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INFLATION OR THE INFLATIONARY ISRAEL!: ITS IMPACT ON THE ECONOMY OF THE OCCUPIED TERRITORIES

by

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INFLATION OR THE INFLATIONARY ISRAEL!: ITS IMPACT ON THE ECONOMY OF THE OCCUPIED TERRITORIES*

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Gold? Yellow, Glittering, precious gold? No Gods,

This yellow slave,

Will knit break religions; bless th'accurst;

Make the hoar leprosy ador'd, place thives,

with senators on the bench: this is it.

Thou common whore of mankind.......

Shakespeare,Timon of Athens, EPM(1844) MEGA I, pp.145-6.

*This manuscript is one of the first in the series on the inter-related economic problems of the occupied territories. I am indebted to my friend, Mr. Ghassan Harb, former chairman, department of economics, Birzeit University, for providing me encouragement to join this department and contribute in this field. I dedicate this paper to him for being one of the finest sons of the occupied land. I am also thankful to all my colleagues and students in the department who have all inspired me in one or other way to understand the issues affecting the strips of land taken away from them. However, I alone, am responsible for all the errors remaining.

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SECTION I

INTRODUCTION

This inflationary self-propelling process in Israel is not only the talk of the town everywhere in the global atmosphere but also a bread and butter of an average person in Israel and in the Occupied Territories as well. Latest economic indicators for the month of October 1983 clearly points out the direction of future events in relation to the present fiasco. Given the 21 percent, the maximum ever recorded rate of rise in price index in the month of October, it is, now, forecasted that the rate of inflation will reach the height of 200 percent for the current year on the basis that the present trends likely to persist. No wonder, therefore, that at the end of October 1983, the cumulative price index is very close to the mark of 1535.5 percent on the 1980 base year. The recent drastic measures instituted by the new government such as a dose of large devaluation of shekel and 50 percent price hike of the subsidized goods concommittently with the rest of the package of control instruments have further accentuated the price spiral. Unequivocally, it is maintained, in all quarters of the length and breadth of the country that the dollar and other foreign currencies are still the best debts of instruments. These foreign denominations scores high over the shekel, the unit of account as carriers of the functions of the store of value and the medium of exchange

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which are the very basis of generalised capitalist system of production. It may, however, be argued that the infidelity of the shekel in the performance of the essential economic functions demands the draconian measures vis-a-vis the potentially transformed dollar economy of Israel that is the black economy.

Israel's Casualty Ward Economy:

The Israel economy has been in the casualty ward, since its creation on the homeland of Palestine in 1948. It can only be considered as a long stay-put patient who responds meekly to the government economic doses. By the middle of 1982, the stock exchange's share index had risen by 182 percent in a 12 month period. This, of course, is the highest ever recorded increase on the world stock exchanges even if due allowances are paid to the sky-rocketing rate of inflation.

Its economy has been on the ups and downs in the historical red-band of deficits since the inception of the state of Israel. The trend in imports has always been greater than exports for reasons no other than a single factor--the huge military expenditure which is determined not by internal methods but by putting the gun on the shoulders of others. Apart from the role of the comprador imperialist in the local sphere, it thrives on this act by undertaking steps to procure foreign aid and grants, the mobilization of capital in foreign currency through the sale of bonds and military aids which no other country is proud of being on the top of the list of American military assistance. As a consequence, the rate of consumption is greater than the rate of increase in the domestic gnp. No wonder, Israel consumer accumulates video more than anywhere in the world. This is not the end. The foreign supported sector of Israel economy at the moment stands approximately to be two times greater than

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the domestic productive sector which includes also large unproductive enclaves such as services, distributive units and the religious organizations thriving on government donations. The largest sector in this economy, of course, is the military sector which is, unfortunately, happens to be the reproductive base of the social, economic and political fabric of Israel. It may not be surprising to note that Israel spends 24 percent of gnp, the highest in the world on defence and war designs.

