtaining foreign credits would be improved.\(^5\)

Illustrative of Israeli resistance to advice from the overseas visitors in their midst, the January, 1954, USOM report speaks of the wall of indifference that the first technicians in range management encountered:

> The simplicity of so many of the problems made it possible to offer constructive suggestions almost immediately. However, the suggestions offered seemed to meet a certain passive resistance and were met with a general reluctance to either recognize the soundness of our advice or to admit that any advice was needed.\(^6\)

The report claims, though, that after the counsel of American experts had time to prove its worth, the original indifference was superseded by "a clamor for technical advice."

In similar vein, the same Operations Report indicates that early recommendations by USOM technicians to the government of Israel were carefully shielded from public scrutiny. It refers to a two hour address by the Minister of

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Agriculture to the Knesset, in the course of which he distributed copies of an appraisal by an American expert. "This," it says, "was quite a change from former procedure of treating reports of foreign experts as 'top secret,' and consequently they have not been made public nor even distributed to the Knesset." Incidentally, the Minister's speech was greeted with immediate criticism from one member of the Knesset who insisted that American economic policy was aimed "at the creation in Israel of a colonial economy, primitive agriculture, and destitute farmers." Such an attack upon America's foreign aid program, however, was rare in Israel.

Unlike the experience of American advisors in range management, who witnessed initial resistance give way to a great demand for their services, U.S. mining consultants got to the point where they felt that they were almost in the way. To be precise, experts in marble quarrying found encouraging response to their suggestions, but their compatriots in the areas of underground and open-pit mining and in metallurgical research believed that most of their advice was falling on deaf ears. In 1959 the Mission reported to Washington that the latter advisors "had not found the receptivity expected of professional mining people" and proposed the cessation of further assistance in these fields.

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7 Ibid., p. 8.  
8 Ibid., p. 9.  
9 Project 271-21-035 ICA E-1 Form, prepared November 18, 1959. AID file data.
While recognizing that the overall reception accorded American mining men had proved disappointing, Carl R. Ferderer, USOM Industry Officer, explains:

This was partially due to the fact that a great deal of know-how had been introduced into the country in earlier years, in part through U.S. technical assistance. It became apparent that the advice of U.S. experts in later stages, when most of the mineral resources were known and in many instances already being developed, was somewhat superfluous. The caliber of Israeli competence in this area was rather high already in 1959.10

Christopher Ryan, Chief of the Mineral Resources Branch of the Industry, Mining and Transportation Division of USOM, presents another point of view:

The newness of mineral production to the people of Israel is undoubtedly responsible for lack of progress in certain areas. Hand in hand with this goes the desire of the people to find out for themselves rather than to place implicit trust in the dictum of specialists brought here to help them.11

Not only did Israelis frequently display a lack of interest in American suggestions, but in those areas where the use of local currency accumulations required both Israeli and American concurrence, they did not appreciate having their judgment questioned. An industrial expansion loan project, funded from U.S. owned Israel pounds, provides an example of


this attitude. Over IL 10 million in project money were available to the Israel government in 1958 for lending to industrial applicants. Since each loan had to be approved also by USOM, representatives of both governments were in frequent consultation. Americans felt that the Israel officials wished concurrence without careful consideration of the merits of each loan request. In addition, as USOM Industrial Economist Arthur Frazer explains:

Moreover such counsel as USOM could provide under the circumstances, and the doubts it expressed about specific loan proposals, seemed almost inevitably to be taken as a challenge rather than constructive assistance. 12

Again—and perhaps especially—this inclination to act independently of American viewpoints was displayed in reference to the utilization of counterpart funds. These funds, it will be recalled, were generated by U.S. dollar grants and, though wholly owned by the government of Israel, could only be used for purposes agreeable to the United States government. When employed for loans to Israeli enterprises, counterpart repayments were made to what was labelled Account "C." In 1960 a USOM audit of Account "C" brought to light a number of variations between USOM specifications pertaining to periods of loans, terms of interest, and reporting requirements, and procedures actually followed by GOI. 13 Since no


13 "USOM/I Preliminary Audit Review of Special Account 'C.'" Audit 61-6, October 27, 1960. AID file data. See Appendix G.
intimation of dishonesty was implied in the matter, the proper inference seems simply to be that the Israelis considered themselves to be quite as competent as the American foreigners to determine how to loan and otherwise handle their own money. However correct may be this inference and however justified may have been the attitude that it connotes, the government of Israel was still violating details of terms agreed upon with USOM, which again illustrates their resistance to American counsel.

As a footnote to the foregoing, in 1969 the writer was privileged to interview former USOM Controller, John DeWilde, one of the co-signers of the auditor's report. Conversation ranged over a number of aspects of the U.S. aid program. Far from being critical of the Israelis, the writer found Mr. DeWilde to be lavish in his praise. He said, "I found them to be a proud people, a people who had their own ideas, a fiercely independent people who simply wanted to do things their own way."

Nevertheless, the desire of Israelis to do things their own way was one of the problems that the United States frequently found frustrating. And while it is not always possible to transfer the methods of a more advanced economy to a less advanced economy, the writer believes that Israel would have gained greater benefits than it did from the U.S. assistance offered if Israelis had been more willing to follow the guidance of the American experts.
Excessive Costs

Throughout the period under consideration, Israel remained a high cost nation. This fact plagued the Israeli economy constantly and limited the potential of its imported economic aid. Excessive costs stemmed from construction equipment, borrowed capital, tariffs on imported goods, and a purchase tax that averaged 15 percent on domestic and imported goods alike. Transportation and distribution costs were high, the former frequently because of the location of many industries in out-of-the-way areas and the latter because of monopolistic and inefficient practices. Poor management and the high price of power added to other costs that were passed on by the producer to the consumer. The result was that consumers were required to devote a large part of their income to basic necessities and to taxes, leaving little or nothing for savings that might be channeled to investment.

The most perplexing aspect of production prices to the end of the period was the high cost of labor in relation to its productivity. With few exceptions, the output of man per hour—whether due to inadequate mechanization, insufficient job training, or other causes—was lower than in Europe, even though wages generally were as high or higher. Probably the chief continuing reason for excessive costs was the prevailing labor philosophy that emphasized the right of employees to various social benefits, which served to boost actual wages 30 to 40 percent above base pay. Employers were
obligated to provide pension funds, severance pay or bonus, sickness insurance, convalescence pay, and so on. The cost of commodities supplied for export was so high that they could not compete on the international market without subsidies derived from tax funds. All of these factors added up to excessive costs, demands for higher wages, and to still higher production costs. Israel had a high standard of living, but the economy had not matured to the point where it could support that standard.

American Limitations and Restrictions

Washington Policy

The United States Operations Mission in Israel was given considerable latitude in the formulation of programs. Nevertheless, it was obliged to function within a framework of regulations laid down by Congress and the International Cooperation Administration, of which it was a part. These rules customarily applied to all aid receiving nations alike and usually involved what was regarded as the best interests of the United States. One such policy prevented help being given to projects which in the long run would increase exports or decrease imports of commodities in world surplus. USOM experts were permitted to furnish data on the status and trend of the world market for commodities and, if requested, to give advice on the wisdom of increasing the production of a particular commodity for
They could not, however, offer assistance on specific projects aimed at increasing production of surplus commodities; neither could counterpart funds or U.S. owned local currency be released for such purposes. Thus the American aid program offered little encouragement to the production of such items as rice, sugar, wheat, vegetable oils, citrus fruits, cotton, coffee, and tobacco.  

This policy of not aiding the production of surplus agricultural commodities, while justifiable from the standpoint of the American taxpayer, businessman, and farmer, inevitably called for explanation and clarification on the part of Israelis who wanted to see their country become self-sufficient. Israelis found it difficult to understand how a rich nation like the United States could refuse to promote production of a few commodities that it or other nations of the "free world" happened to have in abundance. To the average Israeli the seriousness of America's problem of having too much was not to be compared to the seriousness of his country's problem of having too little. However, since Israelis were able to get assistance also from other nations, including the United Nations, it is doubtful that U.S. policy...

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14ICATC Circular All7, September 19, 1959, p. 2. AID file data.

15Token assistance was provided for a time through a small project called "Cotton Production (Fiber Crops)" and another called "Cotton Ginning (Fiber Processing)." These were superseded by "Field and Horticultural Crops."
in this regard impeded their country's optimum development to any measurable extent.

American policy also discouraged the granting of fellowships under the Participant Training Program for study in countries other than the United States. This restriction may have enhanced the Program's political value, but it certainly limited its economic value. The mass production demonstration of America's great industries, for instance, probably offered little of practical value to visitors from a nation of small shops and limited markets. Understandably, Americans wanted Israelis and others to become acquainted with their country, its people and institutions, its agricultural methods and industrial techniques, its exportable services and supplies. Some Israelis, however, would have been able to take back more useful ideas than they did if they had been able to study in a country whose problems and solutions were more readily applicable to their own country's situation.

In the evaluation Survey of the Participant Training Program, discussed in Chapter VI, a considerable number of supervisors of returning participants registered the opinion that training would have been more satisfactory if some or all of it had been in a country other than the United States. Afterwards, however, when the U.S. aid office in Israel submitted to Washington a list of recommendations based on the survey, the suggestion implied by the supervisors' appraisal
was conspicuously missing from its proposals. Presumably aid officials felt that in this public relations type program Israel's economic benefit should not be the only consideration or else were sensitive to the fact that their Washington headquarters and Congress felt that way. In either event, U.S. policy appears to have restrained the full economic potential of this subprogram of the Technical Assistance/Cooperation Program in Israel.

Faulty Communication

U.S. aid to Israel was restricted by faulty communication among the several agencies dispensing assistance. This problem is illustrated by the following complaint from USOM's acting director, Henry Chalfant, in an airgram to Washington in the fall of 1960:

There is a serious lack of Country Team participation in the programs being considered and the studies made by U.S. and international lending agencies. We have difficulty in obtaining information in respect to economic studies and proposals being considered by these agencies including the Eximbank, the DLF and the World Bank (IBRD). The work of these agencies has a direct bearing on the planning and execution of ICA local currency programs in Israel. It would be helpful if ICA/W could arrange for the participation of USOM in the consideration of the proposals that affect it. At least it is desirable to provide USOM with information about them. For example the IBRD economic report on Israel has remained classified and unavailable to USOM. Presumably U.S. support to the extent of one third of the budget of the IBRD could pave the way for a requirement to receive copies of country studies and reports of pertinence to USOM's functions in the country. The only present source of such information is through the Israel Government and the press.

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16See p. 158.

17USOM/Israel Airgram to ICA/Washington, October 21, 1960. AID file data.
Not only did Chalfant indicate that mission personnel were frequently in the dark as to plans and activities of other institutions involved in the task of helping Israel, but he felt that his own ICA Washington headquarters sometimes also failed to keep them as well informed as they needed to be in order to do their job properly. At least in one important matter he believed that they were poorly informed. This matter pertained to the accumulation of large balances of local currency in the U.S. Uses accounts, balances that exceeded any foreseeable American needs. Chalfant states: "There is a serious lack of information available to the Country Team with respect to Washington plans for use of these funds."\textsuperscript{18}

Inexperience

U.S. aid to Israel was also restricted by American inexperience. Americans had the money, but they did not always have the answers. Inevitably, the largely unprecedented effort to raise the economic level of a developing nation involved a great deal of trial and error. The U.S. technicians made mistakes. They sometimes also voiced deep differences of opinion among themselves as to how development could best be promoted.

The Israel Product Design Office, mentioned in Chapter VI, is a good example of limited experience. As one of the creations of a technical assistance project in Industrial Design, it was set up to demonstrate how to start

\textsuperscript{18}Ibid.
and conduct a successful (government financed) industrial design company. In other words, USOM here went beyond its customary practice of providing equipment and advice and found itself managing a business. Three years later, while the firm was still only half-way self-sustaining, it was turned over to a private operator.

According to Philip Gillon of the Jerusalem Post, the Design Office was by no means a failure, but it ran counter to USOM purposes and aims in becoming a commercial firm and so was organized on a questionable ideological basis. Although Carl Ferderer suggests that the reason for its difficulties was that the industrial community was not yet prepared to sustain the industrial design firm, he seems to agree with Gillon. Ferderer states:

A basic weakness of the industrial design project was that it demonstrated at Government subsidy how a typical U.S. industrial design practice works, whereas it could have concentrated more effort in the direction of training and indoctrinating many Israeli commercial artists and designers in the techniques involved.

Inexperience may also be said to have been an ingredient of opposing views privately expressed by American aid personnel. An insight into one such "behind-the-scenes" controversy is revealed in a 1958 office memorandum. The U.S. embassy, which customarily reviewed USOM decisions, had prepared a dispatch, through its economic section, setting forth


20Ferderer, Completion of Tour Report, p. 42.
the principles employed in evaluating "Cooley Amendment" local currency loan applications. In the course of the explanation, it had affirmed that there were several unusual factors that ruled out the criterion of profit as the guide for what would be best for Israel's economic development. To this viewpoint the USOM industry section took exception as indicated by the following extract from the memo:

To assist and foster enterprises which have little or no prospect for "profit" is to continue the present drain on the economy in the form of Government subsidies, miscellaneous loans, and other manipulations which are financed either by contributions from abroad, by direct taxation, or by indirect taxation which eventually and surely falls back on the consumer through increased prices and resultant inflationary pressures. Therefore, one of our primary tasks is to make certain that this futile kind of boot-strap assistance comes to an end as speedily as possible and channeling our assistance only to those enterprises which show greatest chance of self-support (profit) is one of the best ways we can be of assistance. There is no avoidance of this basic economic principle that a country to be self-supporting must be made up in balance of self-supporting institutions and commercial endeavors. 21

The USOM industry section and the embassy economic section also appear to have disagreed strongly over the relative importance of aiding export industries versus industries manufacturing for domestic consumption. The embassy point of view was that the solution to Israel's balance of payments problem lay almost entirely in increasing exports. The USOM point of view, on the other hand, was that unless exports were profitable they probably were not worth aiding at all.

"There is no point," the memorandum fairly shouts, "in providing assistance to a concern which for every dollar's worth of goods it exports must turn to the Government for a subsidy which is in turn financed by contributions from abroad and so forth." In particular, the author of the USOM critique objected to the dispatch affirming that manufacturing strictly for domestic consumption "would be a classic example of everyone taking in everyone else's wash."

This statement loses sight of the fact that America became the industrial giant that it is with the highest standard of living in the world preponderantly by producing for domestic consumption. Obviously, I do not overlook the essential role of international trade both in providing as imports those things which are not indigenously available or cannot be produced locally, or as exports those products which the country is best suited to supply to world markets.

In other words, the principal attack on the problem of the foreign exchange deficit and the general inability of Israel to support its requirements should be the promotion or fostering an industry which will take care, first and foremost of domestic needs and secondly directing attention to export possibilities only where it has some economic advantage or the prospects for economic advantage.  

Whether or not the embassy's dispatch was modified in the light of this stern rebuttal would be interesting to know. The relevant fact for our purpose, though, is that Americans associated with the U.S. economic assistance program, like Americans in other walks of life, represented a diversity of economic philosophies, know-how, and experience. These finite limitations, here loosely grouped together under the

22 Ibid.
label of inexperience, coupled with the aforementioned limitations of overall Washington policy and of inadequate inter-agency and intra-agency communication, are samples of the restrictions that framed and limited the American aid effort.

In thus noting these shortcomings, the writer is impelled to confess that the more thoroughly he has examined the role of United States economic policy toward Israel the more impressed he has been with the apparent sincerity and perception of U.S. personnel connected with the program. Rather than finding them to be mere dispensers and overseers of indiscriminate handouts, the writer—judging by their reports, letters, and memoranda—found them to be very much concerned and surprisingly sophisticated as to ends and means and methods and priorities. And while the fact that American officials did not always see eye to eye with each other was a restriction on aid when viewed from the standpoint of the ideal of omniscience, their conflicting ideas may have been signs of a maturing foreign aid philosophy.
CHAPTER IX

REFLECTIONS AND CONCLUSIONS

Relation of the Program to the U.S. Balance of Payments

The flow of American dollars abroad in the late 1950's, by way of military expenditures, tourist expenditures, foreign aid expenditures, and private investments, created a troublesome problem for the United States. In the fall of 1960, a presidential directive placed the International Cooperation Administration under the necessity of prohibiting use of aid funds for the procurement of commodities and services outside the United States. The ruling, however, had little bearing on the Israel program. To understand why this was so requires a reexamination of the manner in which U.S. dollars were utilized.

In the early part of the decade a considerable portion of Mutual Security Program grants to the government of Israel was used for the purchase in dollars of commodities from countries other than the United States. From 1957 forward, however, grants were extended solely for the purchase of American farm surpluses, which meant that the program no longer contributed to the dollar drain. Similarly, Mutual Security loans and Development Loan Fund loans were given and employed almost exclusively for the purchase of U.S. goods.
Export-Import Bank dollar loans were also extended for the purchase of American commodities; since they were repayable in dollars, both as to principal and interest, they had a positive impact on the balance of payments.

The Informational Media Guaranty likewise presented no external dollar demand on the economy since it involved only the dollar reimbursement of American firms for local currency accruing to their credit for publications purchased by Israeli firms.

At the close of the period virtually the only claim on U.S. dollar reserves that the total aid-to-Israel program was creating was being fostered by the small Technical Cooperation Program. This claim was limited to USOM commitments to meet the contract costs of certain advisory personnel from Europe and of a handful of Israeli participants in Europe. Thus, the presidential directive to ICA to eliminate the purchase of commodities and services outside the United States had little relationship to Israel. U.S. assistance to that country had reached a point where dollar expenditures for non-U.S. services and supplies had almost totally disappeared. Hence, the effect of the Israel program on America's balance of payments situation was negligible.

Relation of the Program to U.S. Purposes

Israel emerged on the world scene as a sovereign state at a time when the United States and Soviet Russia were
engaged in a "cold war," and one of the focal points of economic and political maneuvering in that war was the Middle East. American policy became committed to the position that U.S. national interest was inextricably linked to Israel's success, and this position had the constant backing of both parties in Congress. Government leaders believed that a weak Israel would present a temptation to its Arab neighbors that could lead to open conflict and the direct or indirect involvement of Soviet Russia. Russian intrusion in the troubled Middle East could lead, in turn, to its control of the area's oil resources and a far-reaching upset in the balance of East-West military power. It could very well lead to World War III. America was faced with the choice of extending to Israel little or no aid, thus letting it wade alone through a lengthy and highly vulnerable period of weakness and instability, or else of helping it to gain economic and political viability as rapidly as possible. Although either alternative was fraught with grave risks, the less hazardous course in the 1950's appeared to be the latter. And because Israel gained military aid from other quarters, the American government was able to limit its assistance almost exclusively to economic aid.

Within the framework of a policy aimed principally at the preservation of U.S. military and commercial interests in the Middle East, the United States government sought to achieve several interrelated goals. It sought to maintain the
political stability of the Israeli government and its pro-western orientation, although there never was any recognizable threat of communist penetration or subversion. Specifically, it sought to help Israel gain economic independence, which in the American view meant independence from all sources of unearned external assistance other than from contributions and loans supplied by world Jewry and from normal commercial credit. And in connection with helping Israel gain economic independence, it was the further goal of American aid to create conditions favorable to the development of private free enterprise. From the American standpoint, almost any form of collectivist endeavor was bound to be less productive than private business and therefore bound to contribute less to the goal of economic deliverance. Free enterprise was not only more efficient than collectivist enterprise, but it held forth the prospect of attracting foreign exchange in the form of investment capital from abroad, which resources would pave the way for a cessation of U.S. government aid.

In support of the above mentioned goals, some of the more limited aims of U.S. aid were the encouragement of investment in agriculture and industry and increased productivity to the end that domestic consumption needs could be met and more foreign exchange could become available to the economy through more exports. Other aims were the development of transportation facilities and water resources and the exploitation of minerals offering prospects for industrial utilization and for export.
The question as to whether aid to Israel from 1949 to 1960 fulfilled U.S. purposes boils down to: (a) whether it served to reduce the danger to U.S. interests (Israel's existence being one of those interests) in the Middle East and the consequent threat of war, and (b) whether it served to help Israel along the road to economic independence.

In respect to reducing the danger to U.S. interests, it is now plain to see that economic aid did not create a secure Middle East. It is altogether possible that American aid, being associated in Arab eyes with Israel's growing military power and a skyrocketing population, added to the area's insecurity. On the other hand, it is possible that tensions would have been greater without American aid. The Arab states, backed by Soviet Russia, might have misjudged America's resolution to uphold the Tripartite Agreement, which guaranteed Israel's borders, and may have undertaken hostile action in the absence of the U.S. economic aid investment. There is also the strong possibility that the history of the Middle East would have been different in no major particular if there had been no U.S. assistance, which comprised only a fraction of Israel's capital imports anyway. Arab fear of Israel's intentions was a useful tool of Arab nationalism and may very well have been played upon by interested parties despite America's noninvolvement in the economy. But these are matters of conjecture. All that can be said with comparative confidence is that although U.S.
aid to Israel and her neighbors did not reduce tensions in the Middle East and thus eliminate the danger to U.S. interests, it helped to buy time in which Israel and her neighbors, as well as Soviet Russia and the United States, might seek to arrive at a solution to their differences.

In respect to helping Israel along the road to economic independence, there can be little question but what U.S. aid made a positive contribution. It provided 20 percent of the country’s capital imports from 1949 to 1960. This 20 percent generated local currency that was invested in virtually every sector of the economy and, in the latter part of the period, it accounted for 10 percent of the annual increase in the gross national product.

The economic contribution of U.S. assistance cannot be comprehended in percentages alone, however, but must be viewed in terms of immigrant refugees whom it helped to feed and clothe and house and employ, in terms of the sick and otherwise afflicted persons provided for by agricultural commodities channeled by the American government through voluntary agencies, in terms of foreign obligations that American dollars helped to ease, and in terms of private investment capital that Israel’s economy was the more readily able to attract by virtue of this dollar aid. Its contribution must also be viewed in the light of economically productive ideas advanced by American experts, in the light
of insights acquired by Israelis trained abroad, and in the light of aid-built railways, pipelines, bridges, and electric power facilities that laid the groundwork for further expansion of the entire economy. And although by the end of the period it had become apparent that economic development takes a great deal of time, it seemed also apparent that Israel was moving toward the goal of self-sustaining development.
APPENDIX A

CASE STUDY OF A LOCAL CURRENCY LOAN PROJECT
FOR INDUSTRIAL EXPANSION

Under Section 104(g) of Public Law 480 Title I, U.S. owned local currency was made available to the government of Israel in the form of loans for various projects during the latter half of the 1950's. Among these was a loan program, called "Industrial Expansion," that was launched in 1957.

To obtain a loan from the government of Israel out of Industrial Expansion funds, interested business men were required to submit an application to the Ministry of Commerce and Industry. Officials there and representatives of the Ministry of Finance and of banking institutions all considered the application to determine whether the proposed use of funds by the applicant would contribute substantially to the country's economic development. If the committee concluded that the applicant's business would make a contribution, the application was forwarded with a favorable recommendation through the Ministry of Finance to the United States Operations Mission for review and possible approval. At the same time a copy of the loan application was also sent to some Israeli bank, which bank was at liberty to make the loan out of its own resources if it chose to do so. If USOM approval were forthcoming, however, the bank could make the loan out of project funds. For their part, American aid authorities sought to evaluate the merits of the applicant's request in terms of financial soundness and also from the standpoint of overall economic benefit to the state of Israel. If they decided both of these in the affirmative, a letter was sent to the Ministry of Finance indicating approval. If they indicated disapproval, although they seldom did,

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1Based, except as otherwise indicated, on a study by USOM Industrial Economist Arthur W. Frazer, entitled "Analysis of Loans Made by the Government of Israel from Funds Made Available by USOM Under Project [2] 71-23-237." This study was submitted as a memorandum to Director John J. Haggerty of the United States Operations Mission/Israel, February 14, 1959. AID file data.
the government of Israel would withdraw the application and submit another one.2

Industrial Expansion loans, at first, came under very little American control, the utilization of funds being left almost entirely to the discretion of the government of Israel. The United States Operations Mission was free to object to monetary uses in violation of project agreements to which the funds were loaned, but it seldom could get detailed reports on the individual companies to which the funds were loaned. The result was that American authorities seldom knew exactly how the money was being used. During the latter part of fiscal year 1957 and during fiscal year 1958, however, USOM began to insist upon the preparation and submission of detailed information. To provide the data now requested was looked upon by the Israeli government as a very great inconvenience. In fact, the resistance of the government to the innovations was sufficiently strong that the United States Mission resigned itself to little more than a consultation role. Consequently, although accountancy procedures began to be a little less casual than they had been earlier, the required information was still inadequate as a basis for determining whether the loans were contributing as much as they could to the industrial development of the country.

In February 1959, under the direction of Industrial Economist, Arthur Frazer, the Program and Economic Analysis Division of USOM undertook an analysis of 102 loan proposals that had been submitted for consideration under the Industrial Expansion project in the fiscal year 1958. The proposals totaled IL 13,632,600, which exceeded the IL 12,965,000 available for lending under the project. Disapprovals, however, amounted to IL 2,876,000, and approvals to IL 10,756,600. Excluded from consideration in the Frazer analysis was one rejected loan that, if included, would account for more than half the total amount of the approved loans. This request was proposed by the Israel government in behalf of Nazareth Textile Mills in the amount of IL 6,000,000. After USOM disapproval, a series of discussions ensued to persuade the Americans to change their decision. In time, the Industrial Development Bank of Israel, which had earlier also refused to extend the loan, agreed to grant it after receiving a government guarantee of the total amount.

2"Loan Program," a memorandum to ICA/Washington Auditor, George A. Harrison, from Kenneth L. Mayall, Assistant Director, Program and Economic Analysis Division USOM, dated August 27, 1958. AID file data.
Loans Classified by Industry Categories

The analysis of the 102 loans made clear that there was no close correlation between the use of funds set forth in the Project Proposal and Agreement and the way in which they were actually employed. Evidently both the Israel government and USOM regarded the proposed use of such funds as purely illustrative and not binding in detail. For example, although the Project Proposal and Agreement suggested that the building materials industry receive IL 350,000 of project funds, the amount actually approved for it was IL 1,142,500. GOI and USOM also agreed that the food industry would benefit by IL 1,500,000 in loans and afterwards approved IL 2,326,500. In contrast, despite the fact that the agreement had earmarked IL 150,000 for the ceramics industry, nothing was approved for that sector.

Table 17 shows that IL 8,726,000, comprising 81 percent of the IL 10,756,600 loans extended by the government of Israel from project funds, helped promote production of food and beverages, textile products, building materials, metal products, and chemical products. The significant thing here is that these five industries represented some of the most advanced segments of the Israel economy and so were less in need of development than were others. The report characterizes this as an "overemphasis" and "a reflection of the lack of careful evaluation of other possibilities of industrial development, which would be uncovered during an industrial development planning process."

A comparison of loans granted by the government of Israel under the Industrial Expansion project with loans extended by the government out of its own Development Program from November 1955 to March 1958 indicates that these same five industries received 80 percent of the IL 82.4 million lent by the government during that period. Virtually the same pattern held true for loans made by the Industrial Development Bank of Israel during the first six months of its existence, for the Bank extended to these five groups of enterprises 76.5 percent of all money that it loaned.

The pouring of capital into five industries that were already advanced while neglecting to assist other and more needy enterprises appears to have lacked economic justification. And the fact that three of these—food and beverages, textile products, and building materials—were mainly consumer industries added to the error. It ignored the principle that economic development is more apt to follow investment in basic industries and in industries manufacturing producer goods than it is to follow investment in predominantly consumer industries.
TABLE 17
LOANS CLASSIFIED BY INDUSTRY CATEGORIES

<table>
<thead>
<tr>
<th>Industry Categories</th>
<th>Approved No.</th>
<th>Amount</th>
<th>Disapproved or Returned No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>21</td>
<td>2,326,500</td>
<td>5</td>
<td>1,140,000</td>
</tr>
<tr>
<td>Textile products</td>
<td>13</td>
<td>1,624,600</td>
<td>1</td>
<td>150,000</td>
</tr>
<tr>
<td>Building materials</td>
<td>8</td>
<td>1,142,500</td>
<td>3</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Metal products</td>
<td>17</td>
<td>1,668,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical products</td>
<td>7</td>
<td>1,965,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco and tobacco products</td>
<td>2</td>
<td>237,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rubber products</td>
<td>2</td>
<td>170,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood products</td>
<td>2</td>
<td>325,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>3</td>
<td>485,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>6</td>
<td>279,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonmetallic mineral products</td>
<td>1</td>
<td>150,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>2</td>
<td>100,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper</td>
<td>1</td>
<td>58,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>2</td>
<td>375,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household furnishings</td>
<td>2</td>
<td>102,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial products</td>
<td>1</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>10,756,600</strong></td>
<td><strong>12</strong></td>
<td><strong>2,876,000</strong></td>
</tr>
<tr>
<td>Percent of total</td>
<td></td>
<td><strong>78.9%</strong></td>
<td></td>
<td><strong>20.1%</strong></td>
</tr>
</tbody>
</table>

The Frazer memorandum notices that although the United States Operations Mission turned down the request of the government of Israel for an IL 6,000,000 loan to the Nazareth Textile Mills, it agreed to the lending of IL 3,600,000 to the textile industry. Frazer calls this decision "especially ill considered," for the economy was suffering from an overproduction of textiles. Furthermore, no large-scale effort was being made to broaden existing markets and find new ones to absorb the output. Frazer indicates,
however, that the sum of IL 3,600,000 anticipated for textiles was afterwards scaled down to IL 1,624,600 in loans actually approved.