Apart from the factors responsible for the recent bursting of economic bubble, we also enumerate briefly some underlying features of this crisis which have been coined into fashionable phrases to explain inflation by the proponents and opponents of Israel economy. These are:

1. deficits in the external trade since 1948,
2. massive external debt which is highest percapita in the world,
3. artificial propping up of shekel against the dollar,
4. substantial level of subsidization which is uneconomic and red-taped,
5. enormous government spending,
6. high rate of growth of all sorts of stocks monetary,
7. large expenditure on the settlements policies,
8. accelerating rate of consumer spending and credit expansion,
9. high liquidity in the economy,
10. massive donations and grants from abroad,
11. expansion of unproductive sectors such as government, service, distributive, religious and military,
12. expanding the black or unaccounted sector of economy, and
13. Likud liberal coalition administration promoting unproductive spending in various channels such as religious organization.

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It remains therefore, constant mystery under these circumstances, how on earth Israeli economy so far manages to halt diving over the precipice of economic disaster. All these factors stated herein are not red-hearing in this crises but according to us obvious symptoms under which the essence of the matter lies. As a consequence, we don't intend to look through the microscope to examine them in detail but just conduct a sight tour of these syndromes of inflation so as not to side track the root of the problem.

The budget estimates of government were thrown out of gear by the costs of financing the war in Lebanon. Estimates of direct and indirect costs approached to the range of $2.5 to $3 bn, assuming the indirect costs one and half times the direct costs which is believed to be $1.2 bn. Subsequently, the recovery costs has been mainly shouldered by the public at large including the residents of the conquered territories in the guises of fiscal measures such as taxes and levies and the inflationary tax rate through the expansion of monetary aggregates in the variety forms, reflected in 200% rate of inflation.

Israel's traditional recourse in such senario of crises has been to extend the bowl for charity to its foremost benefactor, the USA. It is widely acknowledged now that the USA aid has reached in 1983 to the tune of $2.6 bn and the new Cranston formula further strengthens this by permitting Israel to draw upon this source as much as possible in the aid spectrum varying from hard to all kinds of soft loans. Note that after this fisaco, the USA aid climbed over to all previous levels and now, as it stands, Israel has attained the position in aid recipient nations as the number one of all time in the USA aid history. No wonder that the Levi project alone offers cash, equipments, structures, plants, which would ensure the jobs in Israel to about 35,000

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workers. The well-known International Institute for strategic studies based in London objectively states that:

> "Israel is now the world's fourth strongest military power after the USA, the Soviet Union and China. This is astounding in a country with a population of under 4 million: astounding also was the ability of the Palestinians to resist the Israel forces for as long as they were able"

Emanuel Farjoun attributes the shekel calamity to much more deeper rooted problem whose embryo is in the "Empire Building Dreams" of Israel. However, according to him Israel is not capable achieving this feat simply because it is structurally a less developed country unless it is blown up to this task by the external forces. It may be appropriate to recollect that in a well-known fable a frog wanted to acquire the size of an ox by expanding himself. Unlike all other developing countries, Israel has an advantage of dipping its hands into the pool of limited resources such as foreign cash and the modern expanding military sector supported by one of the super power, the USA. On top of it, it can draw on an immense level of grants from the USA and other European countries of about $3.5 million which is unearned income which only Israel is fortunate to command. This also is responsible for the creation of outside sector in Israel economy, imparting impotency to the fiscal and monetary control devices of the government. Next layer of its economy is, of course, built on the massive tax-deductable donations from the Zionist lobbies in the USA and other countries estimated to be the level more than $1 billion. Another subtle but much more unexplored issue is the multinational investments in Israel. The inflow of capital in the various sectors of economy appears to be substantial and increasing at an alarming rate. This phenomenon is in rarity in other developing nations simply because of political and economic conditions

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not suitable for the commercial return on investible funds. However, Israel economy is much more vulnerable to economic conditions, yet the flow of capital tends to negate this logic. The explanation we would like to expose here is this that this multinationals are mostly owned and controlled by Zionists whose foremost loyalty to the state of Israel. The economy of Israel is utilising this imported capital for industries which lack competitiveness.