Loans Classified by Character of Ownership

Table 18 provides a summary of the sectors to which loans were channeled by the government of Israel. USOM personnel, whose task it was to transfer data reported by the Israelis to forms used by the United States, found part of such data difficult to decipher. Their inability to understand resulted from the different interpretations of "private enterprise" used by the Ministry of Finance and the United States Mission. The Ministry of Finance insisted that industry was private so long as it was not directly owned by either local or national government and so included in their report kibbutzim, cooperatives, the Jewish Agency, and Chevrat Ovdim. The American view was that it included only industries owned by individuals and corporations and assumed that the Israeli's broad definition was motivated by the thought that it would invite less criticism domestically and also a less critical attitude on the part of U.S. aid officials in respect to future loan funds. In Table 18, therefore, allowance is made for both the GOI and USOM classifications by indicating "private enterprises" in quotation marks and then listing as subcategories: individual and corporation, cooperatives and kibbutzim, Chevrat Ovdim, and mixed.

Of the 90 loans approved by USOM under the Industrial Expansion project, none was made to--nor were any applications submitted by--industries owned by the government of Israel. Six were approved for public and semipublic enterprises, which, however, accounted for only 2.4 percent of funds loaned and were mainly used to finance construction of buildings for small manufacturing endeavors.

Table 18 also indicates that 58 of the approved loans, comprising two-thirds of the total number, were made available to private enterprise in the American sense of the term. The remaining one-third of the loans approved, 32 in all, went to the labor economy and to public and semipublic institutions. This preponderance of loans to private industry, the USOM analysis suggests, did not, in itself, intimate a shifting trend in GOI development emphasis. It seems fairly apparent that government authorities were merely channeling applications from private businesses to the United States Mission for consideration under the Industrial Expansion project because they believed American aid representatives preferred to promote private enterprise.
### TABLE 18

**LOANS CLASSIFIED BY CHARACTER OF OWNERSHIP**

<table>
<thead>
<tr>
<th>Loans</th>
<th>Approved No.</th>
<th>Amount</th>
<th>Disapproved or Returned No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Private enterprises&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual and corporation</td>
<td>58</td>
<td>7,174,100</td>
<td>3</td>
<td>480,000</td>
</tr>
<tr>
<td>Cooperatives and kibbutzim</td>
<td>16</td>
<td>1,643,500</td>
<td>6</td>
<td>1,296,000</td>
</tr>
<tr>
<td>Chevrat Ovdim</td>
<td>8</td>
<td>1,450,000</td>
<td>3</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Mixed</td>
<td>2</td>
<td>230,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public and semi-public</td>
<td>6</td>
<td>259,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>10,756,600</td>
<td>12</td>
<td>2,876,000</td>
</tr>
</tbody>
</table>

Twelve loan proposals were disapproved or else returned to the government of Israel. Three of these were applications for sizeable amounts originating with Chevrat Ovdim, the Histadrut holding company. Six were from cooperatives and kibbutzim, several of which were Tnuva cooperatives affiliated with Histadrut. Whether affiliation with Histadrut was a factor in the foregoing disapprovals and returns the USOM report does not say.

**Loans Classified by Size (Capitalization) of Enterprises**

Table 19 lists the Israel government's loan proposals by amount of capitalization of the enterprises seeking loans. The USOM study admits the possibility of inaccuracy, since in some cases the capitalization had to do with the capital invested by the parent organization while the loan was for a particular plant. In other cases, information furnished had to do only with the capital invested in the specific operation.
where the loan was to be used. Nevertheless, taking into consideration these variations in data, a rather clear picture emerges.

TABLE 19

Loans Classified by Size (Capitalization)

<table>
<thead>
<tr>
<th>Loans</th>
<th>Approved</th>
<th>Disapproved or Returned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>Existing plants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under IL 50,000...</td>
<td>9</td>
<td>273,000</td>
</tr>
<tr>
<td>IL 50,000 - 100,000...</td>
<td>13</td>
<td>795,000</td>
</tr>
<tr>
<td>IL 100,000 - 200,000...</td>
<td>15</td>
<td>2,315,600</td>
</tr>
<tr>
<td>IL 200,000 - 500,000...</td>
<td>14</td>
<td>1,948,000</td>
</tr>
<tr>
<td>Over IL 500,000...</td>
<td>14</td>
<td>2,356,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65</td>
<td>7,688,100</td>
</tr>
<tr>
<td><strong>New plants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under IL 50,000...</td>
<td>7</td>
<td>653,000</td>
</tr>
<tr>
<td>IL 50,000 - 100,000...</td>
<td>6</td>
<td>548,500</td>
</tr>
<tr>
<td>IL 100,000 - 200,000...</td>
<td>9</td>
<td>1,167,000</td>
</tr>
<tr>
<td>IL 200,000 - 500,000...</td>
<td>2</td>
<td>550,000</td>
</tr>
<tr>
<td>Over IL 500,000...</td>
<td>1</td>
<td>150,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25</td>
<td>3,068,500</td>
</tr>
<tr>
<td><strong>Grand total all plants</strong></td>
<td>90</td>
<td>10,756,600</td>
</tr>
</tbody>
</table>

Of the 90 loans to both old and new plants, 55 were for firms with over IL 100,000 capitalization, which in Israel means middle size to large enterprises. Fifteen of the approved loan requests represented companies with a capitalization of more than IL 500,000. Since the backbone of an economic complex is small business, it appears that this loan project failed to attract some of its potentially best customers. As the USOM memorandum observes, small businesses in Israel did not have the organized influence enjoyed by big
firms, most of which "are owned entirely or in part by government, the Histadrut, the kibbutzim, or other nonprivate organizations which can and do bring effective political pressure to bear in fulfillment of their needs."

Funds were also made available for the renovation and modernization of equipment, the consolidation of debts, and the diversion of such funds for working capital. Whereas something might be said in favor of loans being granted for renovation of equipment—although even this is less vital to an economy than establishing new plant capacity—little justification can be given for loans for debt consolidation and working capital.

Loans Classified by Location of Enterprises

Table 20 of the USCM study shows the geographic distribution of enterprises for which the government of Israel proposed loans and the average size of such loans.

<table>
<thead>
<tr>
<th>Loans</th>
<th>Approved</th>
<th>Disapproved or Returned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount</td>
</tr>
<tr>
<td>Tel Aviv area</td>
<td>39</td>
<td>4,534,100</td>
</tr>
<tr>
<td>Haifa area</td>
<td>10</td>
<td>1,495,000</td>
</tr>
<tr>
<td>Jerusalem area</td>
<td>8</td>
<td>957,000</td>
</tr>
<tr>
<td>Galilee area</td>
<td>10</td>
<td>1,023,000</td>
</tr>
<tr>
<td>Nazareth area</td>
<td>2</td>
<td>155,000</td>
</tr>
<tr>
<td>Little Triangle area</td>
<td>2</td>
<td>351,000</td>
</tr>
<tr>
<td>South:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ashkelon area</td>
<td>6</td>
<td>653,500</td>
</tr>
<tr>
<td>Beersheba area</td>
<td>9</td>
<td>1,008,000</td>
</tr>
<tr>
<td>Eilat area</td>
<td>4</td>
<td>580,000</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>10,756,600</td>
</tr>
</tbody>
</table>
The most revealing aspect of this tabulation is that the Tel Aviv, Haifa, and Jerusalem areas accounted for about two-thirds of the loans approved—57 of the 90—as also for two-thirds of the amount loaned.

The surprising thing is, though, that despite tax concessions by the government of Israel, special land advantages, and loan guarantees for industrial ventures in the "development areas," such areas were almost by-passed in government loan proposals. It stands to reason, of course, that since most of the loans went to existing industries instead of to new industries, they necessarily went to the three major population centers because that is where most existing industries were located. Nevertheless, the phenomenon seems to reflect inconsistency of professed aims and actual performance.

Loans Classified by Export Activities

One of Israel's primary economic goals during the decade of the 1950's was the promotion and encouragement of industries with high export potential. In order to garner foreign funds of other countries for purchases abroad, the government of Israel aimed to aid those firms that would be the most efficient earners of foreign exchange. A look at Table 21, though, again raises the question of consistency between aim and action, for 79 of the 102 loan proposals by GOI were in behalf of nonexport industries, here meaning industries that had made no exports during the year preceding their loan application as well as new plants that reported no anticipated exports.

TABLE 21

LOANS CLASSIFIED BY EXPORT ACTIVITIES

<table>
<thead>
<tr>
<th>Loans</th>
<th>Approved</th>
<th>Disapproved or Returned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount</td>
</tr>
<tr>
<td>Nonexport industries</td>
<td>69</td>
<td>7,729,600</td>
</tr>
<tr>
<td>Exports reported:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $10,000.</td>
<td>4</td>
<td>567,000</td>
</tr>
<tr>
<td>$ 10,000 - 50,000.</td>
<td>6</td>
<td>980,000</td>
</tr>
<tr>
<td>$ 50,000 - 100,000.</td>
<td>1</td>
<td>40,000</td>
</tr>
<tr>
<td>$100,000 - 1,000,000</td>
<td>7</td>
<td>1,340,000</td>
</tr>
<tr>
<td>Over $1,000,000.</td>
<td>1</td>
<td>100,000</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>10,756,600</td>
</tr>
</tbody>
</table>
Conclusions

The USOM study raises the question as to whether consultations connected with the Industrial Expansion project in 1958 had any influence on the economic thinking of the government. It concludes that the influence was limited:

In terms of the broad objectives announced by the Government of Israel, and agreed to by USOM, the undertaken counsel and review achieved relatively little, as shown throughout this analysis. However, in terms of broad objectives too much could not be seriously expected because of the limitations upon judgment, the resistance by the GOI to counsel, and the inability of USOM to bring about the establishment of an effective organization within GOI for industrial development planning.

Consequently the review in USOM was aimed at only one facet—to make certain in so far as possible under the circumstances that the individual enterprises for which the loans were proposed had economic justification and provided reasonable assurance that such funds were not being wasted. Even in this limited respect, USOM was able to achieve no more than partial success. Obviously, the USOM did not have facilities to make a careful and thorough appraisal, except in a few individual instances. Nor did we have the information for an adequate deskside job. Consequently USOM was sometimes talked out of a judgment without, it would seem, adequate regard to whether our judgment was good or bad.

Moreover such counsel as USOM could provide under the circumstances, and the doubts it expressed about specific loan proposals, seemed almost inevitably to be taken as a challenge rather than constructive assistance.

On the positive side of the ledger, the USOM critique insists that the review of loan proposals accomplished one important thing: It definitely established that the U.S. aid agency was vitally concerned that loan funds from United States owned or controlled local currency should be used in ways that were economically sound and justifiable, and that "it is likely that some of this concern rubbed off." Also the exchange of views helped the two departments involved—the Ministry of Finance and the Ministry of Commerce and Industry—recognize that the government was not gaining sufficient information from applicants to make a careful economic evaluation. It is possible that such review, therefore, generated a more critical Israeli attitude toward loan programs. Several suggested guidelines for future policy toward development projects are offered by the Frazer memorandum. These may be summarized as follows:
1. The proposed utilization of funds set forth in the Project Proposal and Agreement should emphasize aid to new and underdeveloped industries, not well established businesses which can expand within their own means. Also special care should be taken to guard against "overzealous USOM technicians whose suggestions may be naturally inclined toward prejudice in favor of the industry which they represent. This quite clearly occurred in the current PPA."

2. The Project Proposal and Agreement should stipulate that some majority percent of project funds go to new enterprises instead of existing ones.

3. The Project Proposal and Agreement probably should specify that only a certain fraction of funds go to firms in the areas of Tel Aviv, Haifa, and Jerusalem. Unless economic factors dictate otherwise, loan funds should be used to encourage enterprises in so-called development areas.

4. The Project Proposal and Agreement should specify that a certain portion of loan funds go to small business, or else a separate project should be established for that purpose.

5. The Project Proposal and Agreement should not be concerned with the question of whether a loan applicant is engaged in export.

6. Private enterprise should be encouraged in preference to labor-owned enterprises.
APPENDIX B

ISRAEL'S "THIRD ARM" CONCEPT, JANUARY, 1960

The following is submitted as background information on the recently launched "Third Arm" activities designed to encourage private foreign capital investment in the development of industry and tourism in Israel. The presentation and analysis, supplemented by tables and appendices, is comprised of three parts, viz.,

I. Description of the "Third Arm" Program.


III. Comments on Investment in Israel.

I. Description of the "Third Arm" Program

The Minister of Commerce and Industry, Pinhas Sapir, upon his return to Israel at the end of May 1959 from a trip to South America, released a public document in which he described a plan for creating a "Third Arm" for the encouragement of capital investment designed to spur industrial development in Israel.

Mr. Sapir's plan was based on the Ministry of Commerce and Industry's earlier announced projections for Israel's industrial development, the needs of tourism, and projections of the probable magnitude of the country's foreign currency deficit in 1965.

In order to carry out the program for industrial development as envisaged by Minister Sapir, a Working Committee of 14 members was appointed comprised of the following:

1USOM/Israel Airgram to ICA/Washington, February 12, 1960. AID file data. Tables and appendices are not included herein.
Co-Chairmen: Messrs. P. Sapir and L. Eshkol

Members: Messrs. M. Tsur, Y. Arnon, T. Kollek,
M. Zagagi, Z. Dinstein, A. Gilat,
A. Ariely, N. Vidan, M. Bartur,
H. Jaffe, A. Goldberg, Y. Dagon

The "Third Arm" activities at present are directed by The Investment Authority, headed by Dr. Zvi Dinstein (Assistant Deputy Director General of the Ministry of Finance and, simultaneously, Controller of Foreign Exchange). With Dr. Dinstein there is an Executive Board consisting of the Ministers of Finance and of Commerce and Industry, their Directors-General, and other senior officials as yet undesignated. Immediately subordinate to Dinstein, as an active working member of the Investment Authority, will be Mr. A. Ariely, currently Deputy Chief of Inland Revenue, Ministry of Finance. Mr. Amos Melamed has been appointed as General Secretary of the Investment Authority.