Israel's Productive base essentially lack a technological push up to support its imperial designs such as the enlargments of the size of market for its goods and services. This structure can best be compared with India or Nigeria who have many times bigger population. Israel, thereofre, can not compete with Japan or the USA. And because of its specificity of creation, its labour market is substantially engaged in the military and service sector, which are unproductive in the real sense. In most of the advanced market economies, the proportion of labour force employed in factories is extremely large. However, according to Emanuel Farjoun, the small segment of the labour market in Israel is engaged in the productive sectors. This invariably is the root cause of recurrent crises in Israel.

In line of this framework which M. Farjoun advocates, it appears next to impossible to steer away the structural aspects of the Israel economy from the present course in the sense of fitting a square peg in the round hole. One must also look into more rewarding determinants of this structure in the accumulation process which is heavily dependent on foreign sources and military gains and the expansion of unproductive labour force.

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Today, about 30 percent of labour force is put to work in production and the rest that is about 60 percent is working in services and businesses which is behind the desk or counter. Also note that of the 100,000 men who joined the ranks of labour in the past five years, merely 8,000 that is about 8 percent went into productive base of the economy. No wonder, therefore, that every finance minister like the new one will always assure the country that the drastic change in man-power allocation is an indispensable task of Israeli economy but no one will ever be able to put the bell in the neck of a cat. The most easy task would be both to beg with a bowl and to involve in the continuity of war senario. As a result most of these measures are operational platitudes which lacks the bitting teeths except for the fact that the gradual annexation to dollar economy of the expansion of black economy are inevitable outcomes in the future turn of events.

The correction of deficits is not a great leap forward to put it Chinese revolutionary slogan. Recently, it is argued in all quarters including by the new finance minister that the expanding productive base may guarantee stability and would take air out of the inflationary balloon. We,however, maintain that considering the present constellation of economic, political and military forces, it offers a dim solace for such an expectation to be fulfilled for an ardous detour of an economy which grows by Jewish settlements with cement and concrete.

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SECTION II

The impact of shekel crises on the occupied territories:

The Israel economy is facing Hamlet's dilemma at the cross road: To annex to dollar or to annex the conquered lands. The collapsed of the stock market, the swindling affairs of the commercial banks etc., have in effect, remotely touched the lives of the Palestinians in the occupied territories. Therefore, these people at large in and out of the taken away land remained subdued and passive onlookers in this paper money disaster which as a matter of fact, disasterously engulfed them more than an average Israeli person. The feeling of helplessness gave rise to such utterances---we are occupied; we can not do anything. The value of shekel and its moment to moment depreciation is part and parcel of their daily life. A respected doctor in Nablus pointed out at a wall to show me not a revolutionary poster or calendar but the exchange rate table. Even a child in the street in this strips of land knows better than a student in economics elsewhere, the laws, that govern the multiplicity of exchange rates for all foreign currencies. It is not uncommon to notice that he is often keen to advice foreigners to maintain their liquid assets in other than shekel, reminding them that its store of value function ceases to exists anymore. Some of the people in the occupied regions pulled their faces down and just refused to be the part of the reality pushed on their back by the external forces. The rest have by this time inculcated a habit of calling names to Israel military rule and wished that the regime of terror for them one day will come to an end. This, inertia is, of course, the product of the specific historical forces created by the first Jordanian regime and then followed by the Israeli occupation culminated in the zero sum game in which conquered wins all the stakes irrespective of head or tail.

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We shall nevertheless, examine the structure of the impact of inflation insinuated by the occupation forces on the residents of the West Bank and Gaza people. The first is the occupation of the territories which insidiously inflicated unbearable wounds and now it is the inflation causing inumerable hardships. Palestinians are more and more grinded under the weight of inflationary tax in addition to the other taxes they pay to the conquerer. Although, the inflation in Israel is now a bread and butter for these residents, yet the recent bout of it is extensively and overwhelmingly felt through the breadth and width of these regions. Evidently, it is crystal clear that the economic annexation was initially lauded for reasons of a short lived prosperity as Palestinian peasants became wage labourers in Israel. Not long before, the economic effects of inflation is again recycling the partly paid labour back to the exploiter through the market mechanism.

Although the overall adverse effects of shekel inflation varies according to the economic activities of the people in the production categorized as wage earners such as doctors, accounts, teachers and all sorts of manual workers including lumpen proletariate labour force. Its impact is again different to the Israeli's workers compared to the Palestinian workers who by forces of compulsion form the lowest layer of labour market.[1] As a result, they are completely crushed to death and yet being occupied, they are unable to redress their grieveness through any legitimate authority. From the consumption point of view, they can all be regarded as buyers or spenders of earned income mostly in Israel on the goods and services only channelled through Israel whether imported or not. The treble digit inflation further erodes their living standards more accutely than their counterpart consumers in Israel.

[1]According to the official report, it may be stated that about 72,000 workers commute daily for the work to Israel in 1981 from the two occupied strips of land. This is 34 percent of the entire labour force from the territories. If, on the other hand, we consider the rest of the employed labour force which is unaccounted and unreported in the official sources, then it would nearly be two-thirds of the total Palestinian work force which is engaged in all sectors of Israel economy.

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More accurately and in conformity with the existing political and economic conditions, the residents of the taken away land can be classified as mainly consisting of the working class without any capital or land, despite the fact they are differentiated by the place of work and the type of work. A small minority merely exists as the indegenous class of businessmen in the territories who nonetheless, supply a bulk traditional and basic commodities. This type of production is progressively swamped away by Israeli goods. A large number in this small section of people mainly operates as distributors of goods produced in Israel or foreign countries. Lately, another small segment has emerged in the group of producers who are installed by the Israeli government to perform the roll of producer for Israeli sponsored factories.

Looking through this prism, it can be maintained that the heaviest blow of inflation has been borne out by the lowest layers of the entire working class and part of the labour force which regularly commute for the supply of survile work in the factories and other places in Israel. It is consistent to affirm, therefore, that both types of work force described before supply to Israel productive, yet a cheap form of labour. The annexation of these territories is still politically unresolved issue, yet in the defacto sense Israel has achieved this objective by integrating the labour market of the occupied land with the Israel economy. As a consequence, the economy of Israel reproduces itself by the appropriation of the productive labour of Palestinians. It ensures this modus operandi by the direct extraction of unpaid labour in terms of: 1) a low wage rate, 2) the continuity of the supply of labour from the reservoir of the conquered land. In addition to these, its economy benefits from characteristic of this labour market such as that these workers could be fired and hired at any moment; they are not unionised and they are not paid other

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variety of benefits as given to the indegenous labour force. As far as the paid part of the labour is concerned, it is unlike Israeli worker, not linked with the costs of living index and for those who happens to be lucky ones in this respect, the gap between the price rise and adjustments to wages falls short and creates a reduction in the take away home wage packet. It may, now be less difficult to unfold and demystify the policy of the government of Israel to speed up the integration of labour market in the occupied territories with the Israel economy so as to blunt the demand for independent state for Palestinian people by providing temporary but illusory prosperity in terms of wage-income. Unlike the Israeli worker, the Palestinian worker live on the subsistence level so as to save a part of his or her wage income for the difficult time. However, this accumulated saving or wealth is then taken away or recycled by the inflationary process. In other words, inflation may be a progressive tax for the certain categories of Israeli people, but it is invariably an extreme form of a regressive tax for the Palestinian because it transforms their living standards to a still lower level. Note that the redistribution of income takes place through the inflationary tax based on the dual aspects of mechanism such as in this case the occupation and the price mechanism.

Another issue looming large on the head of the commuters and the workers in the West Bank and Gaza is yet more bigger than the exploitative character of Israel economy. It is the imminent lay-off of these workers in the process of implementing the so-called austerity measures which are expected to affect more Palestinians than the Israeli. The following excerpt from the Israeli daily paper will illustrate the point at hand:

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"Much of the unemployment, he said (Cohen-Orgad) would come in the services and in the construction industry. He predicted that many workers from the territories would again look for jobs in Judea, Samaria and Gaza. For these workers, the possibility of employment in neighbouring countries was also an option, he said" (Jerusalem Post, November 4, 1983).