The Israel Investment Center will continue to service and certify "approved enterprises" under the Investment Act, operating under the guidance of the Ministry of Commerce and Industry. In addition to the Investment Center, an Investment Services Unit will supply information concerning investment opportunities as well as general and specific information. The Unit is headed by Amos Melamed. The Investors Liaison Bureau will continue to act as a field office in a minor capacity.

A Securities Commission, although not yet chartered, has been appointed to act as a legal regulatory body.

It was also decided to establish a Public Council, the primary purpose of which will be the supervision of the diverse activities necessary for attracting investors to develop industry and tourism in Israel. The Public Council will have a small executive committee which will work with the Investment Authority.

The Working Committee reportedly has been meeting once a week since mid-June 1959 and has set for itself four major areas of inquiry, viz., (1) legal and institutional framework necessary for the attraction of foreign capital investments; (2) improvement of existing institutions and activities for the attraction of investors; (3) a stepped-up tempo of activity abroad to attract investors; (4) unification of planning programs within the Government of Israel for the inducement of foreign investment.

The following actions have thus far been agreed upon by the Working Committee:
(a) Israel's Law for the Encouragement of Capital Investment was to be revised in several important respects. The revised liberalized version of the Law actually was approved in the closing session of the Third Knesset, August 1959.

(b) The Minister of Finance will recommend new income tax relief measures for beneficiaries of dividends earned from securities registered on the Tel Aviv Stock Exchange which have been approved by the Securities Commission.

(c) The Government of Israel will not interfere with activities of the Tel Aviv Stock Exchange but will lend general encouragement thereto in order that the Exchange will become a source for mobilization of both local and foreign investment capital. The Government of Israel, in consultation with the directorate of the Tel Aviv Stock Exchange, will help to improve its operation and also will encourage ties with other world stock markets in order that the Exchange will become a strong medium for public trading and investment in equity capital shares.

(d) The Securities Commission will examine the prospectuses and balance sheets of companies desiring to sell securities. The Securities Commission will have 12 members when fully operative, half of whom will be Government of Israel representatives and the other half representing private business, banking and financial interests. Decisions will be made by two-thirds majority of the Commission's membership. It is reported that the Securities Commission will be headed by M. Zagagi, Deputy Director General of the Ministry of Finance. Zagagi's immediately subordinate working members on the Commission will be Dr. A. Zelheimer, Director General of Bank Leumi, and, probably, Zvi Dinstein.

(e) A business rating service is scheduled to be established under the sponsorship of the Industrial Development Bank of Israel (IDBI), Bank Leumi, Workers' Bank, Discount Bank, Israel Bank of Agriculture and the Investors Liaison Bureau.

(f) Vocational courses for workers and administrators will be established in the general field of investment.

(g) Efficiency and advisory experts will be retained under contract to assist in the promotion and betterment of Israel's industrial productivity.

(h) The Investors Liaison Bureau (currently headed by H. Jaffe) will supply information, both in brochure form and over-the-desk, to potential investors and will assist such potential investors in general investment problems.
(i) National, regional and local committees will be established abroad for the encouragement of investments in Israel.

(j) Activities of the Israel Investment Center (which currently maintains overseas offices in New York and Buenos Aires) will be substantially expanded with at least 8 new sub-offices to be commissioned throughout the United States during March, 1960.

(k) An action program designed to interest international tourists to invest in Israel will be inaugurated during the upcoming travel season.

The preparation of pre-investment studies reportedly will be a responsibility of the Ministry of Commerce and Industry, which has indicated an intention to prepare 30 new plans for release during the first quarter of calendar year 1960 in addition to 12 plans which already have been publicized. The preparation of more detailed feasibility studies reportedly will be jointly shared by a special planning unit operating within the Ministry of Commerce and Industry (or, alternatively, as a part of the Investment Authority) and by the prospective investor on his own initiative.

II. **Summary of Ministry of Commerce and Industry Projections of Development of Israel Industry, 1960-1965**

It is assumed that in 1965 Israel will suffer from the loss of $160 million which currently comprises a very substantial part of Israel's annual capital inflow, according to the following breakdown:

- Reparations . . . . . . . $85 million
- Restitutions . . . . . . . $65 million
- Israel Bond Conversions . . . $30 million

Further, according to Minister Sapir's projection, Israel's population is expected to increase from 2 million in 1958 to 2.5 million in 1965. As a result of this 500,000 anticipated increase in population, which will be composed in large measure of adult immigrants, it is reasonable to believe that roughly one-third of the 500,000 anticipated increase, or about 170,000 persons will be added to Israel's labor force (i.e. additive to the current civilian labor force which numbers about 650,000). Thus, assuming Minister Sapir's population growth projection to be valid, it will be necessary to somehow provide gainful employment for this significantly expanded labor force, with proper recognition given to the planned dispersal of population to development areas.
The capacity of Agriculture to absorb new labor is limited. It is recognized that the principal agricultural development in the past and prospects for the future have been and will be the result of accelerated mechanization and increases in productivity.

Services also have reached a saturation level and, as a consequence, most of the additional developments for Industry can be met by the existing Services structure.

In the past three years, according to Minister Sapir, Industry has absorbed about 27,000 new employees, and during the current year it is anticipated that Industry will absorb about 9,000 more, thus continuing the average annual absorption rate. The major areas for new employment in the immediate future appear to be in Industry and allied crafts.

In 1958 the value of Israel's industrial production amounted to IL 1,715 million, of which IL 1,540 million were consumed domestically and IL 176 million were diverted for export.

Industrial production increased very significantly during the period 1955-1958, yielding an average 11% increase per annum in fixed prices. It is anticipated that the rate of increase of industrial production during the next five year period will be roughly 10% per annum in fixed prices; and, on the basis of this assumption, the value of industrial production in 1965 should reach at least IL 3,000 million.

Assuming again a population increase of about 25% during the next six years and an average annual increase of 2% in cost of living, the local consumption of Israel's total industrial production will reach IL 2,300 million in 1965, as compared with IL 1,540 million in 1958.

The export of industrial products will increase accordingly from IL 176 million in 1958 to IL 727 million in 1965. The deficit in Israel's Balance of Payments will decrease, as a result, from $333 million in 1958 to $155 million in 1965.

Obviously industrial development within Israel on such a scale will call for very substantial capital investments. Indeed, in order to meet the industrial production goals, Israel will need IL 1,130 million of investment in fixed assets and an additional IL 475 million of working capital for financing local consumption and export. Total investment needed thus will reach IL 1,605 million. Proposed sources for financing the investments, according to Minister Sapir, are:
IL 500 million--from Israel's Development Budget;
IL 200 million--from reserve funds, bonds and banks;
IL 900 million--from local and foreign investments.
(Approximately 50% of which, it is anticipated, will derive from earnings and reinvestments on the part of currently active companies.)

III. Comments on Investment in Israel

Since inception of the State of Israel the Government has, in pursuit of unrequited capital transfers, either wittingly or unwittingly created abroad an impression that Israel is an anti-capitalist minded country whose raison d'être has been a spirit of personal sacrifice and rugged pioneering, coupled with social benefits which are concomitants of a welfare state. The very success of Israel's appeal has enabled the State to sponsor the erection of large scale enterprises without adequate prior consideration having been given to the capacity of these State conceived and State sponsored and/or financed enterprises to survive as economic units.

This appeal to the emotions of world Jewry through the "First Arm" (United Jewish Appeal), and through the "Second Arm" (Bond Drive), undeniably has yielded very substantial capital inflow, the utilization of which has been subjected to rigid control by the Government of Israel. It is interesting to note that German reparations and U.S. official assistance, almost equally important during recent years in terms of overall magnitude in relation to Israel's total capital inflow from unrequited sources, somehow seem to have been overlooked by Israel's very capable Council of Economic Ministers as falling within the definition of "Arms." There is no doubt whatsoever that these two elements, even though not classified as "Arms," have been very important legs without which Israel would have found it difficult indeed to have progressed to a point where the "Third Arm" concept now may become meaningful.

While acknowledging that among the most serious problems thwarting industrial development in Israel has been a precarious military security situation in the general Middle East area, which heretofore has been an investment deterrent of unmeasurable magnitude, perhaps the more crucial bind has been in the form of controls, shortage of working capital and profitability. Other allied considerations have been income tax levies and the ease with which non-residents could invest in Government of Israel bond emissions as contrasted to the difficulties encountered in making a direct investment.
The announced commercialization of Government-controlled development enterprises in Israel, in conjunction with the "Third Arm" concept, constitutes a notable revolution in investment possibilities both for local and foreign private investors. The offer of stock of Government-controlled development corporations, Government encouragement of Tel Aviv Stock Exchange activities, and Government encouragement to the listing of Israeli private enterprise shares on foreign boards are positive forward steps.

It would thus appear that the Government of Israel in launching the current private investment drive anticipates that through solicitation of middle class investors some IL 300-400 million in capital investment credits can be mobilized within the next 3-4 years. Particularly influential or major investors will be sought out personally by Messrs. Sapir, Eshkol, Dinstein, Tsur, Manor and Horn.

In its current drive to promote private capital investment in Israel, the Government of Israel apparently has reached some sort of agreement with the Israel Bonds Drive organization to use their administration for launching "Third Arm" activities in the United States, Canada, Latin America, Europe and the Union of South Africa. It would of course be desirable from a purely business point of view to disassociate the private investment capital mobilization drive from the Israel Bonds sales appeal and, hence, the Israel Bonds Drive organization. Emphasis on the purely business aspects of private investment capital opportunities in Israel might yield a better long-run pay-off.

Israel's new Law for the Encouragement of Capital investment has been an important forward step, an essential prerequisite to a meaningful and sincere "Third Arm" campaign.

An interesting innovation for the attraction of foreign capital has been the recent establishment in Detroit of an "Israel Investment Club." Membership consists of a small number of fairly substantial financiers and businessmen who will meet once a month for the purpose of reviewing investment opportunities in Israel. The "Club" reportedly consists of 20 members who have made initial deposits of $1,000 each with the "Club" treasurer, and are committed to make additional deposits of $100 monthly. At such time as at least $30,000 is reflected on the "Club" treasurer's books, an investment will be selected. According to Mr. Shimon Horn, who directs activities of the Israel Investment Center in New York, it is anticipated that perhaps as many as 500 such clubs can be established in cities throughout the U.S. during the next year or two, and that each club will average 2-3 investments of $30,000-50,000 annually.
Among internationally prominent promoters and chairmen of new investment groups are:

Sam Rothberg (U.S.)
Sam Bronfman (Canada)
Isaac Wolfson (Gr. Br.)
Baron de Rothschild (Gr. Br.)

By way of illustration, "Anglo-Israel Securities Ltd." recently was activated in London. Financial institutions behind the new company include the Rothschilds, Warburgs, Samuel Montagu and Peter Samuel. Chairman of the Board is M. P. Sir Henry d'Avigdor Goldsmidt. Directors are Edmond de Rothschild, Peter Samuel, Charles Seligman, Lord Swayaling and M. P. Harold Lieber. An encouraging aspect of the "Anglo-Israel Securities Ltd." philosophy is its soft emphasis on sentimentality and its heavy emphasis on financial profitability.

Among senior Israeli officials with whom USOM has regular contact, there has developed a general acknowledgement of the necessity for improved productivity, easing of import-export licensing problems, relaxation of exchange controls and the necessity for channeling domestic savings in increasing measure into investment. Significant progress has been made in each of these separate areas during recent months as well as in managerial efficiency, costing, quality control, etc. Simultaneously, there has evolved a belief that Jews abroad, particularly those residing in the United States, are prepared to listen to the GOI's rationale for investment in Israel on a business basis as a substitute for the heretofore prevalent emotional appeal. Thus it is the intention of the "Third Arm" to "sell" both the American middle class investor as well as to certain American groups wishing to set up subsidiaries the idea that Israel is the logical place for such investment. Active "selling" soon will begin in such diverse areas of industrial activity as forgings, glass, optics, weaving, carbon black, pharmaceuticals, pigments, possibly paints, specialized chemicals, minerals. Israelis with whom USOM has discussed this program appear to be both enthusiastic concerning inauguration of the new policy and confident as to its prospects for winning through.

Thus, changing attitudes among prominent members of world Jewry may be in large measure responsible for emergence of the "Third Arm" concept as a new dimension in thought for financing Israel's industrial development needs and hopefully could lead to a highly beneficial socio-economic end result.
1. The Ambassador of Israel presents his compliments to the Honorable the Secretary of State and has the honor to submit herewith a request by the Government of Israel for financial assistance by grant-in-aid from the United States of America, to the extent of $150,000,000 for the period July 1, 1951, to June 30, 1952.

2. After estimating its potential sources of foreign exchange for that period, and notwithstanding the remarkable efforts and sacrifices which the people of Israel are making toward the attainment of economic stability, the Government of Israel still faces the prospect of a considerable dollar deficiency. If this shortage cannot be made good, it will become impossible to maintain living standards even at their present reduced level, while Israel's industrial and agricultural development is liable to become impeded, or even paralyzed, through lack of continuous supplies of raw materials and capital goods. On the other hand, the availability of adequate dollar exchange would enable Israel to advance rapidly toward increased productivity and economic equilibrium during the coming few years of heavy immigration.

3. The Government of Israel has observed the historic role of the United States aid programs in enabling many other friendly countries, in similar emergencies, to achieve rapid economic recovery. It also recalls with gratitude the many acts testifying to the special ties of friendship between the peoples of the United States and Israel. In that spirit the Government of Israel now calls attention to its economic problems, many of which go far beyond the normal scope of national responsibility.

4. Immediately upon the proclamation of its independence and while still struggling against heavy odds for

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sheer physical survival, Israel set itself to discharge the primary mission for which it was established. Waves of immigration have converged upon Israel from all parts of the world, especially from Central, Southern, and Eastern Europe, and from Islamic countries in West Asia and North Africa. The Jews remaining in Central and Eastern Europe are but the pathetic remnants of once prosperous communities whose manpower and institutions were ruthlessly consumed by murderous persecution unparalleled in the annals of history. Their desire to abandon the scene of their people's agony and martyrdom is overpowering. It is reinforced by their inborn preference for a life of democratic freedom in a society which upholds as the chief focus of national pride the very Jewish traditions and associations which had been the target of such brutal persecution in Europe. On the other hand, in many parts of the Moslem world Jewish minorities have lived for centuries under an intermittent and precarious tolerance, punctuated by periods of disorder and oppression. In recent generations the rise of a strong national consciousness throughout this area has imparted to Jewish minorities a sharpened sense of separateness and insecurity. At the same time, the echoes of Israel's achievement have awakened a messianic urge for redemption, which makes Jewish minorities in Arab countries increasingly unwilling to sustain a lot so stoically borne by their ancestors for centuries past, as long as it seemed inexorable. An independent state which makes the absorption and rehabilitation of Jewish immigrants the central purpose of its life has become a compelling magnet to all Jews who lack freedom and dignity in their present abodes. This is one of the spontaneous and irresistible movements of mass migration which have revolutionized the history of peoples. In recent months the threat of world conflict has added a fresh incentive to Jewish immigration—a desperate urge to find shelter before the storm breaks, and while liberty of movement still remains.