The point of view expressed in this statement clearly indicates that the slashing of the government expenditure in the austerity package would virtually affect all workers in the occupied land and it would also enlarge the pool of unemployed labour force. The natural outcome, however, would be to provide an abundant cheap supply of labour for the various sectors of Israeli economy. The secondary effect of this would be the expansion of services, the unproductive sector in Israel based on the initial impact of inflation, defeating the very purpose of trimming this sector as advocated by the new finance minister so as to halt the inflation. With a certain period of lag, it would cause the expansion of consumption spending and again reproduce the merry go round effect of these measures. However, one outcome is certain and that is the reduction of the living standards of the Palestinian people.

Let us now focus our attention at the plight of the workers and businessmen in the West Bank and Gaza. The serious consequences which would stem from the austerity measures inevitably inflict hardships of a far greater dimensions than ever before on these people whose labour is directly paid by the occupying authority. It would unequivocally slash the reasonable rate of return on the invested capital by the local producers in small scale industries

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in these strips of land. Ever since, Israel assumes a bigger participatory role in the administration of these territories for none other than its political motive, the results, of course, are the emergence of economic dependence, defacto annexation, the displacement of elected mayors, the control of local self government, the drafting of Palestinians by compulsion in village league,and the reconstruction of the economy as a complimentary sector to its economy including the maintenance of all economic activities such as the infrastructure and regulated industries. All these activities in lieu of self-reliant previous administration has given rise to the circumstances in which the occupying authority is now a single most provider of a bread and butter to the residents of the West Bank and Gaza.

It implements all these functions by employing all categories of civil and private workers such as doctors, teachers, officers, agricultural advisers and village league officials as well. Their wages and salaries are paid by the Israeli government but these have not been jacked up since long ago. Subsequently, we will demonstrate using a particular type of sample the rediculously low wages paid to Palestinians in contrast to the same categories of persons in Israel on the other side of "Green Line". This total work force exclusively remunerated by the Israel in the territories approximately stands to be 10,000 in which the single most category is teacher constituting something about 7,300.

It may be maintained that the subsistence of the average family in the occupied land with 4 children requires something about JD.150 per month. As a result of a treble digit price rise, this amount reduces to JD.100 which is quite insufficient to maintain this size of family at a minimum level. We may now notice the mushroomed activities

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of illegal work, corruption, thefts of various kinds, criminal activities and prostitution and also what Israeli would be delighted with, is the emigration of young people from the land.

The employees who are on the pay roll of the Jordan government also have eroded their income due to this inflation. Now they, in effect, get an equivalent of half of a grade they deserve according to the scales exist in the Jordan. The employees on the indexation tends to lose about 20 percent of the real income as a result of adjustment to the old wage rate for the rise in price. By the time this payment is made, the new bout of inflation already decreased the income of the workers which recently has gone up. Lately, doctor's union in territories made a demand of 100 percent pay rise to bring some sort of all round parity in scales but the authority only conceded 20 percent of their demand.

Palestinian Teacher's Salary and the Israeli Inflation:

In this section we intend to articulate the impact of inflation and its differential effect on the salary structure of Palestinian and Israeli teachers. We, however, believe that this sample does not reveal the reality of inflation on all social strata. In fact, teachers as a group may not be as worse off as the lowest layer of working class would be in this respect. The first column in the Table (1) depicts the respective grades of teachers and their salaries in both JD and shekels in the subsequent columns of this table. One of the apparent point which emerges out of this data is that the salaries of all groups of people decelerated in the nominal as well as real terms from September to October, 1983 which the period of devaluation and

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crises in the Israeli economy. It can also be noted that the salaries in dinars have exhibited overall decline and the average trend indicates a negative growth rate in the average of all grades. On the other hand, expressed in shekels the same growth parameter manifests the positive trend of 20 percent in the structure of these salaries. Another aspect which stems from this evidence is that the updated salaries of all teachers have augmented by 20 percent in both real and nominal values, yet the rate of shekel devaluation during this period was to the tune of 38 percent. If this is included, then the salaries would be much more lower than what they seems to be in this table.