5. While the rate and scale of immigration to Israel are largely determined by conditions in Europe and the Moslem world, Israel's resolve to accept immigrants without restriction is animated by a sense of inescapable responsibility. The people of Israel are themselves, for the most part, immigrants—survivors of pogroms and persecution; they know well that to refuse entry to their kinsmen now may mean the renunciation of that crucial opportunity forever. Indeed, some countries have actually established official deadlines before which all prospective emigrants must leave. It is inconceivable that Israel can incur the moral responsibility for whatever might befall Jews who seek admission to Israel and are denied it. Jewish communities throughout the world, and especially in the United States, have spent much effort and sacrifice on Israel's behalf, in the clear expectation that they were thus establishing a permanent haven for all
oppressed and insecure Jews in need of a home. It is noteworthy that President Truman's recommendation in 1946 for the transfer of Jewish displaced persons from Europe to Palestine marked the beginning of the United States specific interest in the search for a solution to this problem. Thus, every circumstance of humanitarian concern and moral principle compels Israel, with the fervent approval of its own public and of Jewish opinion everywhere, to uphold and maintain freedom of immigration. Moreover, from the viewpoint of Israel's own interest, even if heavy immigration is accounted an economic liability in the short term, it must certainly in the long run be regarded as an asset, since it will enhance Israel's self-reliance, its economic strength, and its creative capacity.

6. The conditions which govern the scale of immigration to Israel can well be illustrated by reference to the Jews of Iraq. When the Government of Iraq allowed Iraqi Jews to register for emigration, it was thought by many observers that no more than 30,000 would exercise that option. In fact, about 105,000 out of a total 130,000 Jews registered for emigration and made plans to leave for Israel. On receiving permission to leave the country, an Iraqi Jew loses his citizenship, whereupon it becomes urgent to effect his emigration without delay. In recent months, the Government of Israel has been exorted by the Governments of the United States and by the United Kingdom to make every effort to speed up the evacuation of Iraqi Jews. The Government of Israel, in pursuance of its own policy, has increased the monthly rate threefold in full knowledge of the resulting aggravation of its financial problems.

7. As a result of this immigration, the dominant feature in the life of Israel is the spectacular increase of its population. On May 14, 1948, the Jewish population of Palestine was 650,000. Between that date and the end of 1950, 511,000 immigrants have entered the country, representing a 78-percent increase in the over-all population total. About half a million new immigrants are expected to arrive within the next 3 or 4 years. By the end of 1951, Israel will have trebled its population mainly by immigration. This rate of population increase has no precedent; manifestly it calls for a financial effort on an unusual scale.

8. In receiving these immigrants Israel has solved problems which would otherwise fall on international agencies and on other governments. For example, the admission to Israel of nearly all Jews from displaced persons camps in the American zone of Germany has directly liberated the United States Treasury from a considerable and continuous expenditure. For many years the European refugee problem
had baffled the resources and capacity of the refugee organizations established under the auspices of the League of Nations and the United Nations. Israel has absorbed large numbers of refugees who were the objects of this international concern, without even having received any reparation from Germany for the wholesale spoilation and destruction of Jewish property in Europe. Moreover, by absorbing Jewish communities which were living in conditions of insecurity or discrimination, Israel has eliminated potential points of friction and instability in more than one area of the world.

9. The difficulty of financing the absorption of this enormous population increase has been aggravated still further by Israel's defense burdens. At its very inception, Israel was forced to mobilize all its resources in fighting, alone and unaided, its battle of survival against overwhelming odds. The aggressive onslaught of the Arab States was successfully repelled; yet their persistent refusal to conclude a final peace settlement continues to strain the resources of Israel by necessitating heavy defense expenditure, on which also the mounting international tension has an inevitable bearing.

10. In addition to the burdens imposed by immigration and defense, the Government of Israel has undertaken to make its due contribution toward the solution of the Arab refugee problem in the Near East. It has declared its willingness to support the reintegration fund to be established by the United Nations by paying into it funds accruing from compensation for abandoned Arab lands, on the understanding that such funds will be used for the permanent resettlement of Arab refugees in conditions which would conform with their own welfare and with the ultimate stability of the Near East. Under this arrangement, which has been publicly announced in the United Nations, Israel is probably assuming a heavier financial commitment in the Arab refugee problem than any other single member Government, notwithstanding the fact that the problem itself was actually created in the course of a deliberate attempt to destroy Israel's existence, as a result of which Israel sustained heavy and widespread material damage.

11. A country which increases its population by 80 percent in 2 1/2 years, while simultaneously sustaining a heavy burden for its defense and preparing to make a substantial financial contribution toward the solution of the Arab refugee problem, cannot obviously develop its productive resources to the extent required by these vast burdens without massive outside assistance. Israel, however, has itself made a maximal effort to solve the economic problems with which it has been confronted. This effort has been made in two directions. On the one hand, the standard of living of
the population has been drastically reduced. On the other hand, every possible means has been adopted to increase production in both agriculture and industry, with impressive results. Whereas the population increased by 80 percent in 2 1/2 years, agricultural production rose during the same period by 70 to 80 percent and industrial production by 40 to 50 percent. It is clear, therefore, that Israel is seeking supplementary external aid only after having imposed upon itself heavy sacrifice and considerable self-denial.

12. The magnitude of the effort which Israel has put forth for its own economic development is illustrated by the achievement of net new investment of approximately the equivalent of $190,000,000 in the calendar year 1949, and of approximately $275,000,000 in 1950. This new investment was equivalent to more than 25 percent of Israel's total national income in 1949, and to more than 30 percent of the national income in 1950. Yet, Israel now proposes further to raise its annual investment target to the equivalent of approximately $500,000,000. There is no choice; no lesser target would be compatible with the full productive employment of Israel's people. But it is obvious that the gap in the balance of payments, which is the most striking expression of Israel's economic difficulties, cannot be closed by its own exertions in the immediate future.

13. Since heavy immigration seems certain to continue for the next 3 or 4 years, the consequent dislocation of Israel's economy is bound to persist for that period. The very measures which Israel is adopting to add to its productive capacity are liable, in the short run, to increase the disturbance in the balance of payments. The required diversion of Israel's own resources from production for current consumption to investment work will create inflationary pressure on scarce supplies of consumption goods. Israel is grateful for the great contribution to her long-term productive facilities which is being made through the credits of $135,000,000 received from the United States Export-Import Bank. Israel also places great reliance for her economic development on the resources for productive purposes which will be sought through the sale of bonds to the public in the United States of America. These imports for specific investment purposes, however, need to be supplemented by a diversion of Israel's own productive capacity from consumption needs to the production of capital goods. The grant-in-aid from the Government of the United States, for which the Government of Israel is herewith applying, would bridge this gap in the availability of consumption goods until the increased production of Israel, which will be the consequence of the capital imports, can catch up with the needs of the population and assure economic stability. This American aid,
extended over a brief period of time, can lead to the achievement of Israel's economic equilibrium, in full conformity with the concept of economic recovery which has inspired the aid programs of the United States since their inception.

14. Most prominent among the purposes for which grant-in-aid assistance is requested is one most directly connected with immigration: If the immigrants are to be employed productively, they must have houses near their places of work. The house to be provided is of the simplest character, having an average total cost of approximately IL 750, the equivalent of $2,100. At the present time, many tens of thousands of immigrants are in huts and tents. The average housing rate of the population of Israel is three persons per room, while a large part of the population lives at the standard of five persons per room. To alleviate this shortage, it is proposed to build approximately 70,000 housing units in the year July 1, 1951-June 30, 1952, to accommodate roughly 250,000 persons. The total cost would be approximately $150,000,000—and Israel is reconciled to the need for meeting by far the larger part of this total cost from its own resources. A grant-in-aid of approximately $30,000,000 is needed to meet foreign exchange costs of materials, imported fixtures, and construction machinery. Israel's own investment in the program would be four times as great as the requested grant-in-aid.

15. Grant-in-aid assistance in the form of supplies needed specifically to restrain the stress of the inflationary pressures is requested in the amount of $105,000,000. As mentioned above, in the year July 1, 1951-June 30, 1952, Israel will be attempting to raise her total investment towards the target of an annual rate of approximately $500,000,000. Even under a system of austerity, Israel will require, in the year July 1, 1951-June 30, 1952, at the price levels which prevail today, about $225,000,000 of imports apart from imports for specific investment purposes.

16. An additional grant-in-aid of approximately $15,000,000 is requested for the insurance and shipping costs connected with the delivery of the above commodities in Israel. This amount has been estimated on the assumption that the affected commodities would be purchased not only in the United States but also in other friendly countries, from which shipping costs might in some cases be lower than from the United States.

17. The specific uses of the requested grant-in-aid might then be outlined as in the following table:
APPREHEND LIST OF PURCHASES TO BE FINANCED
WITH REQUESTED GRANT-IN-AID

A. Materials, fixtures, and equipment required
to be imported for the construction of
70,000 housing units ................ $30,000,000

B. Supplies required to restrain the
inflationary pressure of the investment
and defense programs:

(a) Wheat ........ $25,000,000
(b) Fodders ....... 15,000,000
(c) Oilseeds ....... 10,000,000
(d) Fertilizers and
    seeds ........ 10,000,000
(e) Cotton, other fibers,
    and textile materials 10,000,000
(f) Leather, hides,
    chemicals, and
    minor materials ...... 10,000,000
(g) Petroleum ...... 25,000,000

105,000,000

C. Shipping and insurance services ........ 15,000,000

Total ........................................... $150,000,000

18. The close link between economic stability and
political freedom is becoming increasingly understood in all
parts of the world. The future of Israel's social and polit­
ic system is an issue of direct consequence to the cause of
world democracy. Israel has established a parliamentary
democracy in an area where democratic ideals and principles
have not yet struck deep roots. While many countries have
recently achieved institutional freedom, not all have simul­
taneously fought with any marked effect against the tradi­
tional social and economic inertia which condemns countless
multitudes to a life of squalor and misery. Unless democracy
proves its capacity both to insure political freedom and to
realize a vision of society based on expanding horizons of
material welfare and cultural progress, it will find itself
hard-pressed in its struggle to compete against feudal tra­
ditionalism on the one hand and modern negations of political
democracy on the other. The success of Israel's efforts to
combine political freedom with economic progress will cer­
tainly affect the prestige of democracy in the crucial area
of which Israel is a part. Israel's experience and achieve­
ment in soil conservation, land development, irrigation,
technological research, industrial progress, as well as in cooperative organization and social freedom, are intimately relevant to the most acute problems which afflict such wide areas of the Near East with conditions of backwardness and dearth. Thus, any strengthening of Israel's efforts to achieve a high degree of development must be regarded as a contribution to the progress and stability of the entire Near East. For, despite the transient political conflicts which now divide it, the Near East cannot in the long run fail to be affected by progressive examples. In this respect, too, aid to Israel would fully conform with the principles which have determined the United States' aid programs.

19. On June 20, 1922, the Congress of the United States of America unanimously recorded its sympathy for the "aspirations of the Jewish people to rebuild their ancient homeland." On December 19, 1945, the Congress, in a concurrent resolution, advocated the establishment of a democratic commonwealth in Palestine "to the end that the country should be opened for free entry of Jews." In a resolution of greeting on the anniversary of Israel's independence in May 1950, the United States Senate paid tribute to the emergence of Israel as an objective in which the American people had indicated their sympathetic interest for many years. In the last three decades successive Presidents of the United States have associated the American people, by close bonds of sympathy and support, with the rebirth of Israel as a modern embodiment of an ancient tradition which bequeathed to the world some of the basic moral ideals on which western civilization is founded. At every decisive stage in Israel's recent development, the efforts and sacrifices of Israel's people, and of Jewish communities working for Israel's welfare, have received notable support from the President, the Government, and the Congress of the United States of America. American representatives in the United Nations have carried this policy into the highest international forum. Israel will always feel the most profound gratitude for the memorable steps taken by President Truman and the Government of the United States in favor of the reestablishment of an independent Israel, its official recognition, and its formal admission to the world community. In seeking the support of the United States for its arduous task of economic development and consolidation, and for its unprecedented efforts in providing homes for so many within so short a time, the Government of Israel is advocating the maintenance and extension of a traditional relationship firmly established in the hearts of both peoples.
APPENDIX D

DISTRIBUTION OF PUBLIC LAW 480 TITLE III FOOD SURPLUSES UNDER HADASSAH PROJECT "416"

The Hadassah Council in Israel
Jerusalem, P.O.B. 1078

Ref. AL/2

January 29th, 1960

Mr. John J. Haggerty
Director U.S. Operation[s] Mission
U.S.O.M.
Tel-Aviv

Dear Mr. Haggerty,

It is with a sense of genuine gratitude and privilege that I forward to you the enclosed report of our Chairman, Mrs. Esther Grunwald, on Hadassah's Project "416."

Hadassah hails America's share in maintaining the nutrition standard of the needy in Israel. The high protein character of the surplus foods you offered for distribution constituted a very much lacking protective margin for the health of Israel's under-privileged children and otherwise under-nourished people.

As no doubt you know, Hadassah's motto is, "The healing of my people." For close to 50 years our central program has been directed to this end. Hence Hadassah, as an all American organization, feels especially proud of its Government's share in helping them fulfill their high purpose.

As Chairman of the Hadassah Council in Israel, I extend to you and your colleagues sincerest appreciation for cooperating with us so fully and sincerely in the American spirit of brotherhood.

Gratefully yours,

Julia A. Dushkin

Mrs. A. H. Dushkin, Chairman
HADASSAH COUNCIL IN ISRAEL

enc.  

1AID file data.
Hadassah Project "416"

Before proceeding to give a short report on the activities of the Hadassah Project "416" since its inception, I would like to use this opportunity to express deep appreciation for the ready cooperation and understanding the Project always met at the hands of those gentlemen of the United States Operations Mission in Tel Aviv with whom we had close contact: In particular I wish to mention Mr. George Peterson, Mr. Christian Jensen and Mr. S. Norfolk. I also wish to thank the officials of the Ministry of Finance and Ministry of Trade & Industry of the Israel Government who were always ready to advise on our problems and to help in any way possible.

In the spring of 1955 negotiations were started in the USA for the distribution by Hadassah of American Surplus Foods in Israel, and the negotiations culminated in an arrangement between the USA Government and Hadassah on the basis of Hadassah's Plan of Operations dated September 7th, 1955. Mrs. Denise Tourover of Washington represented the interests of Hadassah in all these negotiations and visited Israel in the autumn of that year to complete arrangements locally and with the U.S.O.M. in Tel Aviv, since Mrs. Rose Viteles who was to serve as Hadassah Representative in Israel in respect of this Project was in the USA at the time. Messrs. Robert R. Nathan Associates of Washington, served as liaison between the USA Government Departments and Hadassah in the USA from the first days of negotiations, on technical matters, and later arranged all shipments to Israel. Messrs. Nathan Associates have been most helpful throughout the period of our activities and we use this opportunity also to extend our thanks to them.

Mrs. Tourover during her visit to Israel left with the U.S.O.M. office in Tel Aviv a copy of Hadassah's Plan of Operations which the Director, Dr. Rugh, forwarded to Washington on September 16th, 1955, with a copy of a letter from Mr. Z. Dinstein giving the Israel Government's approval to the scheme. In accordance with the terms of the Plan, Hadassah was to receive every possible assistance from the Israel Government, including the waiving of customs duties on surplus commodities imported by the Hadassah Project. An Advisory Committee was set up including representatives of the various Government Departments--Finance, Social Welfare and Trade & Industry, as well as representatives of the Jewish Agency Settlement and Absorption Departments, Youth Aliyah, and the Nutrition Department of the Government Education Department. This Committee served us faithfully and well, and we are grateful to the members who gave us the time we demanded.
A small office was set up in the premises of the Hadassah Council in Israel, and the first request for supplies was submitted by Hadassah in New York on the basis of lists prepared by the Ministry of Social Service in respect of 281,000 needy persons.

Hadassah was empowered under the Plan of Operations to make a pro rata charge to the recipient bodies--but not to the actual beneficiaries of the food--to cover all expenses of handling, administration and distribution. Since large sums were required at that date for the payment of ocean freight, the Israel Government advanced a sum of IL. 50,000 as a Revolving Fund until sufficient sums were in hand to serve as working capital.

The first shipment, butter and cheese, was dispatched from the USA in January 1956 and the first distribution of these commodities was made in February 1956. As from that date, in accordance with the arrangements made, U.S.O.M. in Tel Aviv received the following reports:

a) A monthly stock report;
b) A detailed monthly list of withdrawal certificates issued;
c) A scheme giving the proposal for the next month's allocations;
d) A fuller stock report at the end of every 3 months for the whole period commencing with the first shipment onwards.

In addition, from January 1959 a half yearly report was submitted on Form PD/[2] the first submitted was for the period July 1st to December 31, 1958.

Since the Project was a temporary one, terminable at any time, Hadassah decided not to open warehouses but made arrangements instead with Messrs. Hamashbir Hamercazi to act as warehousemen and distributors of the butter and cheese, on their behalf, for a trial period. The rate paid to them was to cover all expenses for storing, insurance while in stores, distribution and reporting, and in the case of the small institutions and villages, Hamashbir Hamercazi would also make delivery as such places could not make their own arrangements for transportation. Hamashbir Hamercazi had the necessary connections and apparatus for such delivery, particularly to the immigrant villages.

The Cold Stores held the butter and cheese in the name of Hadassah Project "IL6" and issued quantities from time to time to Hamashbir Hamercazi against orders from the Project. After the trial period expired, the services of Hamashbir Hamercazi were retained and they also warehoused
and distributed to the recipient bodies rice, beans and milk powder as they arrived, against Withdrawal Certificates issued monthly by the Hadassah Project. After the first year's experience a new method of reporting was introduced whereby Hamashbir Hamercazi warehouses each had to submit a report monthly showing quantities held at the beginning of the month, commodities received and detailed information on withdrawals. The reports bore the signatures of the recipients and Hadassah received with the reports the first copy of the Withdrawal Certificate it had issued to these recipients.

Hadassah not only distributed very much needed commodities for indigent people in institutions, but undertook a piece of educational work by showing the new immigrants how to use butter and cheese as spreads on bread. The Nutrition Department of the Government Education Department assisted by giving Food Demonstrations and issuing recipes.

The Advisory Committee on Voluntary Foreign Aid, International Cooperation Administration in Washington, agreed to pay the ocean freight on all shipments of surplus foods as from April 1957, since the Israel Government undertook to pay all inland transportation costs from Port to Warehouses, in addition to waiving customs dues on such commodities. The Government of Israel paid approximately IL.24,000 for inland transportation from April 1957 to the date of Hadassah's last shipment received in May 1959. Special reports on shipments had to be submitted to the Voluntary Aid Committee within three months of shipment. This assistance resulted in the reduction of overhead expenses in the Project and the pro rata charge to recipient bodies was therefore considerably reduced.

Mrs. Julia Dushkin became Hadassah Representative in Israel when Mrs. Rose Viteles left for the USA in May 1957 where the latter became the National Board liaison officer with Hadassah Project "416" in Israel and continued in this capacity until her death in July 1959. When Mrs. Dushkin became Chairman of the Hadassah Council in Israel later in the year, Mrs. Esther Grunwald was appointed Hadassah Representative and served until the winding up of the Project in January 1960.

In May 1957 milk powder was received for the first time and Hadassah again undertook an educational piece of work in teaching new immigrants from Oriental and even European countries in the use of this commodity. For over a year the Project was in the happy position of distributing four commodities—cheese, rice, beans and milk powder—sent by the USA Government as "A Gift from the People of the United States of America" for the needy. Most of the institutions had very small food budgets and the addition of
these commodities free—except for the small pro rata charge mentioned to cover Hadassah's expenses—meant that they were able to purchase more vegetables than they would have otherwise done.

Since the USA Government was expanding the distribution of Surplus Foods throughout the world, they decided on the introduction of special forms for estimates of requirements which had to be in Washington early in the spring of each year for the following fiscal year. Before submitting such estimates to U.S.O.M. in Tel Aviv for their counter-signature, Hadassah had to obtain the approval of the Ministry of Finance both to the commodities and the quantities requested.

In accordance with the Plan of Operations Hadassah was fully responsible for the commodities it received up to the point of distribution to the recipient bodies at the warehouses. At the request of both U.S.O.M. and the Israel Government, Hadassah in the summer of 1958 increased the number of its Inspectors to enable closer checks to be made at the premises of the recipients as to the proper use of the commodities and the stocks at their disposal. This, however, involved an increase in the pro rata charge as the additional expense was substantial.

At the same time the definition of "needy" came under discussion and after talks with representatives of U.S.O.M., Ministries of Finance and of Social Welfare, who again all showed much understanding, and gave much thought to the problem, it was agreed that the definition of "needy" appearing in Hadassah's original Plan of Operations, i.e. those persons unable to pay for their own maintenance, should continue to serve as the basis for future estimates and for the distribution of the commodities received.

For the fiscal year 1959 Hadassah Project received milk powder and cheese only. However, when a consignment of cheese arrived in October 1958, we also got the news that it would probably be the last shipment of that commodity for the fiscal year 1959. About the middle of 1959 a decision was taken by U.S.O.M. and the Israel Government that Hadassah discontinue distributions to the Jewish Agency villages and immigrant settlements (kibbutzim); this meant considerable curtailment of the program of Hadassah Project. From information received later it became clear also that only milk powder would be available for distribution in 1960. Hadassah,

*According to U.S.O.M. Director, John J. Haggerty, "That decision was taken by the Government of Israel without consultation with U.S.O.M."
therefore, considered the feasibility of continuing its special apparatus for the distribution of only milk powder to a very much reduced number. As U.S.O.M. required the same measure of inspection and supervision, it would have meant increasing the pro rata charge considerably for those continuing to receive the commodity. After much consideration and consultation with the necessary authorities, Hadassah most reluctantly decided to wind up the Project in December 1959 when the cheese stocks would be exhausted.

A quantity of milk powder was still held at 31st December 1959 and with the approval of U.S.O.M. it was distributed as stock to a few institutions in January 1960 (16 tons) with the balance of 502 tons going to CARE and MALBEN to enable the latter to fulfill their own programs for 1960 as they had, in the meantime, been advised that they would not be receiving their full milk powder requirements from the USA.

I am attaching a table showing the quantities shipped from January 1956 and distributions throughout the whole period, as well as the value of the commodities in accordance with the Bills of Lading, but it must be pointed out that the real value of these commodities was very much higher. I am also attaching lists giving categories of recipients and the quantities they received during the whole period, as well as the numbers of persons in the different categories.

Hadassah in distributing the Surplus Foods so generously contributed by the Government of the United States of America may, I feel, look back with satisfaction to another service well done for that sector of the population which so greatly benefited from the Surplus Foods.

In conclusion I would like to use this opportunity to express deep gratitude and thanks to Mrs. Amelia Finebloom who was appointed Administrator of the Project in March 1957 and conducted the work with her customary efficiency, devotion and dedication to a task.

Esther B. Grunwald

Esther B. Grunwald
Hadassah Representative & Chairman
HADASSAH PROJECT "416"

January 1960
APPENDIX E

ISRAEL: SURPLUS AGRICULTURAL COMMODITIES

Agreement, with agreed minute and memorandum of understanding, signed at Washington November 7, 1957; Entered into force November 7, 1957.

AGRICULTURAL COMMODITIES AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF ISRAEL UNDER TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT

The Government of the United States of America and the Government of Israel:

Recognizing the desirability of expanding trade in agricultural commodities between their two countries and with other friendly nations in a manner which would not displace usual marketings of the United States of America in these commodities, or unduly disrupt world prices of agricultural commodities;

Considering that the purchase for Israel pounds of surplus agricultural commodities produced in the United States of America will assist in achieving such an expansion of trade;

Considering that the Israel pounds accruing from such purchases will be utilized in a manner beneficial to both countries;

Desiring to set forth the understandings which will govern the sales of surplus agricultural commodities to the Government of Israel pursuant to Title I of the Agricultural Trade Development and Assistance Act, as amended, and the

1U.S. Department of State, United States Treaties and Other International Agreements, Vol. 8, pt. 2. TIAS No. 3945, November 7, 1957, pp. 2205-12.
measures which the two Governments will take individually and collectively in furthering the expansion of trade in such commodities;

Have agreed as follows:

Article I

Sales for Israel Pounds

1. Subject to the issuance by the Government of the United States of America and acceptance by the Government of Israel of purchase authorizations, the Government of the United States of America undertakes to finance the sale to purchasers authorized by the Government of Israel, for Israel pounds, of the following agricultural commodities determined to be surplus pursuant to Title I of the Agricultural Trade Development and Assistance Act in the amount indicated:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Amount (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>$9.30</td>
</tr>
<tr>
<td>Corn and Grain Sorghums*</td>
<td>8.70</td>
</tr>
<tr>
<td>Vegetable Oil</td>
<td>1.70</td>
</tr>
<tr>
<td>Tallow</td>
<td>.40</td>
</tr>
<tr>
<td>Tallow</td>
<td>6.90</td>
</tr>
<tr>
<td>Cheese</td>
<td>1.30</td>
</tr>
<tr>
<td>Non-fat Dry Milk</td>
<td>2.20</td>
</tr>
<tr>
<td>Dry Whole Milk</td>
<td>.20</td>
</tr>
<tr>
<td>Prunes</td>
<td>.10</td>
</tr>
<tr>
<td>Cotton</td>
<td>.80</td>
</tr>
<tr>
<td>Tobacco</td>
<td>.15</td>
</tr>
<tr>
<td>Ocean Transportation</td>
<td>3.25</td>
</tr>
<tr>
<td>(Estimated 50 percent)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$35.00</td>
</tr>
</tbody>
</table>

Purchase authorizations will be issued not later than 90 calendar days after the effective date of this agreement. They will include provisions relating to the sale and delivery of commodities, the time and circumstances of deposit of the Israel pounds accruing from such sale and other relevant matters.

*Amended February 4, 1958, to read "and barley."
Article II

Uses of Israel Pounds

1. The two Governments agree that the Israel pounds accruing to the Government of the United States of America as a consequence of the sales made pursuant to this agreement will be used by the Government of the United States of America, in such manner and in order of priority as the Government of the United States of America shall determine, for the following purposes, in the amounts shown:

(a) To help develop new markets for United States agricultural commodities, for international educational exchange, for financing the translation, publication and distribution of books and periodicals, and for other expenditures by the Government of the United States of America under Subsections 104(a), 104(d), 104(f) and 104(i) of the Act, the Israel pound equivalent of $5.25 million.

(b) For loans to be made by the Export-Import Bank of Washington under Subsection 104(e) of the Act and for administrative expenses of the Export-Import Bank in Israel incident thereto, the Israel pound equivalent of $8.75 million, but not more than 25 per cent of the currencies received under the agreement. Such loans will be made to United States business firms and branches, subsidiaries, or affiliates of such firms in Israel for business development and trade expansion in Israel and to United States firms, and Israeli firms, for the establishment of facilities for aiding in the utilization, distribution or otherwise increasing the consumption of and markets for United States agricultural products. It is understood that such loans will be mutually agreeable to the Export-Import Bank of Washington and the Government of Israel. The Minister of Finance, or his designate, will act on the behalf of the Government of Israel in this matter. In the event the Israel pounds set aside for loans under Subsection 104(e) of said Act are not advanced within three years from the date of this agreement because Export-Import Bank of Washington has not approved loans or because proposed loans have not been mutually agreeable to Export-Import Bank of Washington and the Minister of Finance, the Government of the United States of America may use the Israel pounds for any purpose authorized by Section 104 of the Act.

(c) For a loan to the Government of Israel to promote the economic development of Israel under Subsection 104(g) of the Act, the pound equivalent of $21 million
the terms and conditions of which will be included in a supplemental agreement between the two Governments. It is understood that the loan will be denominated in dollars, with payment of principal and interest to be made in United States dollars, or, at the option of the Government of Israel, in pounds, such payments in pounds to be made at the applicable exchange rate as defined in the loan agreement, in effect on the date of the payment. It is further understood that loan funds shall be disbursed only after prior agreement as to the uses of such loan funds. These and other provisions will be set forth in the loan agreement and any agreement supplemental thereto. In the event the Israel pounds set aside for loans to the Government of Israel are not advanced within three years from the date of this agreement as a result of failure of the two Governments to reach agreement on the use of the Israel pounds for loan purposes, the Government of the United States of America may use the Israel pounds for any other purpose authorized by Section 104 of the Act.