In the next Table (2), we have presented salaries for the specific grades from 5-8 both for the Palestinian and Israeli teachers. This again in the nominal and real terms. It is extremely reassuring to see a silver line in the dark cloud as we found that the present rate of inflation have retained the relative differentials in the both categories of workers. We expected a higher impact on the Palestinians compared to Israelis but given the fact that these salaries structure is officially constructed in order to maintain these relative differences.

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Table (1)

Palestinian Teacher's Salary Structure in September and October, 1983 in nominal and real Value

	September, 83				October, 83			
	Nominal		Real*		Nominal		Real*	
Grade	JD	IS	JD	IS	JD	IS	JD	IS
3	112.0	19083.0	55.0	9541.5	97.0	22900.0	48.5	11450.0
4	102.0	17500.0	51.0	8750.0	89.0	21000.0	44.5	10500.0
5	98.0	16750.0	49.0	8375.0	85.0	20100.0	42.5	10050.0
6	93.0	15750.0	46.5	7875.0	80.8	18900.0	40.5	9450.0
7	87.0	14833.0	43.5	7416.5	76.0	17800.0	38.0	8900.0
8	81.0	13833.0	40.5	6916.0	71.0	16600.0	35.0	8300.0
9	75.0	12833.0	37.5	6416.5	66.0	15400.0	33.0	7700.0
10	70.0	11833.0	35.0	5916.5	60.0	14200.0	30.0	7100.0

*We think reasonable that the yearly inflation would be 200 percent on the basis that the monthly rate is about 16 to 17 percent which is much lower that the actual rate recorded in the month of October 83, that is 20 percent. Also note that the exchange rate, 1 JD = 170 IS in September, 83 and 1 JD = 235 IS in October, 83 which means that the shekel lost 38 percent value in terms of JD. Now assuming that price is inversely related to the value the rate of inflation would be 260 percent per annum when related to dinar. This is on the assumption that the monthly rate is much lower.

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Table (2)

Differentials in Palestinian and Israeli Teacher's Salary Structure

September, 1983

	Nominal			Real*		
Grade	Palestinian	Israel	Higher	Palestinian	Israel	Higher
5	IS 16750.0	31784.0	190%	8375.0	38500.0	190%
6	15750.0	19877.0	190%	7875.0	36000.0	190%
7	14833.0	26149.0	180%	7416.5	31500.0	180%
8	13833.0	24580.0	180%	6916.0	29619.0	180%

October, 1983

	Nominal			Real*		
Grade	Palestinian	Israel	Higher	Palestinian	Israel	Higher
5	IS 20100.0	38500.0	190%	10050.0	19250.0	190%
6	18900.0	36000.0	190%	9450.0	18000.0	190%
7	17800.0	31500.0	180%	8900.0	15750.0	180%
8	16600.0	29619.0	180%	8300.0	14810.0	180%

*For the rate inflation, see Table (1)

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So both the group of people will be identically hit or benefited from the inflationary spiral as well as the indexation principle as reflected in this evidence.

More importantly, this table highlights an obvious point that the Israeli salaries in all grades are higher by 180 to 190 percent than the salaries paid to the similar skilled teachers who happens to be Palestinians. Besides, the salaries of Israeli teachers which are double than their counterparts in the occupied territories, it must be asserted that the other benefits Israeli teachers receive from their government and other sources tends to improve their living standards by much greater dimensions. And also as stated before, the relative differences in these two structures do not portray the reality of the occupation because at the lowest levels of the labour force, this discrimination is extremely accute and unbearable.[1] We will deal this issue in the subsequent analysis.

The Class Relations and the Effects of Inflation in the Occupied Land:

This is a brief articulation of one of the most intriguing aspect of social and historical relations which exist in the conquered land. Our claims to investigate these aspects in the wake of inflationary spiral in Israel is very modest and less rewarding, yet we feel that we cannot escape from this aspect of the social formation.

Let us begin first with a view to get the right perspective of the class formation in the context of the occupation and imperialism. We have the echolon of the bourgeoisie ranging from the independent class internationally located and proximated by the comprador class in Israel which is cushioned by the weak Palestinian comprador class, reflected apparently, in the guises of

[1]In 1981, 43,000 workers from the conquered land were employed by military employment agencies in Israel. They worked 10.3 million days, of which 1.4,5.7 and 3.2 million days were in agriculture, industry and services and construction respectively. All the military agencies obtained out of this process IS 1.54 billion in addition to IS 431 million in overtime and bonuses. Apart from this, the employers paid IS 647 million for social and other old age benefits for these workers. It has come to the notice that no one knows where these amounts are dished out. However, no Palestinian worker would receive this even if it is ultimately traced. And if the total amount is indexed, it would mount to many billions of amount which is due to these commuters.

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the national bourgeois and businessmen. In the similar fashion, we can identify the various layers of working class whose lowest base in the echolon of social hierarchy is found among the Palestinian lumpen working class including the large section of peasantry as well. In this postulation, the modes of production assumes a specific from which the lineal production activities in which the unpaid labour (surplus value) passes through the assembly line at a successively reduced dimensions from top to bottom.

Now having formalized in nutshell, the sequential linkage among the classes in local and global spheres, it would be rather easy to pinpoint the conveying belt of surplus transfer in the form of the inflationary tax created by the various monetary, fiscal and structural phenomenon in Israel in conjunction with the global bourgeoisie class in particular, the USA. Without unlocking the complex details of national and international modes of production, we now mainly focus our attention at the micro-level in the occupied territories where debilitated comprador bourgeois confronts with the lumpen proletariate class solely situated in the refugee camps and from where Israel, too mobilizes the substantial number of labour in production in the various sectors of its economy. The crucial point, however, is this that the confrontation between these classes within the taken away land is now more aggressive than ever before.

Before the monetary crises, even though inflation persisted continuously in Israel, the working class in the occupied land had a quick taste of a little induced prosperity as a result of the integration of the Palestinian labour market with the Israel economy. The gnp which augmented rapidly for reasons other than the occupation, began to decline gradually. Latest statistics show

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that the rate of growth was nearly 7 percent in 1980 but then in 1981 and 1982 the trend declined to indicate -3.5 and -1.4 percent respectively. The taste of prosperity resulting from the emigration to the gulf states also halted because of the depressions in the Western countries where demand for oil fell drastically. This dried up the traditional employment opportunities for the Palestinians. The obvious consequence is the drop of emigration to the gulf states in the recent years.[1]

Now with reduction in the levels of living and the pinching of higher prices which also recycle the savings accumulated by the working class for the past many years, to Israel would inevitably sharpen more accutely the class antagonism between the two main classes closer to each other in production.

This will also ignite the class conflict between the workers here and the global bourgeoisie. The comprador class in the occupied land who operate a production unit or a distributive businesses as well as some who work to turn out the complimentary products for Israeli economy are inescapably hit by the recurring bouts of inflation which reduces their profit margin. Because of the occupation, the production is an extremely arduous task; however, this comprador class prefers to run or operate businesses rather than stay at home even if the profit margin is just enough to maintain the original stock of capital. In some cases, the businesses are shut down because the recovery costs do not cover even the day to day expenses of the operation.

Since this comprador class is politically, socially and economically dominant force to reckon with in the territories, they would shift this loss on either the consumer or the labourers they employ. However, the demand for their product is extremely elastic and the substitute are of better quality,

[1]One of the dynamic aspects of the West Bank and Gaza economy is the significant role remittances play in the improvement of the social life. It is known that the recorded remittances alone constitute nearly 35 percent of gdp and 26 percent of gnp. The impact of this is enormous on the level of living and other related aspects such as production and distribution.

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so the consumers would not tolerate this rise in price of these commodities. As a result, the workers who are employed become the only target to bear the burden of inflation. This is well supported by what the mayor of Bethlehem has to say:

> "...the West Bank municipalities are on the edge of bankruptcy, because (military) government payments arrived a month or two late. In the present conditions of inflation, this has great economic significance."