2. In the event the total of Israel pounds accruing to the Government of the United States of America as a consequence of sales made pursuant to this agreement is less than the pound equivalent of $35 million, the amount available for the loan to the Government of Israel under Subsection 104(g) would be reduced by the amount of such difference; in the event the total pound deposit exceeds the equivalent of $35 million, 60 per cent would be available for the loan, and the balance for such use under Section 104 as determined by the United States Government.

**Article III**

**Deposit of Israel Pounds**

The deposit of Israel pounds to the account of the Government of the United States of America in payment for the commodities and for ocean transportation costs financed by the Government of the United States of America (except excess costs resulting from the requirement that United States flag vessels be used) shall be made at the rate of exchange for United States dollars generally applicable to import transactions (excluding imports granted a preferential rate) in effect on the dates of dollar disbursement by United States banks, or by the Government of the United States of America, as provided in the purchase authorizations.
Article IV

General Undertakings

1. The Government of Israel agrees that it will take all possible measures to prevent the resale or transshipment to other countries, or the use for other than domestic purposes (except where such resale, transshipment or use is specifically approved by the Government of the United States of America), of the surplus agricultural commodities purchased pursuant to the provisions of this agreement, and to assure that the purchase of such commodities does not result in increased availability of these or like commodities to nations unfriendly to the United States of America.

2. The two Governments agree that they will take reasonable precaution to assure that sales or purchases of surplus agricultural commodities pursuant to this Agreement will not unduly disrupt world prices of agricultural commodities, displace usual marketings of the United States of America in these commodities, or materially impair trade relations among the countries of the free world.

3. In carrying out this Agreement the two Governments will seek to assure conditions of commerce permitting private traders to function effectively and will use their best endeavors to develop and expand continuous market demand for agricultural commodities.

4. The Government of Israel agrees to furnish, upon request of the Government of the United States of America, information on the progress of the program, particularly with respect to arrivals and condition of commodities and the provision for the maintenance of usual marketings and information relating to exports of the same or like commodities.

Article V

Consultation

The two Governments will, upon the request of either of them, consult regarding any matter relating to the application of this Agreement or to the operation of arrangements carried out pursuant to this Agreement.
Article VI

Entry into Force

This Agreement shall enter into force upon signature.

IN WITNESS WHEREOF, the respective representatives, duly authorized for the purpose, have signed the present Agreement.

Done in duplicate at Washington, D.C. this seventh day of November, 1957.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

William M. Rountree

FOR THE GOVERNMENT OF ISRAEL

Abba Eban
AGREED MINUTE BETWEEN THE NEGOTIATORS FOR THE
UNITED STATES OF AMERICA AND THE NEGOTIATORS
FOR ISRAEL RELATIVE TO THE AGRICULTURAL
COMMODITIES AGREEMENT, SIGNED
NOVEMBER 7, 1957

The United States representatives secured the follow­
ing understandings from the representatives of Israel:

1. Usual Marketings

Wheat. The amount of $9.3 million (about 150,000
M.T.) has been agreed to under Title I, Public Law 480, on
condition that Israel provide assurance it will import
245,000 M.T. during the United States fiscal year 1958 from
free world sources of which at least 125,000 M.T. will be
imported as usual marketings for dollars from the United
States, and on the further condition that exports of wheat
by the Government of Israel during FY 1958 consist only of
durum wheat and be limited to no more than 10,000 M.T.*
Further, it is understood that the Government of Israel will
procure with other funds an amount of wheat equivalent to
that exported over and above the amount agreed to be procured
as usual marketings (i.e. 245,000 M.T.).

Corn and Grain Sorghums. The $8.7 million (about
190,000 M.T.) has been agreed to under Title I, Public Law
480, on condition, as heretofore agreed upon, that Israel
provide assurance it will import 20,000 M.T. during FY 1958
as usual marketings for dollars.

Tallow. The $0.4 million (about 2,000 M.T.) has been
agreed to under Title I, Public Law 480, on condition that
Israel provide assurance it will import a minimum of 900 M.T.
as usual marketings for dollars from the United States dur­
ing FY 1958.

Vegetable Oil. The $1.7 million (about 5,000 M.T.)
has been agreed to under Title I, Public Law 480, on condi­
tion that Israel provide assurance it will import from the
United States as usual marketings for dollars during FY 1958
an amount of oil seeds or oils having an oil equivalent of
8,000 tons.

Prunes. The $0.1 million (about 500 M.T.) has been
agreed to under Title I, Public Law 480, on condition that

*Amended February 4, 1958, to read "22,000 M.T."
Israel provide assurance it will import a minimum of 150 M.T. as usual marketings for dollars from the United States during FY 1958.

Cotton. The $0.8 million (about 5,000 bales) has been agreed to under Title I, Public Law 480, on condition that Israel provide assurance it will import 10,000 bales during FY 1958 as usual marketings for dollars.

Tobacco. The $0.15 million (about 90 metric tons) has been agreed to under Title I, Public Law 480, on condition that Israel provide assurance it will import $150,000 worth of tobacco during FY 1958 as usual marketings for dollars.

2. Currency Uses

It is understood that, in view of the agricultural surplus problem in the United States, careful attention will need be given to the inadvisability of using economic development loan funds under section 104(g) for projects either in the field of governmental or private investment which would reduce export outlets for United States agricultural commodities. This applies to any project whether or not related to projects financed by the Export-Import Bank of Washington, the International Bank for Reconstruction and Development, or the International Finance Corporation. Projects for such purposes as expansion or improvement of livestock production, storage, processing and distribution facilities; development of forestry resources; or other purposes which would not have the effect of reducing export outlets for United States agricultural commodities would be considered on an individual basis.

3. The representatives of the two Governments agreed that in connection with agricultural market development activities in other countries the Government of Israel will provide the equivalent of $300,000 worth of Israel pounds in European currencies or other currencies to be agreed upon or facilities for the conversion thereof. It is also understood that the Government of the United States of America may utilize Israel pounds to procure in Israel goods and services needed in connection with agricultural market development projects and activities in other countries. Furthermore, the representatives of the two Governments agreed that the Government of the United States of America may utilize the equivalent of $100,000 worth of Israel pounds in Israel to pay for international travel between the United States and Israel, including connecting travel. In this connection the United States representatives agreed that preference will be given to use of Israeli flag lines.

Done at Washington, D.C. this 7th day of November, 1957.
MEMORANDUM OF UNDERSTANDING BETWEEN THE
GOVERNMENT OF THE UNITED STATES OF
AMERICA AND THE GOVERNMENT OF
ISRAEL

In arriving at mutual agreement concerning loans
eligible under Subsection 104(e) the Minister of Finance, or
his designate, will act for the Government of Israel, and
the President of the Export-Import Bank of Washington, or
his designate, will act for the Export-Import Bank of Wash-
ington.

As soon as practicable after receipt of an applica-
tion which the Export-Import Bank is prepared to consider,
the Export-Import Bank will notify the Ministry of Finance
of the identity of the applicant, the nature of the proposed
business, the amount of the application and the general pur-
poses for which the loan proceeds would be expended.

When the Export-Import Bank approves or declines an
application, it will notify the Ministry of Finance.

Within sixty days after the receipt of notice that
Export-Import Bank has approved an application, the Ministry
of Finance will indicate to Export-Import Bank whether or
not the Ministry of Finance approves the proposed loan.
Unless within the sixty-day period the Export-Import Bank
has received such a communication from the Ministry of
Finance, it shall be understood that the Ministry of Finance
has no objection to the proposed loan.

In approving a loan, the Export-Import Bank will (1)
fix an interest rate similar to that prevailing in Israel on
comparable loans; and (2) establish maturities similar to
those of Export-Import Bank dollar loans to private enter-
prises.

To the extent necessary additional procedure will be
negotiated between Export-Import Bank and the Ministry of
Finance.

Done at Washington, D.C. this seventh day of
November 1957.

A.E. W.R.
APPENDIX F

ISRAEL TECHNICAL COOPERATION

Agreement signed at Tel Aviv May 9, 1952; entered into force May 9, 1952.

AGREEMENT FOR A TECHNICAL COOPERATION PROGRAM BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF ISRAEL

The Government of the United States of America and the Government of Israel

Have agreed as follows:

Article I

Pursuant to the General Agreement for Technical Cooperation, signed on behalf of the two Governments at Hakirya on February 26, 1951, a technical cooperation program shall be initiated in Israel. The obligations assumed herein by the Government of Israel will be performed by it through a representative to be designated by it. The obligations assumed herein by the Government of the United States of America will be performed by it through the Technical Cooperation Administration of the Department of State, an agency of the Government of the United States of America (hereinafter referred to as the "Administration"). The Administration, on behalf of the Government of the United States of America, and the representative, on behalf of the Government of Israel, shall participate jointly in all phases of the planning and administration of the cooperative program. This agreement and all activities carried out pursuant to it shall be governed by the terms and conditions of the said General Agreement for Technical Cooperation.

Article II

It is agreed that the objectives of this cooperative program are:

1. To promote and strengthen understanding and good will between the peoples of the United States of America and Israel, and to further the secure growth of democratic ways of life;

2. To facilitate the economic development of Israel through technical cooperation between the two governments; and

3. To stimulate and increase the interchange between the two countries of knowledge, skills and techniques in the field of economic development.

Article III

It is agreed that this cooperative program will include:

1. The furnishing by the Administration of a field party of specialists (hereinafter referred to as the "Technical Mission") to collaborate in carrying out the cooperative program.

2. The development and carrying out of activities of the following type

   a. Studies and surveys of the needs of Israel in the fields of agricultural development, public health and sanitation, elementary and vocational education, basic transportation, and other activities related to the economic development of Israel; analysis of the resources available to meet these needs; and the formulation and continuous adaptation of a program adequate to enable it to meet such needs;

   b. The initiation and administration of projects in the field of technical cooperation for economic development pursuant to written operational agreements between the Co-Directors of the Joint Fund herein provided for, which may include activities of the following types: agricultural development including irrigation, reforestation and soil conservation; expansion of diversified farming, citriculture and fishing; food storage and processing; expansion and effective operation of basic transportation facilities; housing; establishment and effective operation of community facilities for health and education; fostering of vocational training and the acquisition of technical skills; fostering exploration and industrial engineering related to the use of Israel's
natural resources; and such other projects in the field of technical cooperation for economic development as they may hereafter mutually agree upon;

c. Related training activities.

Article IV

The Technical Mission shall be of such size and composition as the Administration shall deem advisable, and shall be under the direction of the Administration's Director of Technical Cooperation, who shall be the immediate representative in Israel of the Administration in connection with the program covered by this Agreement. The Director of Technical Cooperation and the other members of the Technical Mission shall be selected and appointed by the Government of the United States of America but shall be acceptable to the Government of Israel.

Article V

There shall be established an agency of the Government of Israel to be known as the "Israel-American Joint Fund" (hereinafter referred to as the "Joint Fund") for the use of which there shall be established one or more special bank accounts in banks satisfactory to the representative of the Government of Israel and the Director of Technical Cooperation. All funds deposited to the credit of the Joint Fund under the terms of this Agreement shall be available only for the purposes of this Agreement. The representative of the Government of Israel and the Director of Technical Cooperation shall serve as Co-Directors of the Joint Fund.

Article VI

1. Each project, constituting a part of this cooperative program, shall be embodied in a written operational agreement which shall be agreed upon and signed by the Co-Directors, shall define the kind of work to be done, shall determine the allocations of funds required therefor, and may contain such other appropriate matters as the parties may desire to include. Upon substantial completion of any project, a Completion Memorandum shall be drawn up and signed by the Co-Directors, which shall provide a record of the work done, the objectives sought to be achieved, the financial contributions made, the problems encountered and solved, and related basic data.

2. The selection of specialists, technicians and
others to be sent to the United States of America or elsewhere at the expense of the Joint Fund pursuant to this program, as well as the training activities in which they shall participate, shall be determined jointly by the Co-Directors.

3. The general policies and administrative procedures that are to govern the cooperative program, the carrying out of projects, and the operations of the Joint Fund, such as the disbursement of and accounting for funds, the incurrence of obligations of the Joint Fund, the purchase, inventory, disposition and end use control of property, the appointment and discharge of officers and other personnel paid out of the Joint Fund, the terms and conditions of their employment, and all other administrative matters, shall be determined jointly by the Co-Directors.

4. The Government of Israel will make available to the Government of the United States of America full opportunity to ascertain the uses made of the funds made available pursuant to paragraphs 2 and 3 of Article VIII of this Agreement.

**Article VII**

It is agreed that the projects to be undertaken in accordance with this Agreement may include cooperation with national, municipal, and other local governmental agencies in Israel as well as with organizations of a public or private character, and international organizations of which the United States of America and Israel are members. By agreement between the Co-Directors, contributions of funds, property, services or facilities by either or both parties, or by third parties, may be accepted and deposited for the account of the Joint Fund for use in effectuating the cooperative program, in addition to the funds, property, services and facilities contributed by the two Governments under this Agreement. These contributions may include transfers of such portions of the Israel pound funds deposited in the special account created pursuant to paragraph (4) of the note on behalf of the Government of the United States of America dated February 27, 1952, accepted on behalf of the Government of Israel on February 27, 1952, as the Government of the United States of America may approve.

**Article VIII**

The parties hereto shall contribute and make available, to the extent provided below, funds for use in carrying out the program during the period covered by this Agreement, as follows:
1. The Government of the United States of America during the period from the date of signing of this Agreement through June 30, 1952, shall make available the funds necessary to pay the salaries and other administrative expenses of the Technical Mission which the Government of the United States of America may incur in connection with this program except as made available by the Government of Israel under Article X. These funds shall be administered by the Administration and shall not be deposited to the credit of the Joint Fund.

2. In addition, for the period from the date of signing of this Agreement through June 30, 1952, the Government of the United States of America shall make available to the Joint Fund a maximum of $800,000 (eight hundred thousand dollars), in currency of the United States of America, for agreed projects. The two Governments agree that the dollar contributions of the Government of the United States of America will be needed for commitment outside Israel. Therefore, the entire amount of such contribution shall be retained by the Administration for commitment and expenditure pursuant to request by both Co-Directors of the Joint Fund in accordance with the terms of the agreed projects. All commitments made by the Administration pursuant to such request shall be credited as contributions made by the Government of the United States of America to the Joint Fund.