This expression reveals not only the financial conditions of municipalities but also the unviable circumstances of all productive units in the territories too. As a consequence, any measure which will reduce the costs of production of which wage rate is the main component will be introduced in the form of part-time jobs, female or child labourers, a temporary work to graduates without the legal contracts so as to fire him at any moment. All these aspects would weaken the resistence of the working people and concurrently improve the business outlook for the employers.

This outcome of exploitation within the occupied land may be blunted if the comprador class can shift this incidence on the consumers, producers or government in Israel as done by the Israeli comprador class. The situation of this type generates a symmetric process of passing the buck of inflation from the higher to the lower positions in the echolon of social formation. This burden would eventually gravitates towards the lowest layers of the working class, comprising of Palestinians mainly derived both from the camps and partly from the other areas of the occupied land. Again according to the mayor of Bethlehem:

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"Only two weeks ago they earned (workers) 10 JD a day, for instance, and today their salary is down to 6 JD."

According to us this is much more an optimistic revealation. In our investigation, some of the Israeli sponsored factories in this area employs many female workers who are paid 6 JD for the entire week's labour. This is before the devaluation of shekel and the subsequent surge of inflation.

If the present trends persists, then the future course of events will invariably unfold more miseries on this labour force. The lack of business opportunities and profitability of the existing ones will impose more hardships on them as a consequence of the occupation and military rule.

Summary and conclusion:

Inflation in Israel is a customary phenomenon. Its basic ingredients contained in the historical and political factors which led to the creation of the state of Israel. As commonly argued, it is not the result of a shift in the aggregate demand through the expansion of spending of all components such as consumption, investment, government spending, foreign loans and grants, military aid and capital mobilization from abroad. These are all the syndrom of inflation surfaced from one basic but common root. However, it may be noted that the aggregate supply is either inelastic or less than unitary in elasticity. This is the result of a large number of labour allocated to a non-productive sector such as services and military. We quote Israeli daily paper:

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"It has long been recognized that the services, both public and private, take an inordinate share of Israel's manpower and that they grow rich at the expense of the productive sector." (Jerusalem Post, November 24, 1983).

The analysis of such type merely examines the appearances and not the unity of all causes which invariably combined in ther "Empire Dream" of Israel.

Let us show the modus operandi of this aspiration and how it is useful to the economic structure of Israel to reproduce and expand with inflation as its integrated part. The "Empire Dream" of Israel leads to the occupation of the neighbouring lands for the supply of cheap labour force and creates the inflow of foreign capital from abroad. This is scarce resources for all the underdeveloped nations in the world today but not for the Israel. Both these factors contributes to the expansion of the economic aggregates and the sectoral distortion which is suited to the objective function of the state of Israel. The feedback effect of this process leads to the recurrences of inflationary bouts in which money merely functions as a unit of account but not the store of value. This is appropriate for the recycling of the savings generated from the paid labour of the poorest strata of the labour market. However, capital market as an exogenous element becomes to large to recreate and its rate of reproduction declines. As a result the contraction of employment and the aggregate demand is vital for another round of the expansion of foreign capital in which the circuit of expansion enlarges with more cheap labour and the additional inflow of foreign capital.

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In the circuit of expansion of foreign capital, the labour market which is integrated with the occupied territories provides the appropriation of unpaid labour. The part of the surplus on the conveyor belt is distributed to increase the various components of the aggregate demand including the expansion of defence and services sector. The labour market mainly consists of Israeli workers and the Palestinians both within and from the occupied land. The later substantially adds to the reproduction and expansion of foreign capital because it adds more net value to the production than the domestic Israeli labour force. This labour market is also politically controlled and supressed so as to live on the subsistence level of wages in terms of unpaid labour and the inflationary tax to recycle their savings. In this circular and expanding mechanism, based on money as a unit of account, the labour force which recreates the expansion of capital comes from the occupied territories and they are really pauperized in the name of the game.

In conclusion we state that the continuity of inflation in Israel through the variety of factors is the product of social formation of a local and global character articulated through the Israel's expansionist designs in the hemisphere.

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