3. The Government of Israel, for the period from the date of the signing of this Agreement through June 30, 1952, will deposit into the Joint Fund an amount of Israel currency at least sufficient to cover all local currency expenses of the project covered by this Agreement. In any event, however, the local currency deposits by the Government of Israel shall not be less than the Israel currency equivalent of the amounts of dollar commitments which the Government of the United States of America notifies the Government of Israel from time to time have been made pursuant to the requests of the Co-Directors of the Joint Fund. The exchange rate to be used in computing the amount of such equivalent contribution in Israel currency shall be the par value for the Israel pound agreed with the International Monetary Fund in effect at the time of each deposit, provided that this par value is the single rate applicable to the purchase of dollars for commercial transactions in Israel. If there is no such agreed par value or if there are two or more effective rates that are not unlawful for the purchase of dollars, the rates used shall be the effective rates (including the amount of any exchange tax, surcharge, bonus, or value of any exchange certificate) which, at the time of deposit, are applicable to the purchase of dollars for the respective purposes for which the dollars made available
herein are to be used. The Government of Israel agrees to deposit additional sums of Israel currency into the Joint Fund, to the maximum extent feasible with the financial resources of that Government as required for additional projects within the scope of this cooperative program.

4. Subject to the provisions of Paragraph 2 of Article VIII of this Agreement, no funds shall be withdrawn from the Joint Fund for any purpose except by issuance of a suitable withdrawal document signed by both the Co-Directors of the Joint Fund. The Co-Directors shall include, in the deposit agreement to be made with the Bank, a provision that the Bank shall be obligated to repay to the Joint Fund any monies which it shall pay out from the Joint Fund on the basis of any document other than a withdrawal document that has been signed by both the Co-Directors.

5. The parties hereto may later agree in writing upon the amount of funds that each will contribute and make available each year in succeeding years for which United States aid may be provided for use in carrying out the program.

Article IX

Subject to the provisions of this Agreement, the balances of all funds deposited to the credit of the Joint Fund shall continue to be available for the cooperative program during the existence of this Agreement, without regard to annual periods or fiscal years of either of the Governments. All materials, equipment and supplies acquired from the assets of the Joint Fund shall become the property of the Joint Fund and shall be used in the furtherance of this Agreement. Any such materials, equipment and supplies remaining at the termination of this cooperative program shall be at the disposition of the Government of Israel.

Article X

The Government of Israel, in addition to the cash contribution provided for in Paragraph 3 of Article VIII hereof, may, at its own expense, pursuant to agreement between the Co-Directors:

1. Appoint specialists and other necessary personnel to collaborate with the Technical Mission;

2. Make available such office space, office equipment and furnishings, and such other facilities, materials, equipment, supplies, and services as it can conveniently
provide for the cooperative program covered by this Agreement:

3. Make available the general assistance of the other governmental agencies of the Government of Israel for carrying out the cooperative program.

**Article XI**

Interest received on funds of the Joint Fund and any other increment of assets of the Joint Fund, of whatever nature or source, shall be devoted to the carrying out of the program and shall not be credited against the contributions of the Government of the United States of America or of the Government of Israel.

**Article XII**

Subject to the provisions of Article VIII, that portion of the contribution made available by each country to the Joint Fund remaining unobligated at the termination of this Agreement, will be returned to the respective governments in the currency in which the contribution was made unless otherwise provided by written agreement between the two Governments.

**Article XIII**

1. The Government of Israel agrees to extend to the Joint Fund, and to all personnel employed by the Joint Fund, all rights and privileges which are enjoyed, under its laws, by agencies of the Government of Israel or by their personnel. Such rights and privileges shall include, to the extent that they are available to other agencies of the Government of Israel, but shall not be limited to: free postal, telegraph, and telephone service; passes on railroads administered by the Government of Israel; the right to rebates or preferential rates allowed by domestic companies of maritime or river navigation, air travel, telephone, telegraph, or other services; as well as exemption from excises, imposts and stamp taxes.

2. The rights and privileges referred to in Paragraph 1 of this Article XIII, pertaining to communications, transportation and exemption from excises, imposts, and stamp taxes shall also accrue to the Administration and personnel of the Government of the United States of America with respect to operations which are related to, and property which is to be used for, the cooperative program.
Article XIV

In the event that either Government is unable to contribute funds required for the Joint Fund for any period after June 30, 1952, the Joint Fund shall continue to operate with such funds as remain unexpended, such contributions as the other Government may contribute to the Joint Fund, and contributions received from third parties pursuant to Article VII.

Article XV

The Government of Israel will so deposit, segregate, or assure title to all funds allocated to or derived from any program of assistance undertaken by the United States Government so that such funds shall not be subject to garnishment, attachment, seizure, or other legal process by any person, firm, agency, corporation, organization, or government when in the opinion of the Government of the United States of America such legal process would interfere with the attainment of the objectives of the program of assistance.

Article XVI

The parties hereto declare their recognition that the Technical Cooperation Administration of the Department of State, being an agency of the United States of America, wholly directed and controlled by the Government of the United States of America, is entitled to share fully in all the privileges and immunities, including immunity from suit in the courts of Israel, which are enjoyed by the Government of the United States of America.

Article XVII

Any right, privilege, power or duty conferred by this Agreement upon either of the Co-Directors may be delegated by either of them to any of his respective assistants, provided that each such delegation be satisfactory to the other. Such delegation shall not limit the right of the Co-Directors to refer any matter directly to one another for discussion and decision.

Article XVIII

The Government of Israel will endeavor to obtain the enactment of such legislation and take such executive action as may be required to carry out the terms of this Agreement.
Article XIX

This Agreement may be referred to as the "Joint Fund Program Agreement." It shall enter into force on the date on which it is signed and shall remain in force until three months after either government shall have given notice in writing to the other of the intention to terminate it, provided, however, that the obligations of the two Governments under this Agreement for the period after June 30, 1952, shall be subject to the availability of appropriations to both parties for the purposes of the program and to further agreement of the parties pursuant to Article VIII, Paragraph 5 hereof.

Done in duplicate at Tel Aviv this 9th day of May, 1952.

FOR THE GOVERNMENT OF ISRAEL

M. Sharett

(seal)

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

Monnett B. Davis

(seal)
APPENDIX G

USOM/I PRELIMINARY AUDIT\(^1\)

REVIEW OF SPECIAL ACCOUNT "C" - AUDIT 61-6

Purpose and Scope

The basic agreement on the Release and Utilization of Counterpart Funds for loan purposes provides that repayments to the GOI of principal and interest on counterpart loans be deposited in a special account to be known as Account "C". In February, 1958, the Ministry of Finance of the GOI submitted to USOM/I five tables purporting to show complete financial data on loans originating from Counterpart funds released by USOM/I, and the amounts of deposits made or to be made to Account "C" in repayment of principal and interest on these loans (Attachment I).

In order to ascertain the propriety of these deposits, this audit was made to determine the extent of GOI compliance with the basic Agreement and Annexes on the release and Utilization of Counterpart Funds for loans. This preliminary review of Account "C" represents partial accomplishment of the annual review required by M.O. 704.6.

Procedures Governing the Release of Loan Funds

The Agreement required that the GOI submit to USOM a request for the release of counterpart funds for recommended loan projects. The details of each project were to be included in the request, and the Director indicated his approval by signing this authorization which permitted release and utilization of counterpart funds. This procedure was followed consistently.

General Criteria for Approving Loans

The Agreement specifies that loans be made only for new projects which would contribute to the economic

\(^{1}\)AID file data. Tables and attachments are not included herein.
development, economic stability and self-sufficiency of Israel, that borrowers selected be good credit risks, and that loans be effected on a non-discriminatory basis. As nearly as can be ascertained, the GOI observed these criteria in granting loan approvals.

Administration of Approved Loans

The Agreement specifies that loans be administered by certain designated banks or government agencies. This procedure was carried out by GOI in full accordance with the Agreement.

Period of Loans

The Agreement provides that the period of any loan will not exceed seven years, unless it is subsequently agreed by the GOI and ICA that a certain loan or loans may exceed such period. The only subsequent agreements of record are the individual project authorizations for release of funds. Therefore, these authorizations would govern in this connection. As may be seen from Attachment II, the period of repayment to Account "C" in many cases exceeds seven years and is greater than the loan period specified in the project release authorization. This indicates that loans were made for periods exceeding those specified in the authorizations, because repayments of principal to Account "C", except in the case of agricultural loans, were to be made in installments during the same number of years as the period of the loan.

In the case of agricultural loans, other than short-term crop loans, repayments of principal were to commence during the second year after deposit of loan funds, and were to be repaid to the GOI within a period one year longer than the period of the loan to the borrower. In the case of short-term crop loans, the loan fund was established for five years, during which no repayments were due, and at the end of five years the entire loan was to be repaid.

It will be noted further that in many instances—ten projects specifically—it was agreed that loan terms would be "in accordance with the agreement between the Accountant General and the Bank." A letter requesting details of this agreement was addressed by the Controller to the Ministry of Finance September 16, 1957, but no reply was received. In several other project release authorizations, as indicated in Attachment II, loan terms were to be "in accordance with the existing agreement between the Accountant General and the Bank," or were to be negotiated by the Accountant General and the borrower. The Mission has no record of the details of such Agreements.
No verification could be made of the extent of compliance with the requirements for date of commencement of repayments as the Mission has no record of the dates of deposits on which this would be based.

Recommendation No. 1

a. The GOI should submit full particulars justifying the extension of loan terms which are not in accordance with the underlying agreements and/or authorizations.

b. The GOI should forward the information requested in USOM Controller's letter of September 16, 1957, together with pertinent existing agreements between the Accountant General and the Banks, and also the results of negotiations with borrowers in those cases described.

c. It is further recommended that the USOM be furnished by the GOI with the dates of deposits listed in Table III of Attachment I.

Terms of Interest

The Mission has no record of the interest rates charged by banks or other institutions which administered these loans, so no determination could be made of the extent of compliance with the rates specified in the agreement.

However, the Agreement provides that interest paid to the GOI by these institutions in connection with repayments of principal which were to be deposited in Account "C", was to be calculated at the following rates:

Agricultural loans - 3½%

Industrial loans administered by banks - 4½%

Municipalities, other self-governing communities, public utilities and private institutions serving public interests - 4% to 5%

It may be noted from Table III of Attachment I that the rate of interest used in calculating repayment was less than that stipulated above in the case of four projects. On the other hand, a rate of interest higher than that stipulated was used for several projects in all categories.
Recommendation No. 2

The GOI should submit full details justifying the use of interest rates which are different from those specified in the basic Agreements for repayments to the GOI.

No verification was made of the accuracy of interest computations, as Mission records do not show dates of deposits upon which such calculations are based. (See Paragraph 3 of Recommendation No. 1.)

Loans Converted to Equity or Grant

This subject was not covered in the Agreements, but is pertinent to this review.

Table I of Attachment I contains a reference to an amount of IL.46,716,000 which is not included in the repayment forecast and which is described as "Investment in Shares." Table III details the items comprising this total.

The items consist of loans to Mekoroth Co., Ltd., Palestine Electric Corp., El-Al Co., Phosphate Co., Fertilizers & Chemicals Ltd., the Dead Sea Works and the Israel Mining Corp. At the time, the GOI advised that they planned to request USOM to consider amending several Project Agreements already financed to provide for investment in certain semi-government enterprises in lieu of making loans. The USOM subsequently received such a request, and in the case of Mekoroth Co., Ltd., IL.31,400,050 and Palestine Electric Corp., IL.7,410,000, the Mission obtained ICA/W approval to convert loans to non-voting Government equity. However, no approval was given to convert the other loans, totalling IL.8,492,000.

An item of IL.513,050 is described in Table I as "Loan to Drought Victims which converted into Grant - part of Project 41-63-766." Mission files contain no record of authority for such action. This, incidentally, is one of four projects (also 41-63-701, 41-63-666 and 41-63-851) for which USOM/I Controller has repeatedly requested certain details called for in the original authorizations. The first such request was contained in a letter to the Ministry of Finance dated July 18, 1957. No reply has been received.

Recommendation No. 3

a. The loans to El-Al Airlines Ltd., Phosphate Co., Fertilizers & Chemicals Ltd., Dead Sea Potash Works and the Israel Mining Corp., totalling IL.8,492,000,
should be scheduled for repayment in accordance with the original project terms. This will, of course, necessitate revision of the tables originally submitted, and since many discrepancies were found in these tables during the course of this review, it is further recommended that the 5 tables submitted in 1958 be revised and corrected where required, and a new report be submitted to USOM/I.

b. The GOI should furnish full particulars relating to the loan of IL.513,050 to "Drought Victims" under project 41-63-766.

c. The GOI should furnish the information required in the authorizations for Projects 41-63-766, 41-63-701, 41-63-666 and 41-63-851, as requested previously by USOM/I Controller.

Reporting Requirements

The Agreement provides that each project plan should include details of the types of periodic reports and statements to be submitted. Such details were not found in the project plans furnished to the Mission. Therefore, the general reporting requirements for counterpart projects would apply, which provide that there be three types of reports for each project.

[1] The first report required is a monthly Progress Report. Such reports were submitted, but not on a monthly basis. Apparently only at the time of submission of a request for the release of additional funds was a progress report prepared. Hence, for many projects there is no progress report indicating 100% completion.

[2] The second requirement is for a comprehensive final report including copies of all official inspection reports, to be submitted on completion of a project. Such reports were never submitted.

[3] Finally, the Ministry of Finance is required to issue to the Mission a certificate stating that the grant-in-aid dollars and local currency were used for the specific purposes set out in the project plan. These certifications were prepared for all counterpart projects.

Recommendation No. 4

Although the GOI did not fully comply with the progress reporting requirements, it does not appear that the
preparation of the reports at this time would serve any con-
structive purpose.

However, it is recommended that the GOI comply with
the requirement for a comprehensive final report on each of
these counterpart loan projects, as loan repayments will be
a matter of current interest for several years hence.

Other Observations

Table I of Attachment I schedules an item of
IL.10,000 as "Loan to Mor Factory in Liquidation - Part of
Project 41-72-951." The list of borrowers under this proj-
ект which was furnished to Controller's Office does not show
a loan to "Mor Factory." Furthermore, it appears that no
information relative to an uncollectible loan has ever been
furnished to USOM/I.

Table I also schedules an amount of IL.46,550 as "Not
Released and Not Executed." Subsequently IL.43,550 of this
sum was released or the original project amount was adjusted.
However, Mission has no information relative to disposition
of the remaining amount of IL.3,000 in project 41-72-679.

Recommendation No. 5

GOI should submit detailed information relative to
the two items (1) the Mor Factory, and (2) the balance of
IL.3,000 in project 41-72-679.

Signed (Sgd.) Charles W. Stroeher Oct 27 1960
CHARLES W. STROEHER, AUDITOR

Approved (Sgd.) John E. DeWilde Oct 28 1960
JOHN E. DEWILDE, CONTROLLER
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274


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